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Don't Blame Trade Tariffs for Low Soybean Prices

By Chris Lehner (July 11)

There are many reports that claim tariffs are the major reason why soybean prices are down. It is one reason beans are down and maybe the reason for the last .75 cents to $1.00, but far from why November 2018 soybeans have tumbled from the May 29th high at $10.60 ½.

The reality is that U.S. and global farmers caused the drop in prices long before President Trump announced tariffs. The countries that placed tariffs on U.S. commodities such as soybeans just added insult to injury by making an already bad situation worse. But it seems pretty good for the politicians and soybean groups that can use tariffs to blame falling prices. For instance, a week ago members of Congress, along with business leaders from Midwestern states wrote President Trump about what tariffs have done to soybean prices and other agricultural commodities affected by tariffs. Nowhere in the letter did I read that U.S. farmers are growing a possible record crop, planted more soybeans than corn, have stored more soybeans than a year ago, or where China for over a year has purchased more beans outside of the U.S.

Another reality is that for over a year, the cash basis on soybeans has been horrible and for most locations in the U.S., it remains awful. Before beans can have any decent rally, the basis needs to narrow. The basis was extremely wide long before Chinese tariffs.

U.S. farmers have planted more soybeans than corn. Prices last year for soybeans were better than corn and with many farmers getting better yields on last year's soybean crop compared to corn. In addition, they planted more soybeans this spring. Many even lulled themselves into the idea that storing would mean better prices. When beans made lows in January because of the poor crop conditions in Argentina, they believed prices in the U.S. would remain high throughout this summer into this year's harvest. When reports this past winter were about Argentina, they totally ignored predictions that Brazil was going to grow a record crop even though the reports showed Brazil planted more land to soybeans, and weather in Brazil was producing a strong healthy crop.

When the USDA on the monthly grain reports showed improvements in Brazil's crop month after month, they ignored it. When reports showed that Argentina sells most of their soybeans to the U.S. and Brazil and not to China, they ignored that too. When the quarterly grain stocks report over the past year and a half showed U.S. farmers were storing more corn and soybeans than the year before, they ignored it. When they knew Brazil had a record soybean crop this year, surpassing last year's record crop, U.S. farmers this spring went ahead and planted more soybeans than corn. When it was obvious that U.S. exports were lower than a year ago and China has been purchasing 70 percent of their imported beans from Brazil and about 30 percent from the U.S., they ignored it. They ignored that farmers across the northern hemisphere have also planted more oilseeds from soybeans, canola and sunflowers.

With exports down over the past year, soybean cash markets were hurt long before talks of tariffs. The basis, what farmers receive and prices in Chicago has been extremely wide over the past year and a half. Demand has dropped for more reasons than the tariffs. For one, dried distiller grains have been competing with soy meal for several years. There have been times when importing canola meal from Canada has been cheaper. Also, it is no secret that for several years countries like China have made trade agreements with Brazil. Because of trade agreements, there are often better shipping rates. Exporting countries have been investing in Brazilian agriculture and infrastructure, including grain companies headquartered in the U.S.

Bankers for this year's growing season were reluctant to give operating loans to farmers that have become financially burdened and did give operating loans to plant soybeans. It is cheaper to plant soybeans than corn.

Since the drought of 2012, the world has been building stocks. China has a strategic reserve of grains and oilseeds, along with reserves of industrial products. A year ago, Brazil grew so many tonnes of soybeans they were forced to store, and this past year's crop was larger. Argentina who had poor production this past growing season is holding soybeans off the market until the taxes are reduced into late 2018 into 2019. Export taxes on soybeans as of January 2018 were 18 percent on soybeans. They drop a half percent a month. Export taxes will drop to 6 percent. In May of 2018, if Argentine farmers contracted for October/November 2018, or into March of 2019, they would have made about 50 cents to 65 cents more a bushel. Unfortunately, sales from Argentina could be taking place when U.S. farmers are moving harvest and into 2019.

But there is good news. On the June 12 WASDE report, the USDA projected soybean ending stocks will be reduced. There are analytical firms in Brazil that expect more hectares and a larger soybean crop this coming growing season. World ending stocks are declining with the increase of worldwide livestock, especially hogs, poultry and aquaculture, reducing world stocks by 10.36 per cent and corn by over 30 percent (refer to previous report).

ENDING STOCKS OF SOYBEANS IN MILLION METRIC TONNES - June 12, 2018 USDA WASDE Report.

	WORLD	ARGENTINA	BRAZIL	UNITED STATES	CHINA
2016/17	97.38	36.22	26.46	8.21	20.39
2017/18 Est.	92.49	28.15	24.50	13.75	20.64
2018/19 Proj.	87.02	29.06	23.00	10.48	19.19

Over the past month, I think it is pretty safe to say that soybean futures are being moved by speculation. Fundamental speculators became short, anticipating what tariffs and a big healthy crop MIGHT do. After all, it is the speculators job to anticipate where prices may be in the future, just as they anticipated what might happen with a poor Argentine crop.

