

This Week in Agriculture

A Mixed Bag of Information from the Week that Was: September 21, 2018

- An interesting week of trade as it appears most of the bearishness that came from last week's USDA updated supply and demand numbers has moved to the sidelines. Potential changes to Chinese trade policy across the board, ideas of soybean arbitrage on a global scale and talk of inflationary pressure were seen as mostly price supportive, or at the very least the desire to move to new lows has dissipated for now.
- It is interesting to see a shift in Chinese attitude or at the very least an attempt to change how they are viewed by their trading partners. In the past it was not unusual to see China act as the aggressor in trade spats, working to bully (for lack of a better term) their counterpart into submission. However this week we have seen what could only be described as a softer, gentler China when it comes to trade policy.
- Much of what has angered the West when it comes to China is their protected status by the World Trade Organization. This protected status awarded by the WTO is for developing nations and allows for a different set of trade rules when it comes to tariffs, value added taxes and domestic subsidies. At this point it would be very difficult to argue a country that has become a global economic super power needs protection. In fact this has been one of the biggest sticking points with the Trump Administration—China's trade policies are not congruent with their role in the global economy.
- This week we saw China announce they would soon make a move to reduce many of these tariffs they have enacted in the past with many of their trade partners around the world. Some view this as a move to preemptively change how they do business before any discussions over a status change with the WTO even have to take place. Others are wondering when the package is released in October if the US will see reduction in tariffs assessed or if this will be a move to bolster trade relationships with other nations. Either way it is an indication China is willing to make some adjustments to their current trade practices, but what that may mean long-term is of course up in the air.
- Another interesting development was seen in the global cash trade when it comes to soybeans. Conversations over arbitrage—when one group buys from a certain supplier with another group as the final destination—are not new in the cash side of things; however developments when it comes to Argentina purchases caught the attention of many traders both in and out of the cash realm. According to rumors that hit the market Thursday Argentina has purchased 15 cargoes of around 900,000 metric ton (33 million bushels) from the US with a final destination of China in mind.
- Obviously with the drought Argentina experienced the fact they are buying US beans is not news, however the idea we could see arbitrage take place with China knowingly purchasing US soys through an intermediary could indicate talk a couple weeks ago that suppliers would rather 'run out of beans' than purchase US supplies was simply smoke and mirrors.
- In addition to the arbitrage we are seeing US beans become price competitive into China versus Brazil supplies even with the tariff in place. In fact 2 cargoes of US soys are expected to hit Chinese ports over the next couple of days. Buyers there are flabbergasted as the purchaser is still listed as 'unknown' and no one there is 100% sure how the offloading and subsequent purchaser designation will actually go.
- In other trade news it appears as though the United States and Mexico will move forward with their bilateral trade agreement. At this point dairy and dispute resolution sticking points remain when it comes to negotiations with Canada with no real progress taking place. With Mexico seeing a new president coming in to power December first both countries want to make sure congress has enough time to approve the bilateral agreement out of fear the shift in power structure would result in new negotiations.
- Talk of inflation is returning to the market place as well. Of course times where inflationary pressure becomes obvious commodities are a buy. For those simply looking at a yearly chart and not necessarily looking at fundamentals soybeans would appear to be a buy here. With some many unknowns as we look at the year ahead it is very likely we could see all three major markets remain supported.

- Next week we will continue to monitor trade discussions across the board as improved weather and cooler temps should allow harvest progress to advance in areas not flooded by extremely heavy rains seen in some locations this past week. Getting a better feel for yields and the cash market's ability to absorb what is likely to be a large push in supply will give further clarity to what we will see when it comes price direction as we move ahead.