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> **"If there is no resolution of the trade dispute, {current} trends are likely to continue."**

Grain and Oilseed Outlook

Written by **Patrick Westhoff**, Ph.D., Food and Ag Policy Research Institute University of Missouri

A new farm bill was signed into law on December 20, 2018, but for grain and oilseed markets, that was not the top policy story of 2018. Instead, trade disputes with China and other countries have weighed heavily on commodity markets and introduced a major source of uncertainty.

In the summer of 2018, China imposed a 25 percent retaliatory tariff on imports of U.S. soybeans and many other farm commodities. The consequences follow basic economic logic. The tariff increased the wedge between domestic prices in China and the United States and sharply reduced U.S. sales to China. Brazil and other exporters increased their sales to China. While U.S. exports increased to other markets no longer supplied by South American soybeans, total U.S. exports dropped well below previous estimates.

Soybean prices have gyrated in response to the latest rumors about U.S.-China trade relations. If this uncertainty continues, it will add to the normal market volatility caused by the weather, exchange rates, oil prices, economic growth and other factors.

To put things in perspective, it can be helpful to focus on three key variables: total soybean imports by China, and total soybean exports by Brazil and the United States (see Figure 1).

China's soybean imports more than doubled between 2008 and 2016, but then levelled off in the 2017/18 marketing year and were projected to decline in 2018/19. Both U.S. and Brazilian exports increased between 2008 and 2016 to take advantage of the growing Chinese market. In the 2017/18 marketing year, however, Brazilian exports increased sharply while U.S. exports declined slightly. USDA projected another large increase in Brazilian exports in 2018/19, and early-season sales are consistent with USDA's projected steep decline in U.S. exports.

If there is no resolution of the trade dispute, these trends are likely to continue. China will import fewer soybeans in total than it would have

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otherwise, and most of those imports will be supplied by Brazil and other non-U.S. exporters.

Meanwhile, China is also playing an unexpected role in the corn market. Data about China's corn supply and use are unreliable and subject to large revisions. Such a revision was made recently, suggesting China's corn production was much greater than previously estimated. Even with an upward revision in estimates of China's corn consumption, the implication was that China's stocks of corn were much larger than previously thought. Indeed, USDA estimates now suggest that China holds most of the world's carryover stocks of corn (see Figure 2).

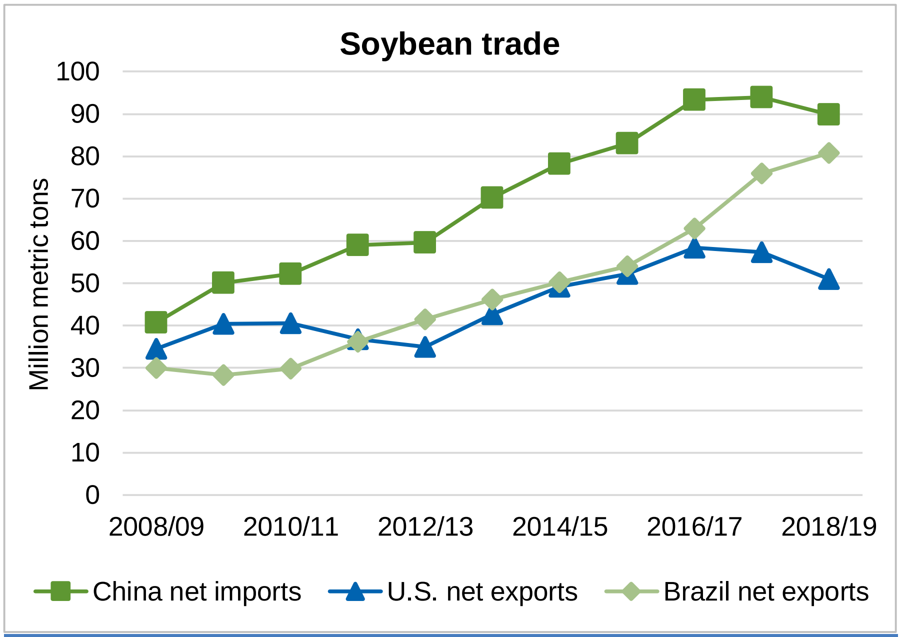

Figure 1: USDA Foreign Agricultural Service, PSD Online, December 2018

In a certain sense, these changing estimates are unimportant. All that really matters to U.S. producers is how much corn China trades, and China's imports have remained in a relatively narrow range in recent years. However, the previous reports that China's stocks were much smaller and were rapidly declining had led some analysts including myself to hope that China might become a larger corn importer in the not-too-distant future. That hope now seems unlikely to be fulfilled.

