Tariffs on Agricultural Commodities with China

Published on May 11, 2018 by Peoples Company

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Corn and Soybean Futures did not see much activity until February. Since that time, both markets have increased their value. Most of that was due to: drought conditions in South America, less soybean acres than anticipated by many in the trade, and better than predicated export news. Since the beginning of the year, Corn prices have ranged from $3.45 to $3.95, Soybeans have seen a little wider range between $9.50 and $10.70. The other issue has been wider than normal basis levels at the inland elevators. Typically, we may see a .10 to .20 cents basis; during the past 6 months basis has been .35-.50 basis. Basis is the difference in price from the Chicago Mercantile Exchange (CME) price and the price paid to the producer at the Grain elevator.

We saw a nice rally until the talk of Tariffs on Agricultural Commodities with China. When China announced it would target Soybeans along with other commodities, there was an immediate downturn. As we have seen in the past, the negative news caused a knee-jerk reaction to the markets even though nothing has been formally decided. The markets have come back from those lows, but any news, good or bad, causes dramatic swings.

China imports up to 90% of its Soybean needs, around 40% is provided by US Farmers with the remainder from Brazil and Argentina. According to the USDA, we export 37 to 40 million metric ton to China. What does this mean for our prices at home? There are several opinions on the subject ranging from lower commodity prices, reduction in Cash rent values, and lower farmland values. These are long-term results if the tariffs continue in the future. For near term, we saw what talk of tariffs did as the market reacted with a .50 decline in Soybean prices followed by a rally after a few days. Thoughts are that Producers will change acreage and plant more corn, but that is unlikely as most planting decisions were made months ago. The other part of the senerio has been lower production from South America and good demand domestically that has kept prices near contract highs.

For further explanation on the proposed China Tariffs, University of Illinois Farm Docs has a great article as it pertains to Agriculture Commodities and can be found at http://farmdocdaily.illinois.edu/2018/04/impacts-of-Chinese-soybean-tariffs.html