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Will 2018 Be Known as Year of Corn and Soybean Tariffs?

By Chris Lehner (Apr 6)

Early Wednesday morning, as most U.S. traders were sound asleep, China announced a PROPOSAL on 108 U.S. goods and commodities. Corn, soybeans, and beef were added to the tariffs, with pork placed a little over a week ago.

It was also a reminder; the U.S. is no longer the bread basket to the world.

First, it is a proposal and if enacted, it is expected to take place in May. The reason China did it was to push negotiations on trade. A lot can happen between now and May and if there are negotiations, they probably will go beyond May. Anyone who might have thought China would stand idly by and not react to President Trump's tariffs, should have their head examined.

At this time, as I have previously reported, the timing of the proposed Chinese tariffs is perfect.

China placing a tariff now is a smart business decision. This time of the year more grain ships are headed to Brazil instead of the U.S. Brazil's largest soybean harvest has started and every year, it is the opposite time that U.S. farmers are planting and not selling or moving grains. Also, over the past year China has bought more beans from Brazil than they have from the U.S. One reason, Brazil had cheaper prices is due to transportation. U.S. agricultural commodities are competing with U.S. industrial goods for barges and trains. The strong U.S. economy has more U.S. goods being exported and they need to be moved. Currently, coal and oil are a couple of commodities beating out grains on barges and for an example for rail competition, look at the list China proposes to place tariffs.

The times when Brazil primarily exported from late April through July are long gone. They are increasing storage, but unlike U.S. farmers, they don't store if it is possible to move the crop. Last year, due to the size of the Brazilian crop, as you may recall, they sold throughout the summer into the U.S. harvest, but U.S. exporters had ships scheduled for U.S. new crop and Brazil was caught with stocks they couldn't move. Farms ran out of storage, using all the available polyethylene bags. However, and it is why U.S. exports are behind USDA expected exports, Brazilian quickly renewed exporting and outpaced U.S. exports this year.

When the Chinese Finance Minister announced the proposed exports, he was asked if China didn't need U.S. soybeans. He was straight to the point with his answer. He said yes, but they can buy soybeans from other countries. They know the U.S. isn't the only country in 2018 growing more oilseeds. As you may recall, as of the March WASDE Report, almost all countries besides India are planning on growing more soybeans and/or oilseeds.

Will China be the first of many?

China wasn't the only country where steel and aluminum tariffs were set. South Korea, a large buyer of U.S. commodities was also listed. China might be the first of many countries with tariffs.

What if NAFTA is stopped? On Wednesday, April 3rd President Trump declared the U.S. military was going to be used on the U.S. and Mexican border along with harsh statements on NAFTA. Earlier in the week, he said if Mexico didn't help or outright fund a new wall, NAFTA would end. Losing Mexican buying power for U.S. commodities could be more damaging than Chinese tariffs.

Tariffs from China would no doubt hurt U.S. agricultural commodity prices, more in the short run, but stopping NAFTA would do long term damage.

Update on Selling Soybeans and Buying Corn

In my last two reports I suggested and gave reasons why I felt traders should consider selling soybeans and buying corn. Both reports are archived on **www.insidefutures.com** or I will email them to you if requested. Send me an email to: chris.lehner@archerfinancials.com with your name, phone and address. I will also include you on two weeks of any email I send to clients.

I also suggested if you want to know when I recommend when to place the trades to become a client or wait for reports to be posted.

As you may recall I recommended to wait until the spread broke above the 200 day moving average and I would likely use March 2019 contracts. I want to keep November 2018 Soybeans and December 2018 Corn open for new crop hedging and for speculators I am not using 2018 old crop and new crop corn and soybeans because I like speculating where there is more daily trading volume.

The trade I suggest is to buy three March 2019 corn and sell one March 2019 Soybeans. This trade has several reasons to place. As of the March 29th, Planting Intentions Report, U.S. farmers are planning on more soybeans and planting quite a bit les corn. Corn demand in 2018 and into 2019 will increase. The ethanol industry in Brazil and China will take stocks and new crop. It will also produce more DDG's that will compete against soymeal. I often find it odd why it is called a bi-product in the U.S. and other countries call it a co-product. In Brazil they are quickly moving from cane based distilling to corn based distilling. Corn can be doubled crop is one reason and the other is the co-product dried distiller grains they widely admit is a reason to use corn.

It is no secret China is building distillers as fast as possible. By 2020 they want all new cars to be using 10 percent ethanol. The current glut of hogs in China and increase world-wide, along with the increase in cattle and poultry are consuming more corn.

Livestock and poultry worldwide will be breaking records through 2018. The need for corn and feed grains along with DDG's will deplete stocks. I am not going into the actual numbers in this report or speculate if there will or won't be weather related problems during the 2018 northern hemisphere growing season. It is simple fundamentals; less corn will be grown, and demand will grow.

Spread has closed above 200 day moving average as well as upper channel line. Place spread on now.

Long 3 March 2019 Corn and Short 1 March 2019 Soybean Spread Chart as of 11:00AM Central US time April 5, 2018

Chart from eSignal Interactive, Inc.

For a more in depth look at the markets, call me at 913.787.6804 or email me at chris.lehner@archerfinancials.com . I look forward to hearing from you.

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