



بنك الإمارات دبي الوطني  
Emirates NBD

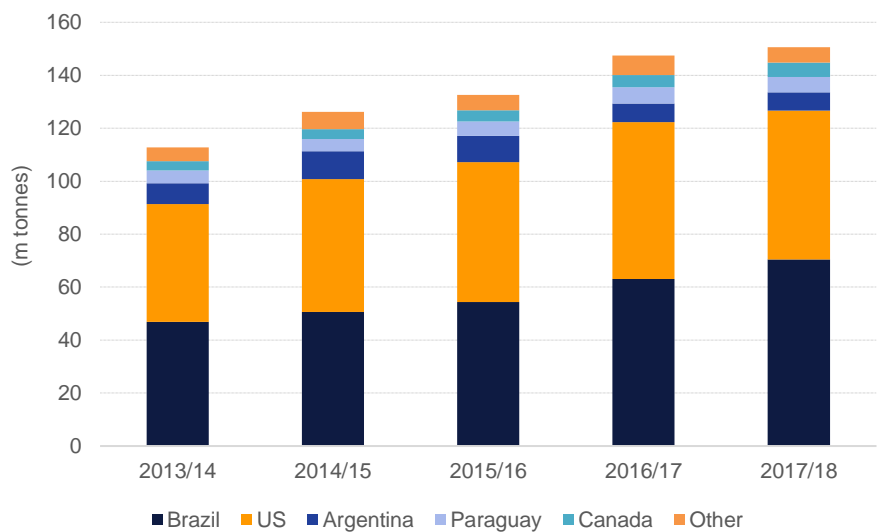
## Commodities

26 March 2018

# Soybean market at risk

China has announced its first retaliatory tariffs in response to US President Donald Trump imposing 10% duties on imports of aluminium and 25% on steel imports. The Chinese tariffs are relatively mild, targeting USD 3bn of food products and steel pipes but the government noted these were in direct response to the metal tariffs imposed by the US. **A further announcement from president Trump of up to USD 60bn on other Chinese goods may see a harsher response and we would expect more retaliation in agricultural trade between the countries, particularly in soybeans.**

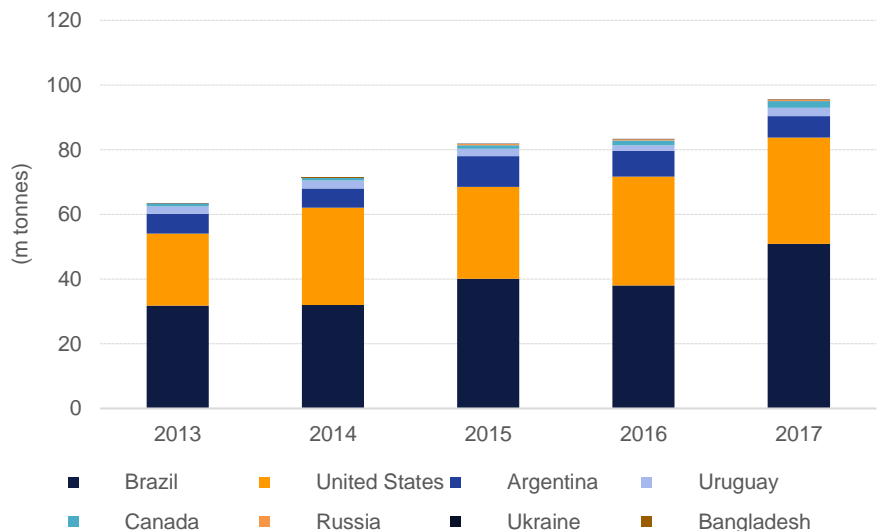
### US a major exporter of soybeans



Source: USDA, Emirates NBD Research.

**The US is one of the world's largest producers and exporters of soybeans, accounting for a third of global production and 40% of global exports last year according to the USDA.** The China market is a critical destination for US farmers and supplies from the US accounted for around 37% of China's total imports on average in the last five years. Aware of the leverage over US farmers, soybeans were already targeted by China as a potential measure to retaliate against US tariffs.

### Chinese imports of soybeans

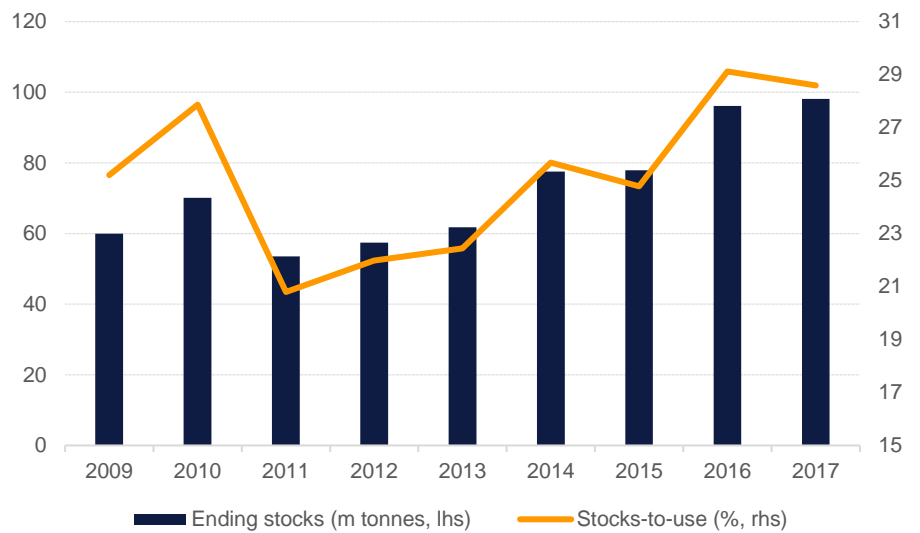


Source: China Customs, Emirates NBD Research.

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Soybean markets appear relatively well supplied even as the USDA forecasts a drop in supply this year thanks to a decline in Argentina's production. Overall stocks will remain above 90m tonnes and a disruption to trade between the US and China would likely result in further large inventory builds. Soybean futures on the CBoT have tempered their year to date rally on fears that trade war could escalate and may be poised for more downside as agricultural products are further drawn into any trade disputes.

### Soybean markets look well supplied



Source: USDA, Emirates NBD Research.

While a tariff on imports of US soybeans would end up hurting Chinese consumers through higher prices, we wouldn't rule out China using the threat to increase political pressure on the Trump administration to back off on engaging in a trade war. US soybean production is highly concentrated in Midwest states that supported Trump in the 2016 presidential election and disruptions to trade that can be linked back to the president may make the region a tougher prospect for Republicans in this year's mid-terms.

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