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# What a China/US Trade Peace Could Mean for Soybean Stocks, Prices

18 October 2019

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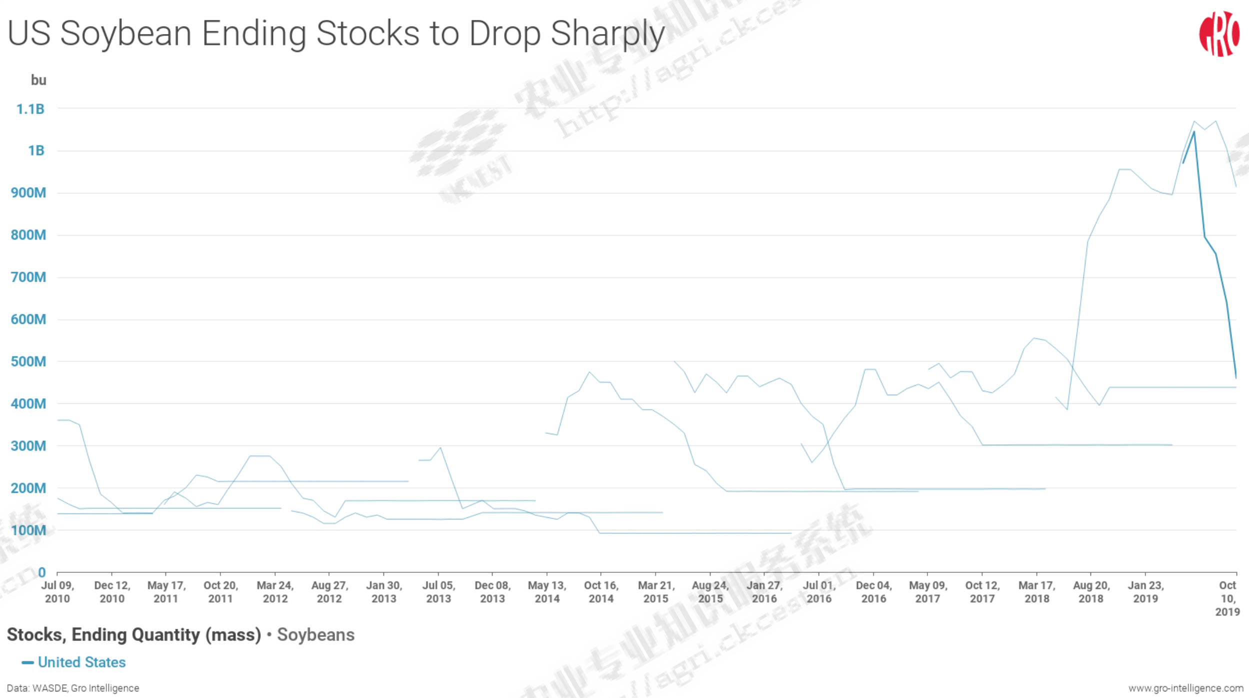
Following what is perhaps the first meaningful step toward ending the US/China trade war, we are able to quantify what such a resolution could mean for US soybean stocks and futures prices.

The Trump administration recently announced "phase one" of a deal in which China purchases $40 billion to $50 billion in US agricultural products, including large amounts of soybeans, the crop most heavily weighed down by the trade dispute. While the US has only agreed to halt further tariff increases, and China publicly has been less confident about the resolution, the announcement seems intended to signal an inflection point.

The size of this year's US soybean production and export strength are now within view, And several key pieces of information can now be applied to soybeans' price predictions. Most significantly, the USDA's current forecast of US 2018/2019 soybean stocks is nearly 15% lower than it was two months ago, falling 157 million bushels between the USDA's August and October WASDE releases. This was caused by a historic 56% decline in the USDA's projected 2019/2020 carryout—from over a billion bushels in July to 460 million bushels in October. This year's poor planting conditions and subsequent 2019/2020 production-loss expectations drew more bushels from storage and dragged down 2018/2019 ending stock forecasts.




