

Trump Is Getting Played By China's Promise To Buy 5 Million Tons Of Soybeans

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Soybeans are harvested. Photographer: Daniel Acker/Bloomberg © 2016 Bloomberg Finance LP© 2016 Bloomberg Finance LP

President Trump and his trade negotiation team met with China's Vice Premier Liu He in the Oval office on Thursday with Trump commenting on the soybeans China is promising to buy. Trump said, "they started on a smaller scale, and today they're starting very big, and I very much appreciate that." He added, "It's a fantastic sign of faith and our farmers are going to be very happy."

But 5 million tons isn't really that much

At first, it was reported [China would be buying 5 million tons of soybeans a day](#), but that was corrected to a one-time purchase of 5 million tons. While 5 million tons of soybeans sounds like a huge amount (and it is a lot of soybeans), this needs to be taken in context vs. how many soybeans U.S. farmers grow in a year.

In 2018 the U.S. produced:

- 4.6 billion bushels of soybeans
- [One bushel weighs 60 pounds](#)

- Equaling total production of 276 billion pounds

China buying 5 million tons:

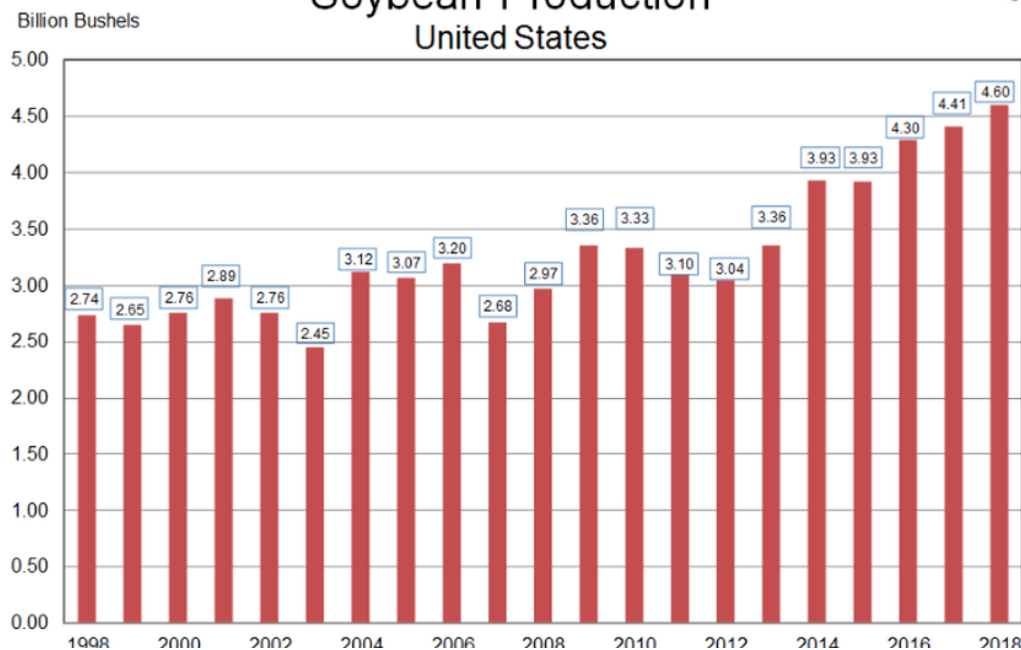
- Equals 10 billion pounds of soybeans
- Or 3.6% of the total U.S. production

[While 5 million tons is a lot, it is a small amount of total production](#) . Assuming that China does buy the 5 million tons this equates to less than an average amount exported in a month, and overall doesn't move the financial needle a tremendous amount. It will take China getting back to the 50% plus of U.S. soybean exports to have a meaningful effect or the [30 to 35 million tons per year](#) it had been buying.

Soybeans: Production by Year, US



Soybean Production United States



U.S. soybean production U.S. Department of Agriculture

The other calculation to keep in mind is the value of 5 million tons of soybeans in relation to the U.S. trade deficit with China. The U.S. was on track to have about a \$420 billion goods deficit with China last year vs. \$376 billion in 2017.

Five million tons of:

- Soybeans equals 10 billion pounds
- A bushel of soybeans weighs 60 pounds
- Which means China would buy 167 million bushels

- A bushel of soybeans is about \$9 at the current spot price
- Which equates to \$1.5 billion in value
- Which is 0.4% of the U.S. trade deficit with China

China won't be able to shrink its trade deficit a huge amount with the U.S. by buying more agriculture products. It would help, but the Chinese economy isn't nearly large enough to buy enough American goods to wipe out the deficit. The only way that could happen is for the U.S. to stop importing Chinese goods, which would hurt the American consumer or mean that we have entered a recession or even depression.