In all actuality, this is a very good time for the Chinese to place tariffs on U.S. soybeans. Now, is the time ships are at ports in Brazil picking up contracted soybeans. It normally isn't the time big shipments leave the U.S. The world knows the U.S. farmer has stored soybeans, but they aren't going to send ships to pick up grains until they know the farmer will cut it lose when there are plentiful supplies in Brazil.

Soy meal is showing positive indicators with traders bull spreading meal. Soy oil has a small carrying charge, which indicates crushers are able to sell bean oil as they crush for meal. Oil needs hard sided containment. As long as it can be sold, storage isn't a problem. They are bull spreading meal indicating they want it now and will worry about prices in the future. More than likely, large users of meal have several months contracted at the lower price levels. The risk prices could rally are larger now than prices falling, and risk management is the major concern of users and producers.

Maybe above all, soybeans are cheap. Of course, they can become cheaper, but for speculators already short, simple profit taking and short liquidation can move soybeans off their lows.

The fundamental trader needs to watch the basis like a hawk looking for a mouse. When the soybean basis begins to substantially narrow, it will be a good indicator to buy.

Volume on soy meal and soy oil has been light. Another indicator for the upside or downside would be a big volume day with continuing big volume days.

Technically, soybeans look to be forming a base. If they close below the low of 8.53¼, so much for forming a base. The next level down is near 8.32. A close over the 10 and 20 day exponential moving averages would be positive, especially the 20 day that also is tracking an overhead trend line. As I write on July 10, 2018 at 11:46 AM central time, the 20 day average is 9.05 ¼ and has been moving down about 4 cents a day.

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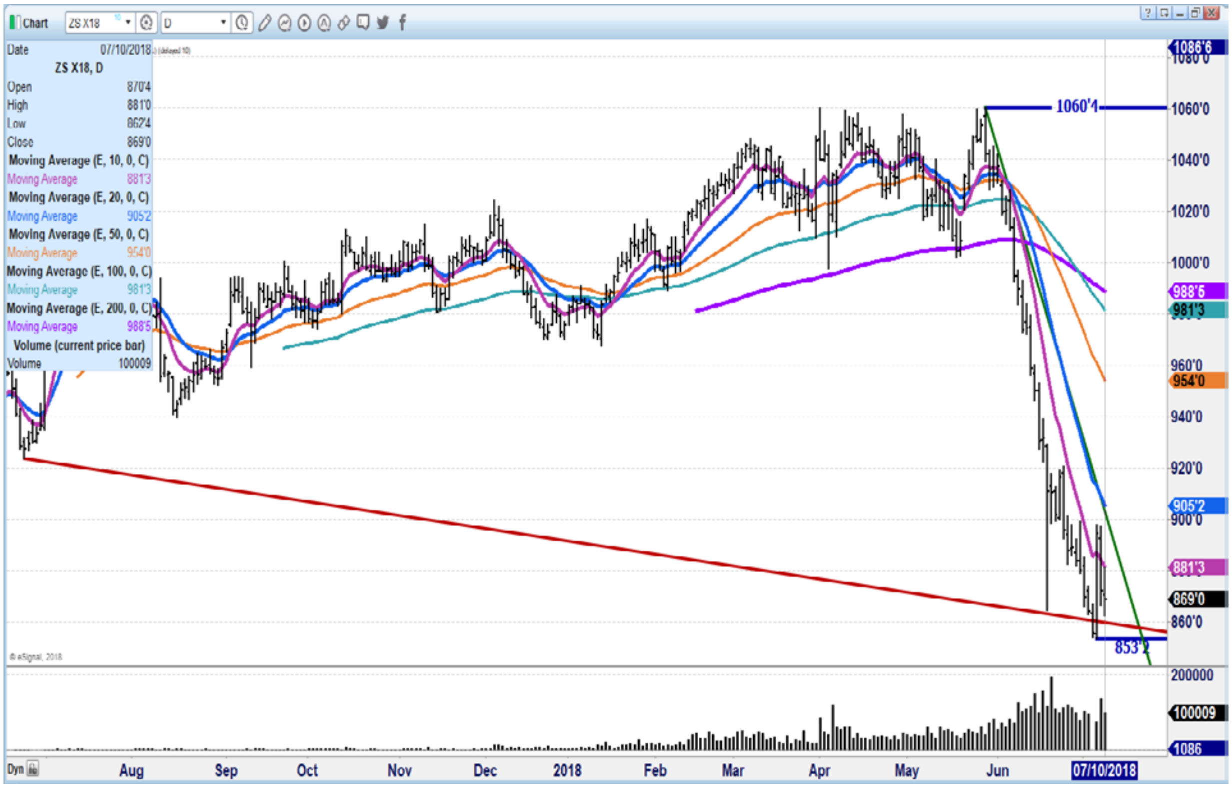

Chart from eSignal Interactive, Inc. at 11:46AM central time July 10, 2018

At this time, don't be a raging bear. Take a stab at buying and carry stops. If you have any questions, or would like to open an account, call me at 913.787.6804 or via email at chris.lehner@archerfinancials.com. I look forward speaking with you.