

# Market Intelligence Special Report

## U.S.-China Trade Uncertainties Shift Market Signals for Soy

### At a Glance:

- Brazil and the U.S. combined produce [two-thirds](#) of the world's soybeans, with Brazil poised to [overtake the U.S.](#) in production volume for the first time
- China is by far the [largest consuming market](#), importing close to two-thirds of internationally traded soybeans
- Brazil supplies [over half](#) of China's soybean imports, with the U.S. supplying roughly [a third](#)
- In April China announced a 25% tariff on U.S. soybeans, which became effective July 6th
- This imposition of tariffs has rapidly shifted global soy flows
- These trade adjustments, if unresolved, could increase China's reliance on Brazilian soy and drive further [land conversion](#) in high conservation value ecosystems like the Cerrado and Chaco (see [here](#) for an overview of the impact of soy production on these biomes)

China is the largest soybean importing country (Figure 1), largely driven by the growth of meat consumption (pork and chicken) and soy's prominent role in the production of animal feed. In April 2018, the government of the United States announced it would impose tariffs on certain Chinese products, setting in place a promise of Chinese retaliation. The U.S. tariffs, which went into effect July 6th, prompted the Chinese government to impose a 25% tariff on certain U.S. goods, including soybeans. Simply the threat of tariffs on U.S. soybeans beginning in April shook markets, and their implementation is now causing major shifts in global soybean flow. If these trade conditions persist, they could alter how China sources its soy, possibly increasing the country's demand from Brazil.

Soybeans form the backbone of many food and animal feed ingredients. Soybean meal is the primary protein component for the animal feed industry; about [80%](#) of all soybeans are crushed to produce animal feed. Soy oil is the [second most consumed](#) vegetable oil after palm oil, and is used broadly for cooking, feed, food processing, and biofuels. Brazil is currently the main supplier of soybeans to the Chinese market, producing [just over half](#) of China's imports, with the U.S. supplying around [a third](#). This year, growing production in the Southern Hemisphere may make Brazil the largest soybean producing country, [surpassing the U.S.](#) for the first time. Experts believe Brazilian soy expansion will continue, largely propelled by strong demand from China. China's tariffs on U.S. soy, if unchanged, will continue to have effects that may reshape global markets.

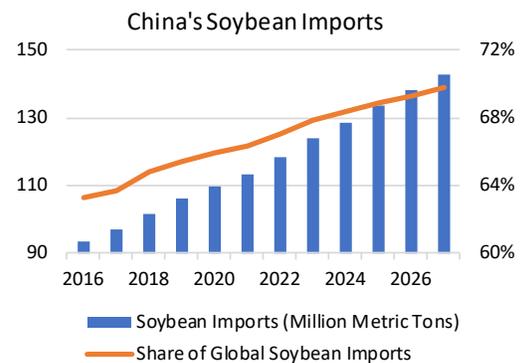


Figure 1: China dominates global soybean imports, consuming close to two-thirds of internationally traded soybeans. The country's soybean consumption is projected to increase into the future. Source: USDA

### trase Trase Yearbook 2018

Commodity supply chain transparency tool [Trase](#) has released its [2018 Yearbook](#). The Trase Yearbook provides the first systematic assessment of the commodity sourcing patterns of important companies and countries, and the links between deforestation commitments and changes on the ground in Brazil. The Yearbook features six thematic stories complete with interactive data visualizations and a [full report](#).

This report is a publication of the Good Growth Partnership's **Responsible Demand** Project



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## Shifting Trade Relationships Resulting from Tariff-Induced U.S. Soy Prices

Global trade adapts quickly to change, with commodity prices reacting particularly fast. U.S. soybean prices began falling at the threat of Chinese tariffs in May (Figure 2), and markets like [Egypt, Mexico, Pakistan, and Thailand](#) have increased purchases of U.S. soy to take advantage of this decline. The price gap between U.S. and South American soybeans is also facilitating new trading opportunities among soy producing countries. Argentina, the [third largest](#) soybean producing and exporting country, has begun [importing](#) U.S. soybeans for domestic crushing. Bunge and Cargill's units in Argentina may also begin [exporting soymeal](#) to China, which has long preferred to crush imported soybeans locally. Cheaper U.S. soy may induce Brazil to import soybeans from the U.S. for domestic crushing and consumption, while using locally produced soy to increase exports to China.

Though uncertainty about future soy prices has [hurt the profits of some traders](#), tariffs are changing demand expectations and presenting other [profit opportunities](#) for large traders like Archer Daniels Midland, Bunge, Cargill, and Louis Dreyfus Company (the so-called “[ABCDs](#)” which [dominate](#) soy trading in Brazil). Traders with a stronger presence in the U.S., like ADM, have [benefitted](#) from higher margins and volumes of soy destined for countries other than China. While soybean trading produces a low “structural margin” (profit per unit of an unprocessed commodity) of a few cents per metric ton, the enormous export volume uptick in Brazilian soy exports has significantly benefitted traders, and despite the drop in U.S. prices, the tariffs still place Brazilian soy at a competitive advantage over the U.S. within China.

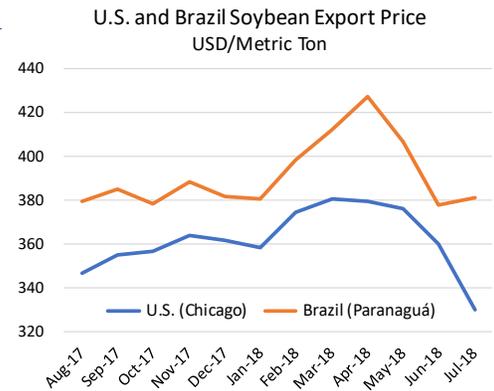


Figure 2: Tariffs have caused export prices for U.S. and Brazilian soybeans to diverge sharply.  
Source: [ABIOVE](#) and [USDA](#)

### Adjustments in China's Procurement

China has made significant adjustments to its soy procurement in the face of trade realities. In anticipation of the tariffs, China cancelled about [one-third](#) (366,000 metric tons) of its U.S. soybean shipments for the season. Brazil's soybean exports also [rose 50%](#) in the second quarter of the year compared to a year earlier, as China began stockpiling in anticipation of tariffs. In early August, prices for soybeans and soymeal in China [rose sharply](#) as importers slowed shipments, raising supply concerns for the fourth quarter. In the coming months, China will likely continue to lower imports of oilseeds, drawing down [existing inventories](#) until Brazil's harvest begins early next year.

In the face of prolonged tariffs, China may not be able to quickly substitute the [32 million metric tons](#) of soybeans it imports from the U.S. annually with Brazilian supplies. Though tariffs may increase pressure on Brazilian land to boost soy production, Chinese importers will likely employ a mix of strategies:

- Increase imports of Brazilian soybeans as feasible given availability
- Import some (smaller) level of U.S. soybeans under the tariff
- Increase soybean imports from smaller producing countries like [Russia and Kazakhstan](#)
- Change animal feed formulas to be less reliant on soymeal
- Increase imports of finished protein, such as beef and poultry

Regardless of the state of global trade tensions, China's economic growth is projected [to continue](#), and along with it the country's [demand for animal protein](#). Trade impediments may prompt China to reevaluate its dependence on imported soy, but any large-scale shift will be far from immediate.

**proforest**

### Responsible Sourcing: A Soy Toolkit

Proforest, as part of the Good Growth Partnership's Responsible Demand Project, has released a Soy Toolkit to provide clear and accessible guidance on responsible sourcing to companies operating in soy supply chains. More information on the Soy Toolkit can be found [here](#).

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