

Chinese purchases of US soybeans pick up

Given the deteriorating relationship between the US and China, one would think this would result in reduced Chinese interest in US soybeans. However China has been fairly active in buying US soybeans in recent months, although flows so far this year are still well below pre-trade war levels



Strong Chinese demand

While Chinese demand took a hit earlier in the year, during the peak of the country's Covid-19 outbreak, we have seen a substantial recovery in demand in more recent months. In fact, June saw China import a record 11.16mt of soybeans, whilst for July, import volumes totalled 10.09mt. This leaves cumulative imports over the first seven months of the year at a record 55.14mt, up almost 18% year-on-year, and even surpassing imported volumes prior to the US/China trade war.

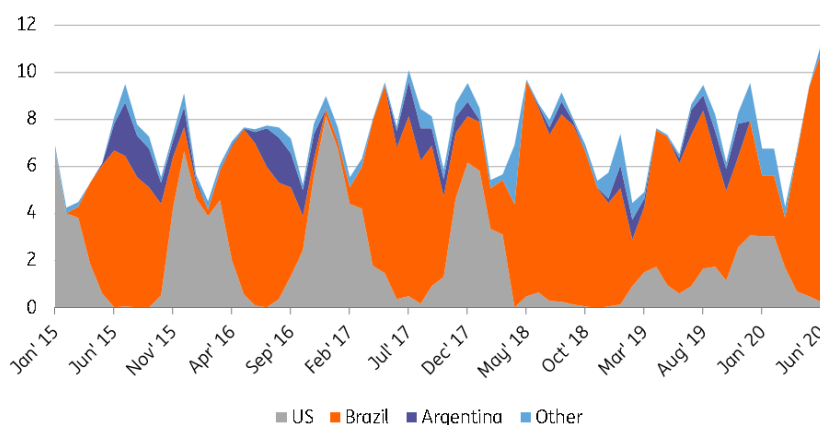
While crush margins in China have come off from their recent highs seen in July, they are still well in positive territory, and so demand should remain fairly robust for now.

Obviously, with US volumes to China still well below pre-trade war levels, this has left Brazil benefiting from stronger demand. However, as we transition from the seasonal peak in Brazilian

supply to US supply, we should see more Chinese interest in US soybeans, something that recent US export sales data shows. Clearly though, there is plenty of risk around this if we were to see a further strain in the US/China relationship, which leads to the removal of tariff exemptions on US soybeans.

The trend in Chinese soybean imports is very clear, and not surprising, given developments between China and the US over recent years. Brazil has made up 72% of total China imports so far this year, while the US accounts for just 21% of imports. This is much improved from the 15% seen over the same period last year, but it is still well off from the 43% share seen prior to the trade war.

China monthly soybean imports by origin (m tonnes)



Source: China Customs, ING Research

Brazil's record crop... yet again

Brazil is set to deliver a record soybean harvest in 2019/20, with the country estimated to have produced 120.9mt of soybeans, up 5.1% YoY according to CONAB, and surpassing the previous record of a little over 119mt in 2017/18. The stronger crop has been driven by a combination of area, which has grown 3% YoY, whilst yields are estimated to have increased by 2.1% YoY. Expectations for 2020/21 are that the country will see yet another record crop, with the USDA estimating that production will reach 130mt, with attractive prices in Brazilian *real* terms leading to increased acreage.

Exports from the country have grown substantially, increasing 43% YoY over the first seven months of the year to total 73.3mt. Obviously stronger demand from China has been supportive, whilst the weakness seen in the BRL over much of the year has made Brazilian soybeans attractive.

More recently though, cash values for Brazilian soybeans have strengthened significantly, making them less competitive. Strong exports earlier in the season, along with entering the low period of Brazilian supply, has been supportive for Brazilian cash values. Clearly, if we were to see a further deterioration in relations between the US and China that would likely provide more upside to Brazilian values.

What about US supply?

The US is set to see quite the recovery in soybean output in the 2020/21 marketing year, following

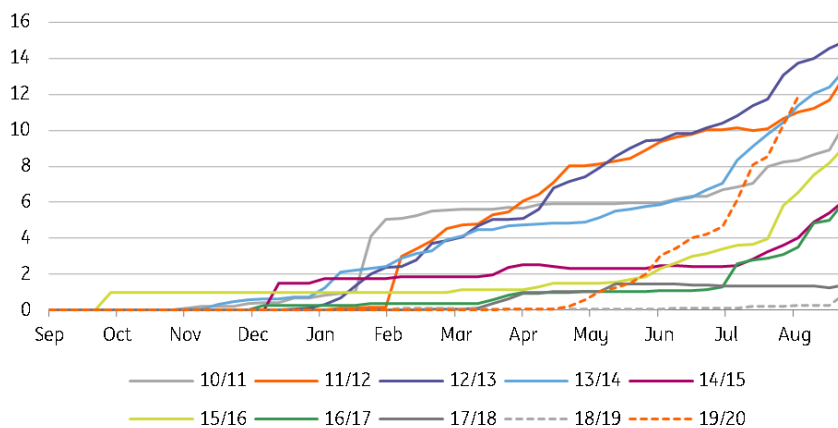
the impact from heavy rains and flooding during the planting season last year. The USDA estimates that output over the season will total 120.4mt, up almost 25% YoY. Despite this stronger crop, ending stocks in the US are estimated to be largely unchanged YoY, due to a pick-up in domestic crushing, but more importantly stronger exports, on the expectation of larger flows to China in 2020/21, with the phase one trade deal.

So far in the 2019/20 US marketing year, US export sales to China stand at 14.56mt, up 24% YoY. This, however, is still well below the 27.6mt of export sales in the 2017/18 season, and even further away from the more than 35mt sold in the 2016/17 season.

But given the recent rally in Brazilian cash values, this has made US soybeans more competitive into China, and so assuming that tariff exemptions remain in place for US soybeans, Chinese buyers should favour US soybeans.

US export sales data is aligned with this view. The latest data from the USDA shows that export sales for the next marketing year (starting on 1 September) stand at a little over 11.9mt already. This compares to just 260kt at the same stage last year, and the highest level of sales for new crop beans at this stage of the year since 2013, when 13.75mt of US soybeans had been sold to China for the following season.

US soybean export sales to China for next marketing year (m tonnes)



Source: USDA, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.