Soybean prices are still depressed

Another indication that China buying 5 million tons isn't a huge deal is the price of soybeans increased less than 1% on Friday and was down on Thursday (but trading may have closed before the announcement was made). While soybean prices have moved up from when President Trump and China's President Xi met in Brazil (the circle at December 2018 on the chart below), they are still substantially below the \$10.50 per bushel price in April when Trump started talking in full force about tariffs on Chinese products.



Soybean price chart StockCharts.com

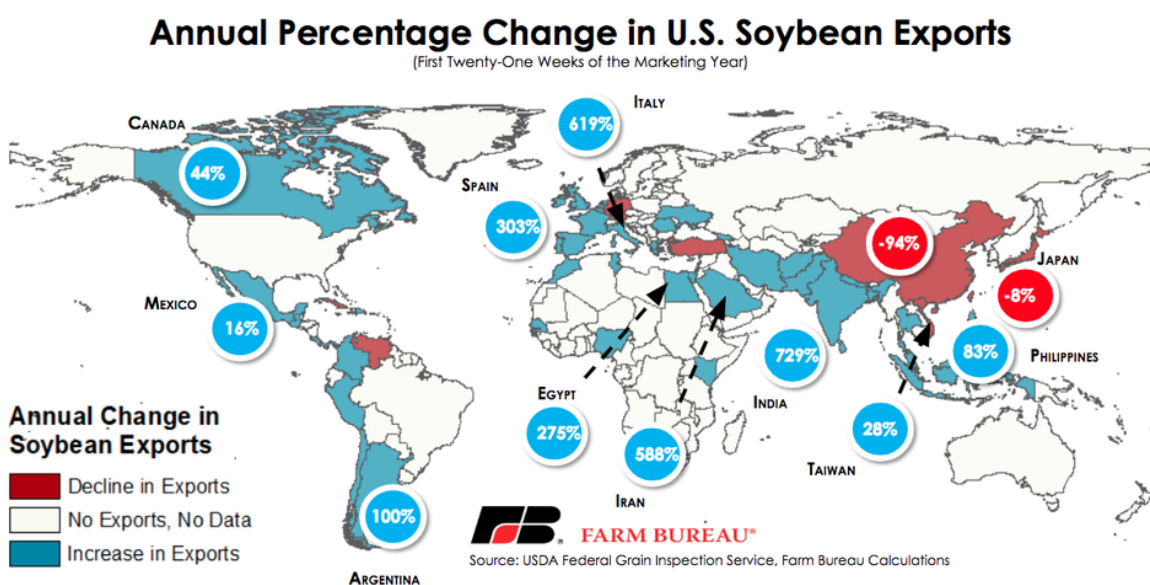
Farm Bureau economist believes farmers can adapt

In a conversation with John Newton, Chief Economist for the American Farm Bureau, he believes that a good number of farmers sold forward contracts on their 2018

production early last year, which locked in solid pricing. This means many farmers will have survived the downturn in prices last year.

But it does mean that if prices don't rebound, farmers will be facing a more difficult year as they would have to lock in lower prices or have to rely on prices moving up later this year. Another factor in play will be how many acres of soybeans they decided to plant vs. rotating to other crops.

[Soybean exports to China are down 94% \(about 50 million bushels vs. 1 billion plus\) for this marketing season](#) (started on September 1 to the end of January). The chart below also depicts what farmers have done to sell their soybeans to other countries to help offset China's substantial drop.



Soybean exports American Farm Bureau

Long-term impacts

Some of the longer-term concerns revolve around what plans will China put in place to lessen their dependence on U.S. supplied goods. I believe that China will be more focused on developing their own sources, either within China or with other countries. Newton pointed out that China has been making infrastructure investments in Brazil, Malaysia and sub-Saharan Africa that will allow China to be in more control of their food supply.

Newton and I believe that farmers are a resilient group and will weather this storm. He pointed out that besides other countries to export to there are potential crops, such as industrial hemp, that farmers could turn to. I am concerned that the U.S. soybean market could follow the same fate as when the U.S. implemented a grain embargo on exports to Russia, which led to it becoming more self-reliant and finding other sources.

The following articles provide information about:

Why [Trump and Republican's have gone radio silent on GDP growth](#),

How much [Trump's tariffs are impacting consumers and corporations](#),

That his [budget deficits are about to become the largest in history](#),

His [freezing federal wages saves less than the Wall](#) and

[Three surveys show plummeting confidence in the economy](#).