



PURDUE
UNIVERSITY

AGRICULTURAL ECONOMICS

Agricultural Trade Outlook

August 2014

Philip Abbott



Key Issues

- **Record Agricultural Exports** in 2013/14 at \$149 billion
 - **Prices lowered, but trade volumes recovered**
 - *Corn exports had collapsed in 2012/13 following drought*
 - Low prices and flat/lower export volumes may mean trend toward record values does not continue in 2014/15
- **Current events** (of varying actual importance)
 - Ukraine/ Russian sanctions
 - China: corn, DDG imports; GMO ban
 - WTO: Bali Ministerial, India scuttles TFA agreement over food security stocks
 - Brazil cotton dispute & 2014 Farm bill
 - Argentine default

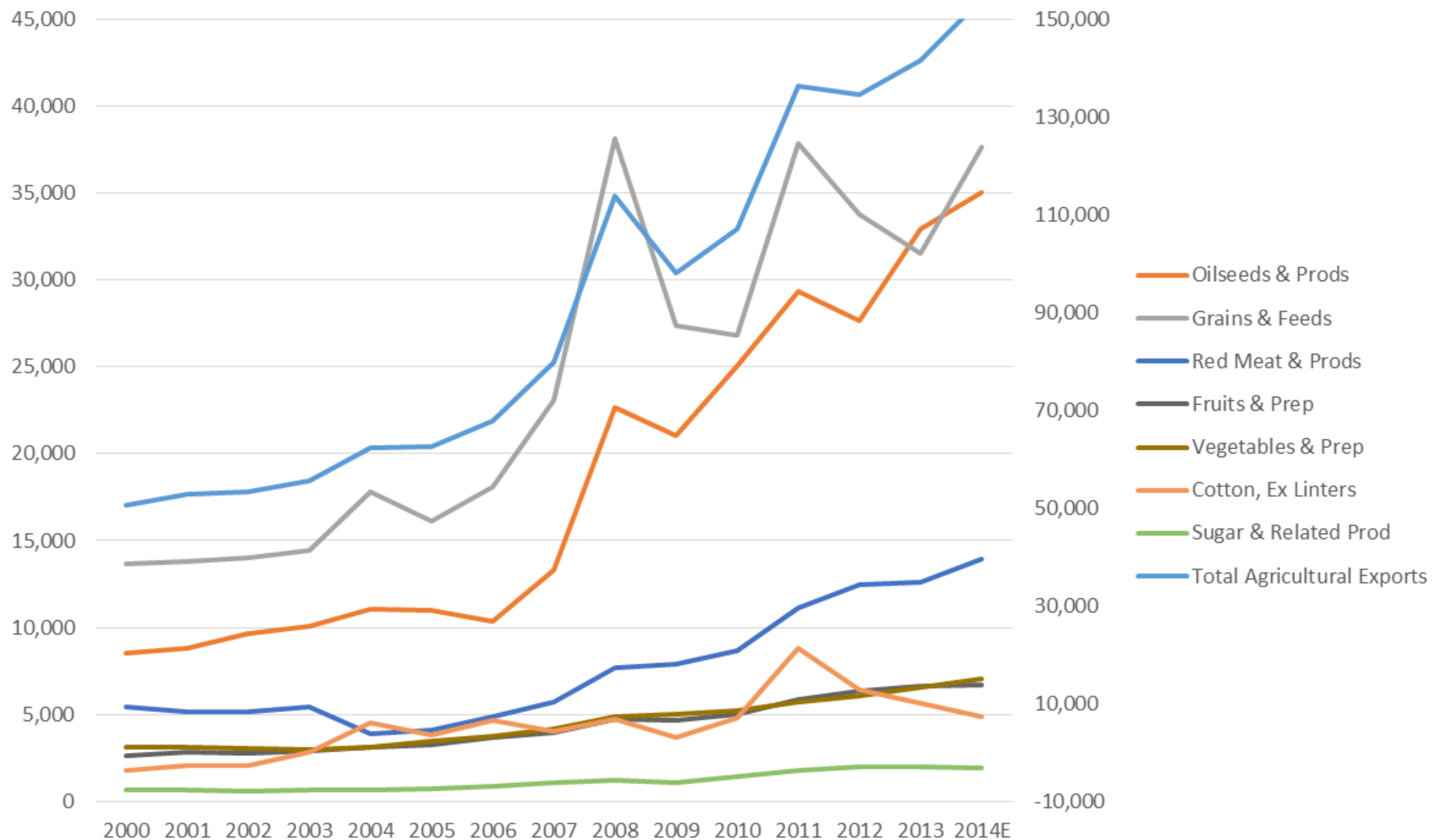
USDA Forecasts Ag exports for 2013/14 @ \$149.5 billion

- *May 2014 Trade Outlook*
 - *August 2014 Trade Outlook next week, will forecast 2014/15*
- Imports rise to \$110.5 billion, Ag trade surplus \$39 billion