(https://app.gro-intelligence.com/displays/2pd4Jx5Rj)
The USDA sharply cut its estimate for 2019/20 soybean ending stocks between its June and October WASDE reports, as seen in the dark blue line in this chart. The reduced estimate for stocks heightens the potential price impact of a resolution to the US/China trade war. **Click on the image to go to an interactive display on the Gro Intelligence web app.**

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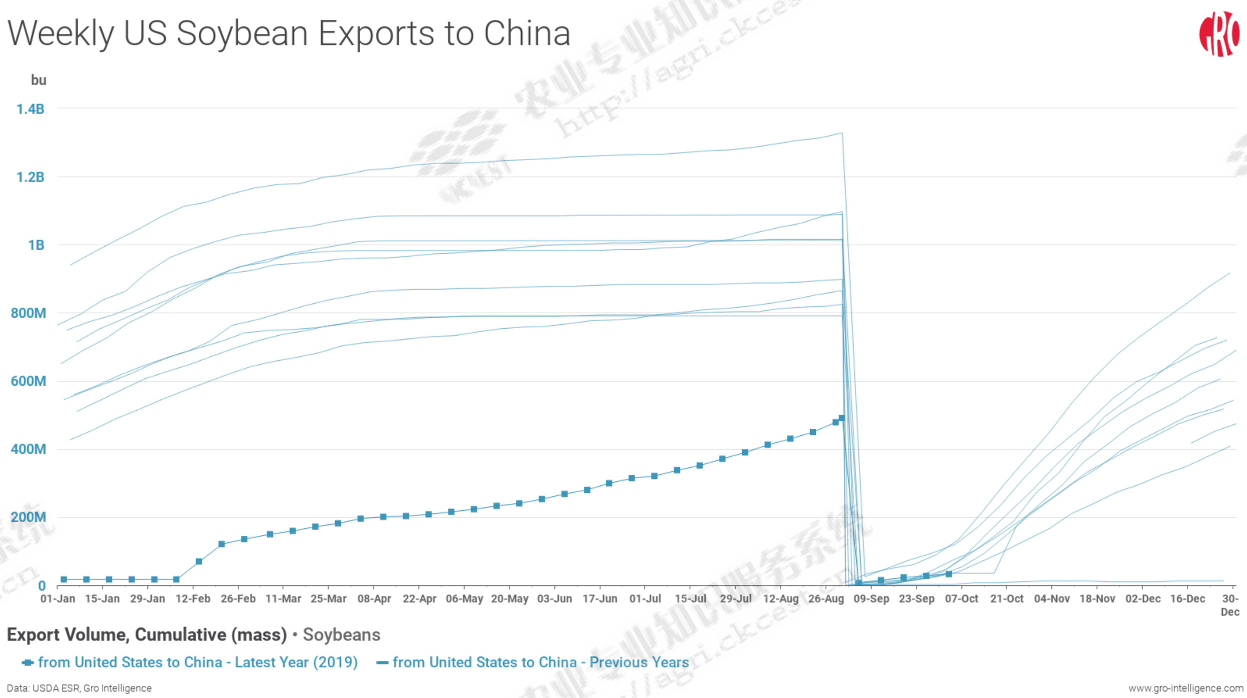
Additionally, more is now known of the US' soybean export program. Throughout 2018/2019, the US experienced its weakest soybean exports to China in a decade, trackable through USDA FAS' weekly export data (https://apps.fas.usda.gov/export-sales/summfax.htm). Because the US partially has made up for its weak shipments to China with exports to non-Chinese destinations, US 2019/2020 exports are now expected to take an outsize bite out of potential US stocks relative to the bite it took in 2018/19.




(https://app.gro-intelligence.com/displays/1jdOapyRw)
2018/2019 was an abysmal year for US soybean exports to China, as shown on this chart as a dark blue line with markers. (Previous years are shown as light blue lines.) A resolution of the countries' trade war could be expected to bring a rebound in exports. **Click on the image to go to an interactive display on the Gro Intelligence web app.**

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If the US resumes its previous upward trend in soybean exports to China, it can expect to ship 32.3 million tonnes (1.19 billion bushels) to China in 2019/2020, or 18.9 million tonnes (696 million bushels) more than it did in 2018/19, according to a Gro analysis. This would not be as strong as the export program prior to the onset of the trade war, but such a setback is historically normal following a major trade flow interruption. Our analysis assumes non-Chinese destinations for US soybeans would roll back their US purchasing programs to pre-trade-war levels as they are outbid by Chinese buyers.

