

Soybeans to remain the trade hostage

The outlook for soybeans, as the title suggests, will mostly be dependent on how trade talks progress, as has been the case since early 2018. Any deal which sees tariffs on US soybeans removed would be constructive for CBOT prices, particularly with a somewhat tighter supply picture



Trade games

It has been an eventful year for the soybean market. The toing and froing of trade talks has whipsawed soybean prices, with prices coming under pressure earlier in the year when trade talks broke down only to rally following a very wet spring delaying soybean plantings in the US. September saw renewed pressure on CBOT soybeans, with China retaliating to further US tariffs, by increasing them on US soybeans from 20% to 30%. However, Chinese buyers have returned to the market for US beans more recently, with the Chinese government providing tariff waivers. There are media reports however that these quotas are now fully utilised and it is unlikely that further waivers will be issued until a trade deal or at least further progress is made.

Right now, it does seem that trade talks are at a key juncture. Failure to come to a deal by 15th December would likely see the US impose further tariffs. If that's the case, a deal would appear to be somewhat further away, and that could have an impact on US soybean planting in 2020.

China demand

The waivers provided over the latter part of 2019 have seen flows from the US to China pick up once again, with at least 10mt worth of tariff waivers provided. In the 2019/20 marketing year, soybean export sales to China have totalled 5.56mt so far. This is up significantly from just 271kt at the same stage last year. That said, it still falls short of the almost 15mt seen over the same period in 2017/18, prior, of course, to the start of the trade war.

The demand outlook looks more positive for the year ahead

While tariffs have had an impact on flows, another factor which has weighed on total Chinese soybean demand is African Swine Fever, with the mass culling of swines reducing demand for soybean in feed. Soybean imports into China over the first ten months of this year totalled 70.8mt, down 8% YoY. However, the demand outlook does look more positive for the year ahead; while pork prices in China are still significantly above historical levels, they do appear to have peaked. That suggests we are starting to see an improvement in pork's domestic supply picture which should be supportive for soybean imports over 2020.

Supply tightens

Looking at supply, expectations for the US soybean crop in the 2019/20 season is that output will total 3.55b bushels, which is down 20% YoY. There are two factors which have driven output lower: Firstly, with China largely becoming absent as a buyer, US farmers reduced the planted soybean area, choosing to increase corn plantings instead. The USDA estimates that US soybean plantings fell a little more than 14% this year. Secondly, yields have been hit as a result of the very wet planting season, with them estimated to be 7.3% lower YoY.

The longer the trade uncertainty lasts, the more likely it will have an impact on planting decisions for US farmers in 2020. If we enter the planting season, and there is still few signs of a deal, we are likely to see a further shift towards corn at the expense of soybeans, with farmers not wanting to take the risk of being unable to sell their crop. Looking at the soybean/corn ratio at the moment suggests that farmers should plant more corn for the 2020/21 season.

The longer trade uncertainty lasts, the more likely it will have an impact on planting decisions

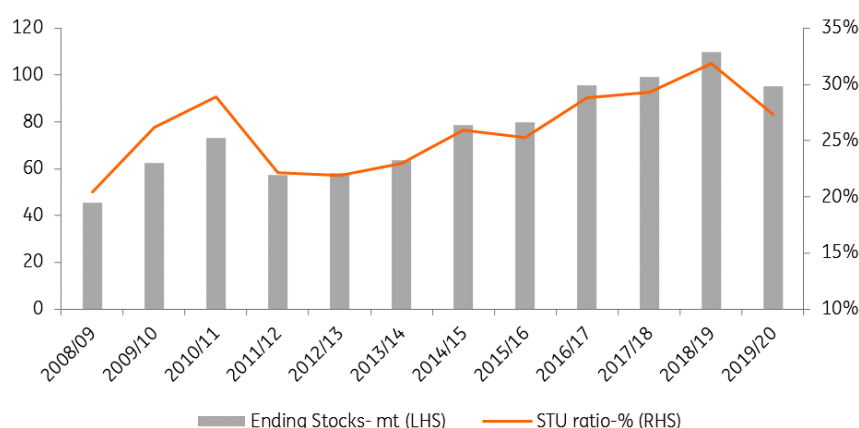
Turning to South America, and the region continues to produce near-record levels. For the upcoming 2019/20 harvest, Brazil is expected to produce a record 120.86mt of soybeans, up from 115mt in 2018/19. This stronger supply, along with a weaker BRL should mean that Brazilian soybeans remain competitive to export markets. While any lifting of tariffs on US soybeans would likely mean we see weakness in Brazilian cash values.

In Argentina, there is growing uncertainty, following this year's general election. Business-friendly, Mauricio Macri was voted out of power, with Alberto Fernandez from the PJ party taking over, and

whose running mate was Cristina Fernandez de Kirchner. The risk is that we see increased intervention from the new government (like when Kirchner was in power), and subsequently the potential exists for increased export taxes on agricultural products. Given the worries surrounding this, there has reportedly been increased selling from farmers in the country trying to beat any tax increase. Taking such action will have an impact on Argentina's competitiveness to export markets.

Finally, the USDA estimates that US soybean ending stocks will total 475m bushels in 2019/20, down from 913m bushels the season before, while this is a significant decrease YoY, it is still well above the 13/14 -17/18 average ending stocks. Meanwhile, global ending stocks in 2019/20 are forecast to total a little over 95mt, down from almost 110mt last year. Tightening stocks should provide support to prices moving forward, however trade developments are likely to trump fundamentals in the short term.

Global soybean ending stocks



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>.