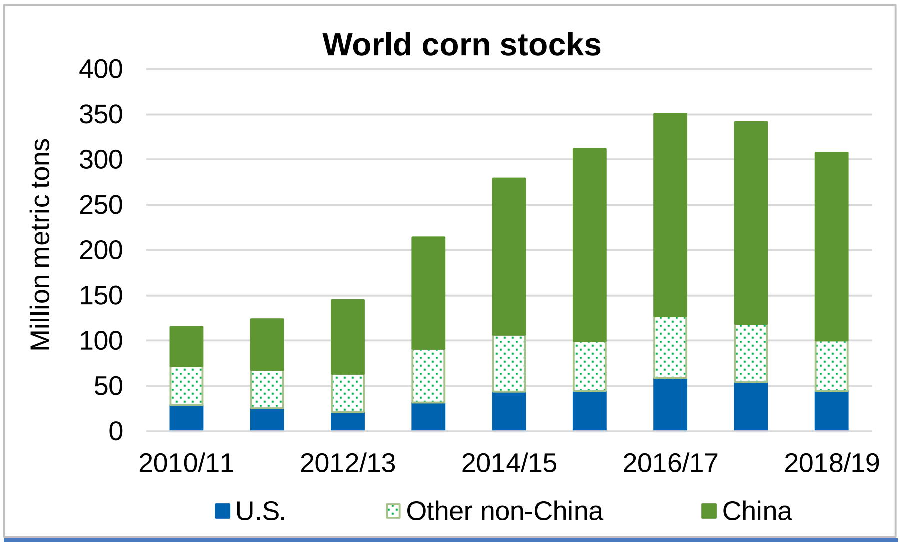

Figure 2: USDA Foreign Agricultural Service, PSD Online, November 2018

U.S. and other non-Chinese stocks of corn are significantly reduced from their recent peak levels. While the estimated stock levels are high enough to allow corn prices to remain below $4 per bushel, a drought or unexpected boost to global demand could result in significantly higher prices.

In wheat markets, a smaller global crop in 2018 is resulting in a modest decline in world stocks and slightly higher U.S. prices. One important development is the emergence of Russia as the single largest exporter of wheat in years with favorable weather. As a result, the country has become a major source of uncertainty in global grain markets, given wide annual swings in yields and in export policies.

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Looking ahead, most analysts expect an increase in corn acreage and a reduction in soybean acreage in 2019. On December 24, 2018, the ratio of December 2019 corn futures contracts to November 2019 soybean contracts was 2.35 (see Figure 3). That's well below the ratio that prevailed when planting decisions were made for the 2017 and 2018 crops, and only slightly above the ratio in 2016. While this ratio is not a perfect predictor of planting decisions, it should be noted that U.S. farmers planted 94 million acres of corn in 2016 and just 89 million acres in 2018. Meanwhile, soybean area increased from 83 million acres in 2016 to 89 million acres in 2018.