A resulting 266-million-bushel increase in total US exports from USDA's current WASDE projection of 1.775 billion bushels would cause as much as a 266-million-bushel decrease in US 2019/2020 ending stocks. In reality, the decrease to ending stocks will almost certainly be less, as US domestic consumption can be expected to decline. But from this starting point, a stocks-to-use ratio can be calculated. And because of the strong relationship between historical stocks-to-use ratios and futures prices, a price forecast can be made.

Such a decrease in ending stocks would cause the stocks-to-use ratio to fall from USDA's September WASDE figure by nearly half, from 15.9% to 8.7%. Such a decline in stock to use implies a soybean futures price increase of $1.72 per bushel. Given current futures around $9.40 a bushel, a resolution of the US/China trade dispute suggests a price around $11.12 per bushel. Futures have only risen as high $9.45 a bushel in intraday trading since President Trump announced an agreement had been reached, indicating skepticism remains over its execution.

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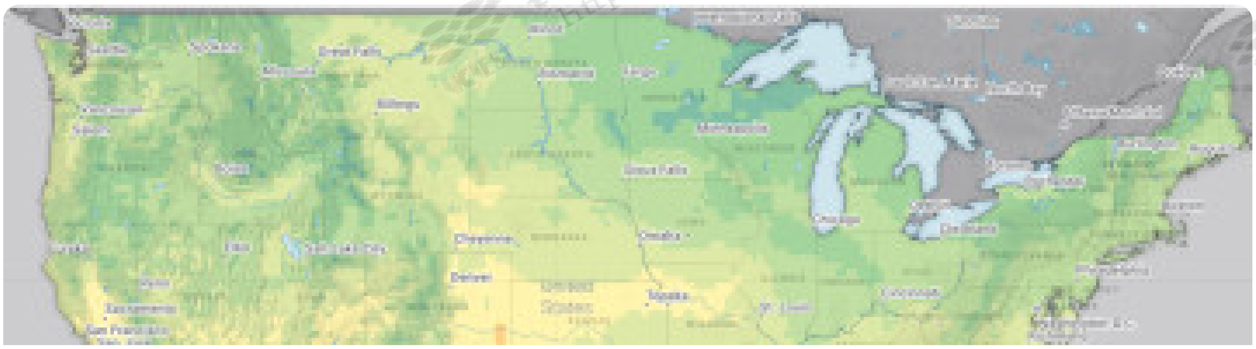

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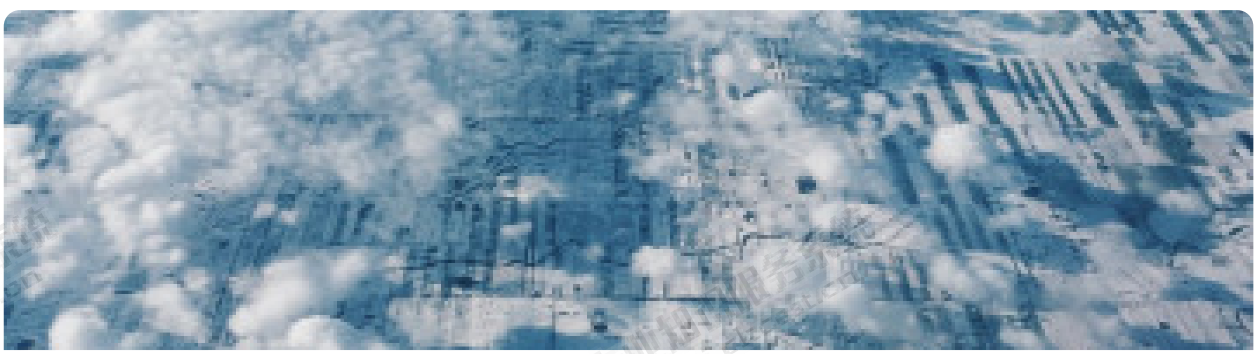

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New York (HQ)

1156 6th Ave, New York, NY 10036 USA
+1 718 935 0100

Nairobi

Eldama Park, Block A, 2nd Floor
Eldama Ravine Rd., Westlands
Nairobi, Kenya, P.O. Box 14410-00800
+254 788 448 678
+254 202 186 996

E-mail

support@gro-intelligence.com (mailto:support@gro-intelligence.com)

press@gro-intelligence.com (mailto:press@gro-intelligence.com)

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