

Agri Insights – Soybean

Chinese hunger makes Brazilian soybeans sweet

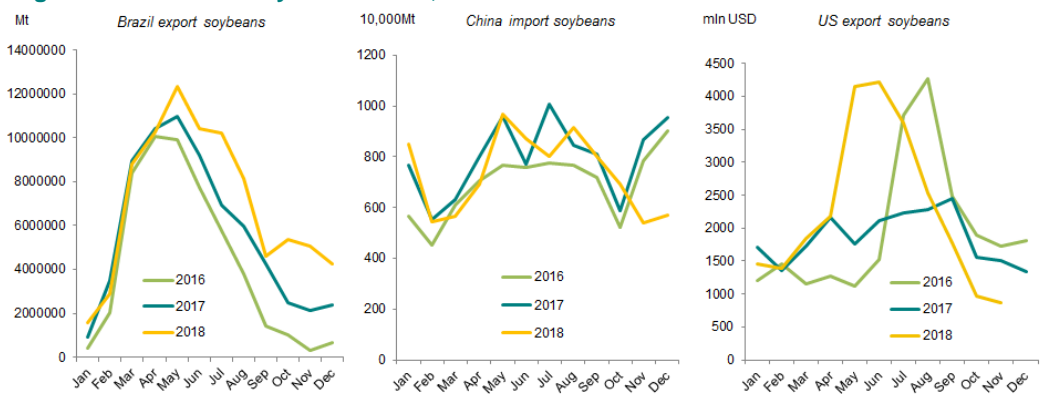
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| Soybeans | | |
|---|--------|-------|
| 19-2-2019 | | 3m % |
| - Soybeans, No.1 Yellow spot price (USD/bu) | 8.50 | 3.9% |
| - Soybeans, 1st contract 1st contract (USDc/bu) | 900.75 | 3.1% |
| - Soybean, 2nd contract 2nd contract (USDc/bu) | 914.50 | 3.0% |
| - Soy meal (Hamburg) spot price (USD/Mt) | 327.58 | -5.9% |
| - Soy oil (Brazil) spot price (USD/Mt) | 741 | -7.1% |
| Foreign Exchange | | |
| | 19-feb | 2019 |
| - EUR/USD | 1.13 | 1.16 |
| - USD/BRL | 3.71 | 3.60 |
| - USD/CNY | 6.77 | 6.60 |

Figure 1: Trade data soybeans Brazil, China and US



Source: Thomson Reuters Datastream

In April 2018, China announced an import tariff on soybeans from the US in retaliation for the import tariffs on steel and aluminum that were imposed by the US. As a result, the trade dispute between the US and China escalated further and caused the soybean price on the Chicago Stock Exchange to fall to its lowest level in ten years (until mid-2018). Trade flows in soybeans between the US and China dried up very quickly. All-in-all, exported volumes of soybeans from the US dropped by more than 30% in 2018. China, however, remains heavily dependent on foreign deliveries of soybeans, since the country is the largest consumer of soybeans in the world. Soybeans are used in particular to feed growing numbers of livestock such as pigs and chickens. China accounts for nearly 30% of global demand for soybeans and about 65% of the total export market is destined for China. To satisfy their hunger for soybeans, the Chinese started looking at Brazil and Argentina as their main suppliers.

Because the price of soybeans in the US has fallen over the past few months due to weaker demand from China and China is willing to pay an extra premium for Brazilian soybean, the EU has started buying more soybeans from the US. In the first 27 weeks of the 2018/2019 marketing year, EU imports of soybeans from the US increased by 112% year-on-year. As a result, EU imports of soybeans from Brazil – the largest supplier of soybeans to the EU after the US – decreased by 25%. But imports from countries such as

Trend in soybean price:

| | % price opposite to 1 January 2019 | % price opposite to 1 week ago | % price opposite to 1 month ago | % price opposite to 3 months ago | Price volatility over last month (avg.) | Price volatility over 2018 (avg.) | Price volatility since 2000 (avg.) |
|----------------|------------------------------------|--------------------------------|---------------------------------|----------------------------------|---|-----------------------------------|------------------------------------|
| Soybean | +2.2% | -1.9% | -1.7% | +3.0% | 3.9% | 6.8% | 8.5% |