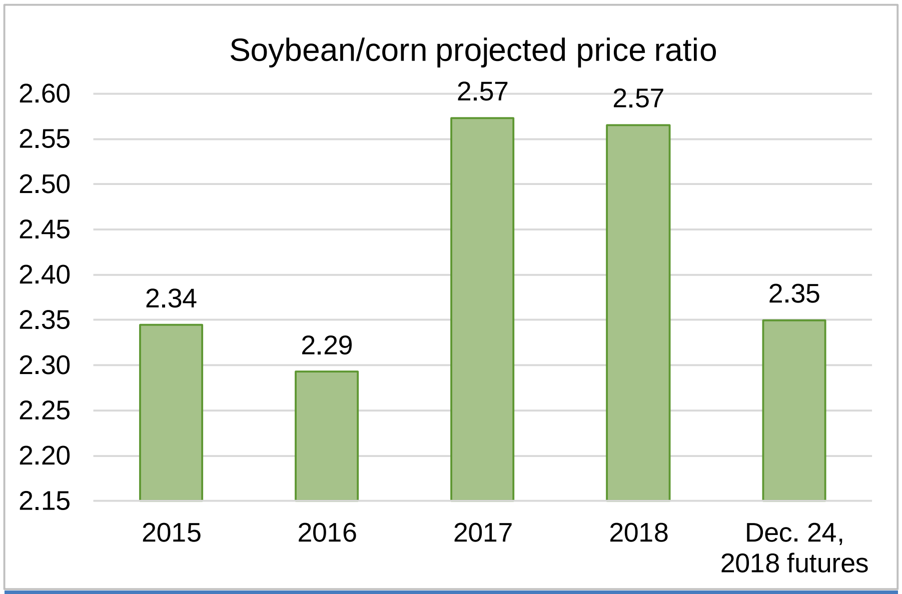

Figure 3: Author calculations, based on RMA projected prices for soybeans and corn for 2015-2017 and the corresponding futures prices (December 2019 corn and November 2019 soybeans) on December 24, 2018.

Finally, note that the new farm bill continues crop insurance and basic commodity programs with relatively few and minor changes.

Patrick Westhoff is the director of the Food and Agricultural Policy Research Institute (FAPRI) and a professor of agricultural and applied economics at the University of Missouri. He grew up on an Iowa farm, has degrees from the University of Iowa and the University of Texas, and obtained his Ph.D. in agricultural economics from Iowa State University. He served in the Peace Corps in Guatemala, and was an economist with the U.S. Senate Committee on Agriculture, Nutrition and Forestry before joining MU in 1996.

Farm Credit East Industry Snapshots – February 2019

Net farm income for 2019 is expected to improve over 2018's results and come in at roughly the same level as 2017, according to Farm Credit East estimates. Leading the way for this improvement is continued good performance from some parts of the greenhouse, nursery, fruit, vegetable, and ag retail sectors. Higher milk prices will also contribute somewhat.

FarmCreditEast.com's Industry Snapshots provide the latest business and market intelligence from our industry experts on a variety of natural resource-based industries, including agricultural sectors, commercial fishing and forest products.

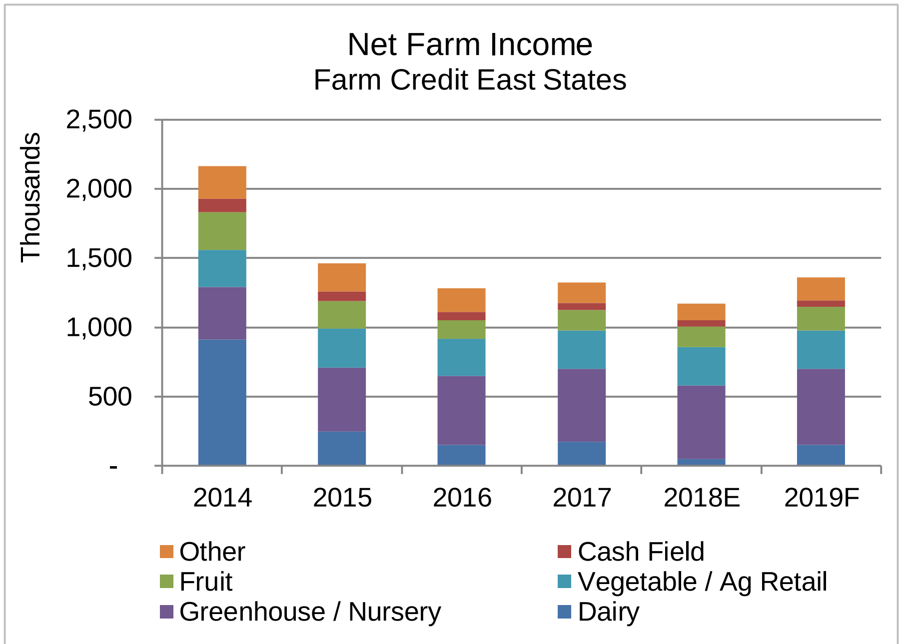

Figure 1: Farm Credit East Knowledge Exchange Estimates, includes CT, ME, MA, NH, NJ, NY & RI

These snapshots, which are updated quarterly, are designed to quickly provide readers with current information on conditions in various industry segments. Industries included are dairy, fruit, vegetables, cash field crops, greenhouse and nursery, livestock, timber, fishing, and general input costs.

Visit **FarmCreditEast.com/Snaphots** to read the full summary of these snapshots.

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