

Natural Resource Flash Report

August 2019

The U.S.-China Trade Tensions Escalate

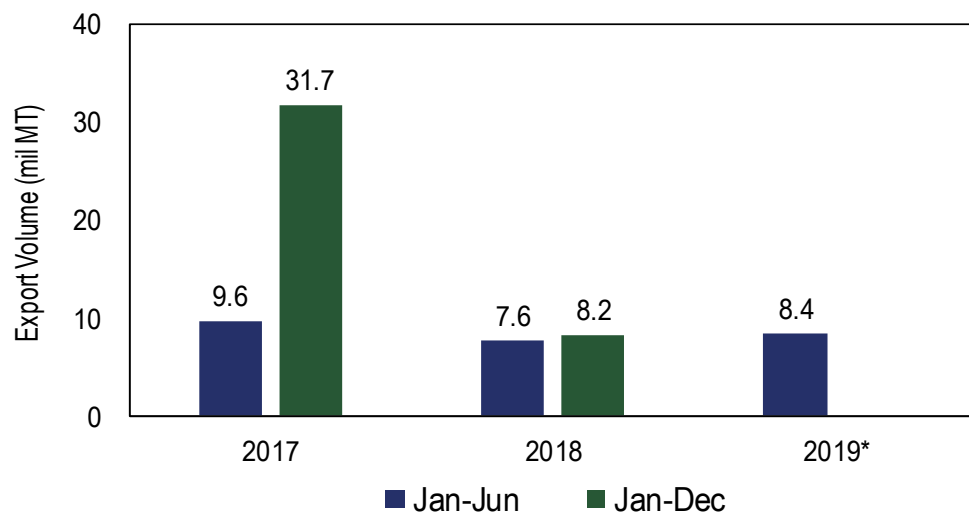
On August 6th 2019, China ordered its state-owned enterprises to suspend all agricultural imports from the U.S., in response to the recently announced 10% tariffs on the remaining \$300 billion worth of Chinese goods by the U.S starting in September.¹ Private buyers in China have followed suit, citing uncertainties in the U.S.-China trade talks.²

Costly Setbacks for the Soybean Sector

Soybeans are the largest single commodity in U.S. agricultural exports to China. In 2017, prior to the imposition of last year's tariffs, soybeans accounted for 82% of U.S. bulk agricultural commodity exports to China and 57% of all U.S. soybean exports globally.³ During the same year, China relied on the U.S. for 34% of its soybean imports.⁴ The recent restriction is not likely to have a significant impact on U.S. soybean inventories in the remainder of 2019, as Chinese buyers ordered 8.4 million MT of U.S. soybeans in the first half of 2019, close to the pre-trade-war level in 2017 (Chart 1).⁵ Nevertheless, the trade disputes cost U.S. soybean farmers \$9.1 billion in financial setbacks in 2018, who saw exports to China fall to \$3.1 billion (8.2 million MT) from \$12.2 billion (31.7 million MT) in 2017.

2019 U.S. Soybean Exports to China on par with Pre-Trade-War Level

Chart1. Volume of U.S. soybean exports to China



Note: Export data for 2019 are updated as of August 1, 2019

In addition to financial losses, U.S. soybean farmers face heightened risk of losing a greater share of the Chinese market to competitors. In 2018, China was able to fill the gap left by the U.S. by increasing imports from Brazil. In the second half of 2018, China ratcheted up Brazilian soybean imports by 11 million MT from the same period in 2017, partially offsetting reduced imports from the U.S.⁶ Moreover, China's appetite for soybeans is expected to take a dip in the next 18 months, as the country is currently struggling with an African swine fever epidemic which could substantially reduce its pig herd by 2019 year-end.⁷

¹Ministry of Commerce of China, <http://www.mofcom.gov.cn/article/ae/ag/201908/20190802887951.shtml>

²Bloomberg, <https://www.bloomberg.com/news/articles/2019-08-05/china-asked-state-buyers-to-halt-u-s-agriculture-imports>

³USDA Foreign Agricultural Service, August 2019, <https://apps.fas.usda.gov/gats/default.aspx>

⁴International Trade Centre Trademap, August 2019, <https://www.trademap.org/Index.aspx>

⁵USDA Foreign Agricultural Service, August 2019, <https://apps.fas.usda.gov/gats/default.aspx>

⁶International Trade Centre Trademap, August 2019, <https://www.trademap.org/Index.aspx>

⁷CNBC, <https://www.cnbc.com/2019/07/30/chinas-pig-herd-predicted-to-shrink-due-to-african-swine-fever.html>

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Facing challenging competition from Brazil and shrinking demand in China, U.S. soybean producers will continue to divert volumes to the EU and other African and Asian countries. Increasing U.S. crush capacity will also absorb some of the lost China export volume, cushioning the market. In addition, U.S. soybean production is expected to decline by 15% in 2019-2020, driven by a 10% reduction in planted acreage and a 6% lower yield outlook.⁸ In the short term, the additional downward pressure on soybean prices should be limited.

More Challenges for Fruits and Tree Nuts

The U.S. continues to lose market share in the growing export market in China for fruits and nuts to competitors in Central Asia, Canada and Australia. Fresh sweet cherries are one of the fastest growing fruit exports to China, exported to China in Q2 and Q3 each year, following the harvest months. In 2018, exports during this two-quarter marketing season decreased by over 38% to 44 million pounds, down from 71 million pounds in 2017. Going into the peak marketing season this year, China was attempting to shift purchases to Central Asian countries.⁹ A complete halt on buying U.S. cherries by China would result in millions of pounds of U.S. sweet cherries needing alternative markets.

After the trade tension heightened in June 2018, almond exports from the U.S. to mainland China and Hong Kong declined significantly. Shelled almond exports volume during the second half of 2018 was 17 million pounds lower than it was in the second half of 2017.¹⁰ Meanwhile, Australia exported 14 million pounds more almonds to China, absorbing most of the market shares left by the U.S.¹¹ This adds pressure to U.S. tree nut growers, which are exacerbated by multiple tariffs on U.S. tree nut exports imposed by other trading partners including India and Turkey.

International trade is an integral part of the agricultural industry in the U.S. and the U.S. agriculture sector has been disproportionately affected in the recent trade disputes between the U.S. and China. We will continue to monitor the trade negotiations between the two largest economies in the world and assess further impacts to future policy developments.

⁸USDA World Agricultural Supply and Demand Estimates, July 2019, <https://www.usda.gov/oce/commodity/wasde/wasde0719.pdf>

⁹Reuters, June 2019, <https://www.reuters.com/article/us-usa-trade-china-fruit/the-pits-how-chinas-u-s-tariff-jab-choked-a-cherry-import-boom-idUSKCN1UH1DZ>

¹⁰USDA Foreign Agricultural Service, August 2019, <https://apps.fas.usda.gov/gats/default.aspx>

¹¹International Trade Centre Trademap, August 2019, <https://www.trademap.org/Index.aspx>

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