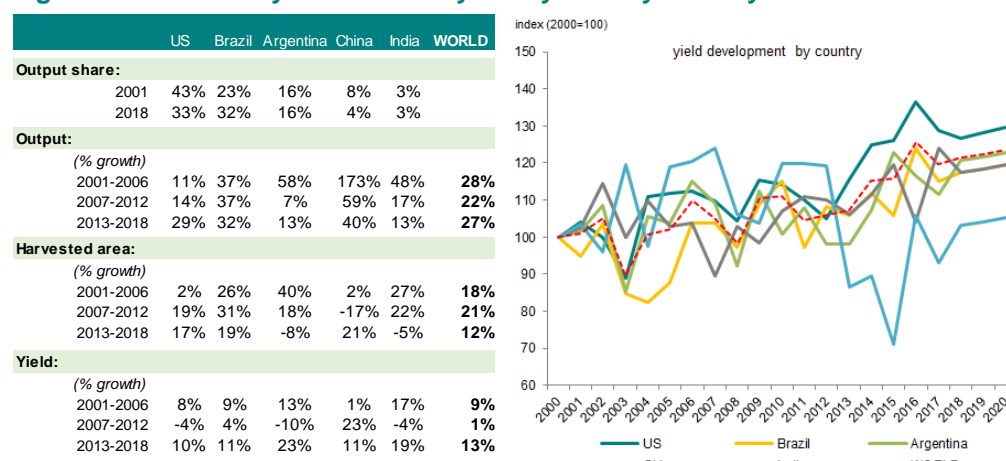
Volatility is the average difference between highest and lowest price in mentioned period (calculated on 1 months moving averages)

Canada, Ukraine and Paraguay fell even more sharply, by an average of 80% in the same period. The relatively low price was not the only incentive for the EU to buy more soybeans from the US. The US has complained for a while that the European soy market is too protected from US imports. To ease US concerns and reduce trade tensions between the EU and the US, regulations on biofuels and the use of soybeans were relaxed in January. This will pave the way for more imports of soybeans from the US in 2019.

Latin America is becoming an agricultural powerhouse

In 2018, the US, Brazil, Argentina, China and India combined were responsible for nearly 90% of soybean production. In recent years, soybean production has increased, particularly in South America. Brazil's share of the market has been on the rise since 2001; this came at the expense of the US's market share. Brazilian output has increased by more than 170% since 2001, mainly due to more flexible government policy on land use and relatively cheap agricultural land. But this strong growth came at the expense of nature reserves, which has increased concerns about deforestation in the Cerrado area. This will eventually become a problem as demand for more responsible and sustainable production of soybeans increases globally. Growth in Argentina has also been strong; production has increased by 86% since 2001. In relative terms, this increase was less harmful to the natural environment. Today, Brazil and Argentina combined have a larger share of the market than the US.

Figure 2: Productivity and efficiency in soybean by country



Source: OECD, ABN AMRO Group Economics

Over the past five years, Argentina has been particularly successful at increasing agricultural yields in soybeans mainly due to a decrease in acreage and an increase in output. China continues to invest to increase its domestic production of soybeans. However, China will remain a net importer of soybeans for the time being, while remaining heavily dependent on the American continent.

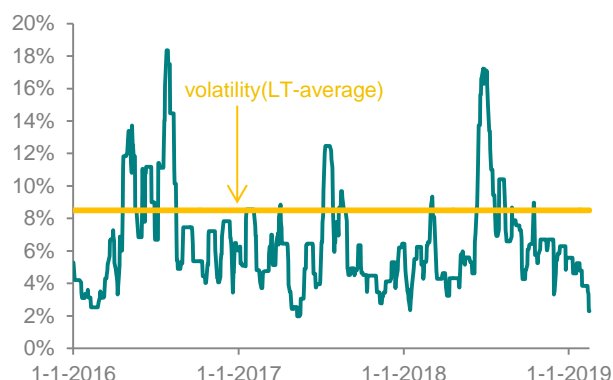
The strong improvements in yields since 2001 are directly attributable to an increase in the use of manure, pesticides and the worldwide agricultural mechanisation drive. Overall, efficiency has benefited, but the sharp increase in the use of pesticides in particular has a negative effect on the environment. On a global scale, companies are increasingly being encouraged to buy more sustainable soybeans. To meet the demand for more sustainable soybeans, large soybean producing countries will eventually be forced to change their business model.

Graphical Insights

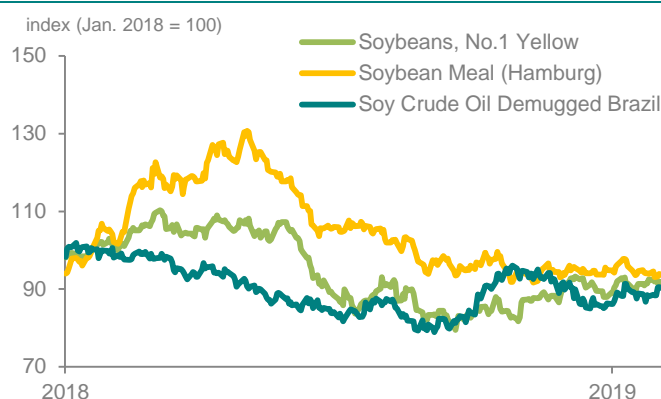
Price soybeans (USD/Bu)



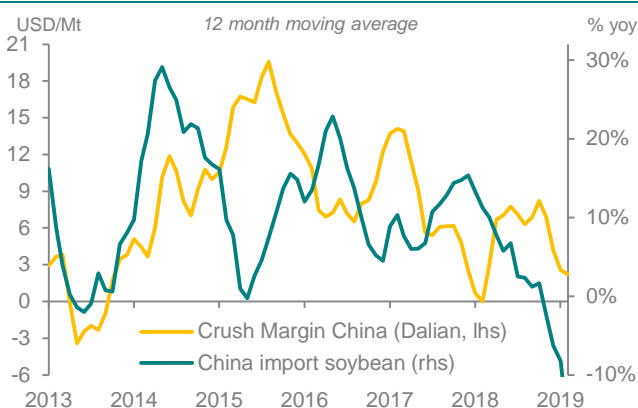
Price volatility (in %)



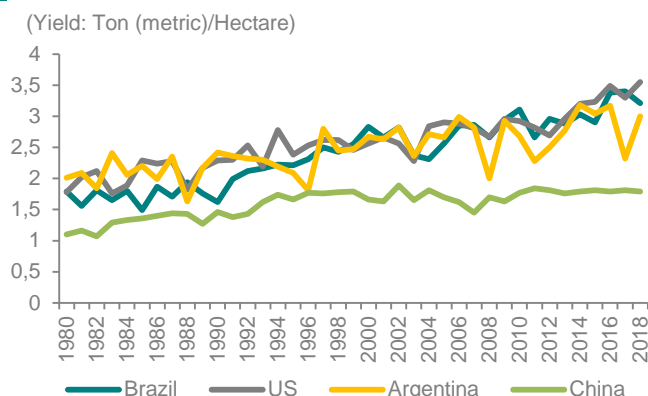
Price soybean, meal and oil (index)



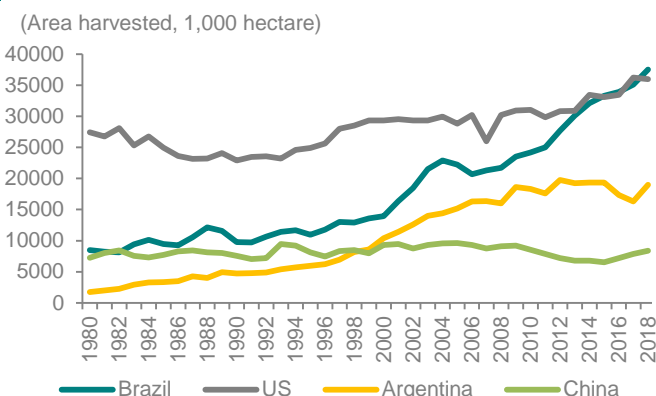
Crush margins China versus import



Yield per hectare by country



Harvested area by country



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Sources: Thomson Reuters Datastream, ABN AMRO Group Economics