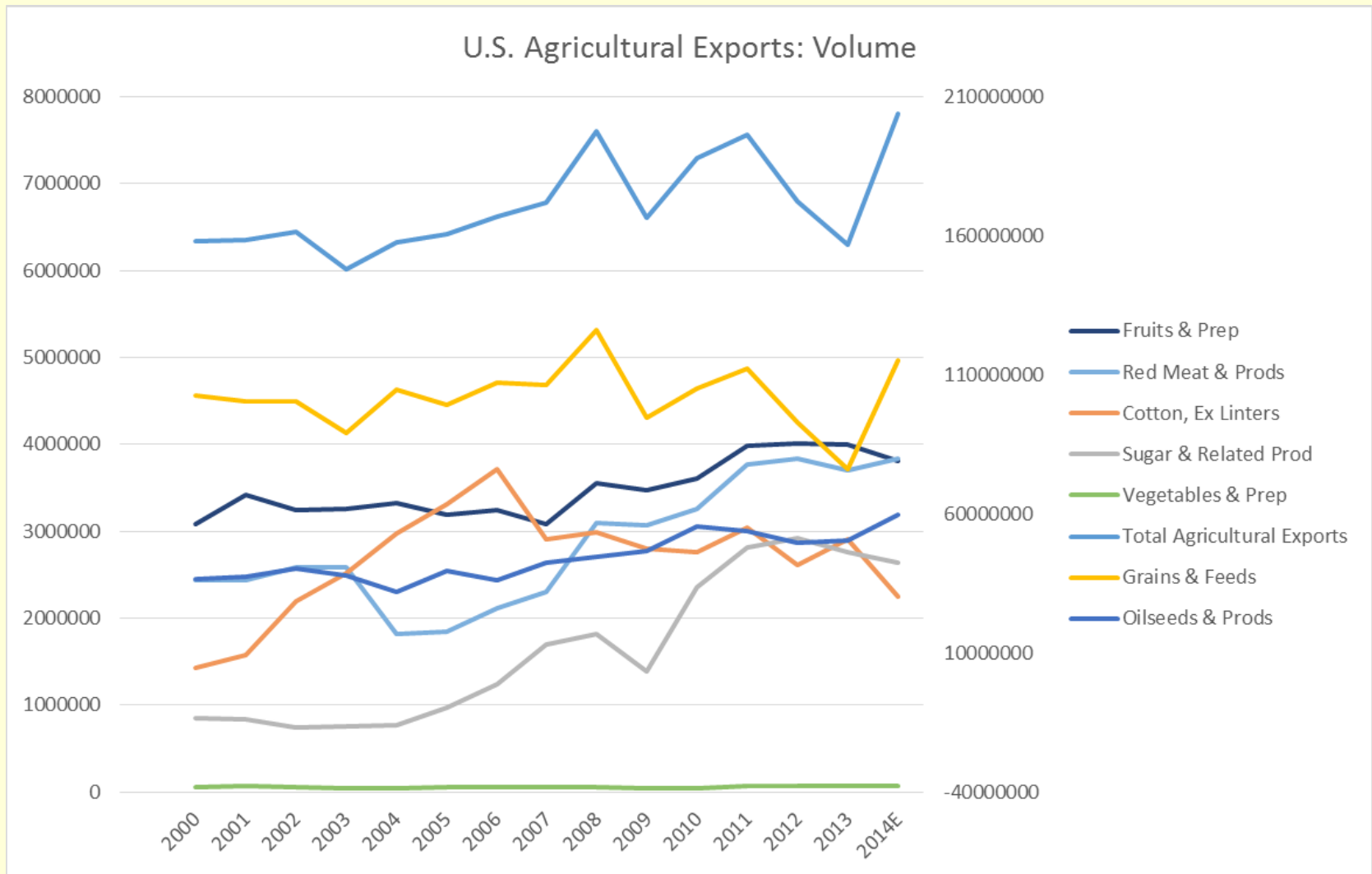
| U.S. agricultural trade | | | | | | | | | | |
|-------------------------|-----------------|------|------|-------|------|-------|-------|-------|-------|-------|
| | Fiscal years | | | | | | | | | |
| | 2002 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| | Billion dollars | | | | | | | | | |
| Agricultural exports | 53.3 | 68.6 | 82.2 | 114.9 | 96.3 | 108.7 | 137.4 | 135.8 | 140.9 | 149.5 |
| Agricultural imports | 41.0 | 64.0 | 70.1 | 79.3 | 73.4 | 79.0 | 94.5 | 103.4 | 103.8 | 110.5 |
| Ag Trade balance | 12.3 | 4.6 | 12.1 | 35.6 | 22.9 | 29.7 | 42.9 | 32.4 | 37.1 | 39.0 |

Big movers in 2013/14 are grains and feeds, oilseeds, and cotton; meat up a bit

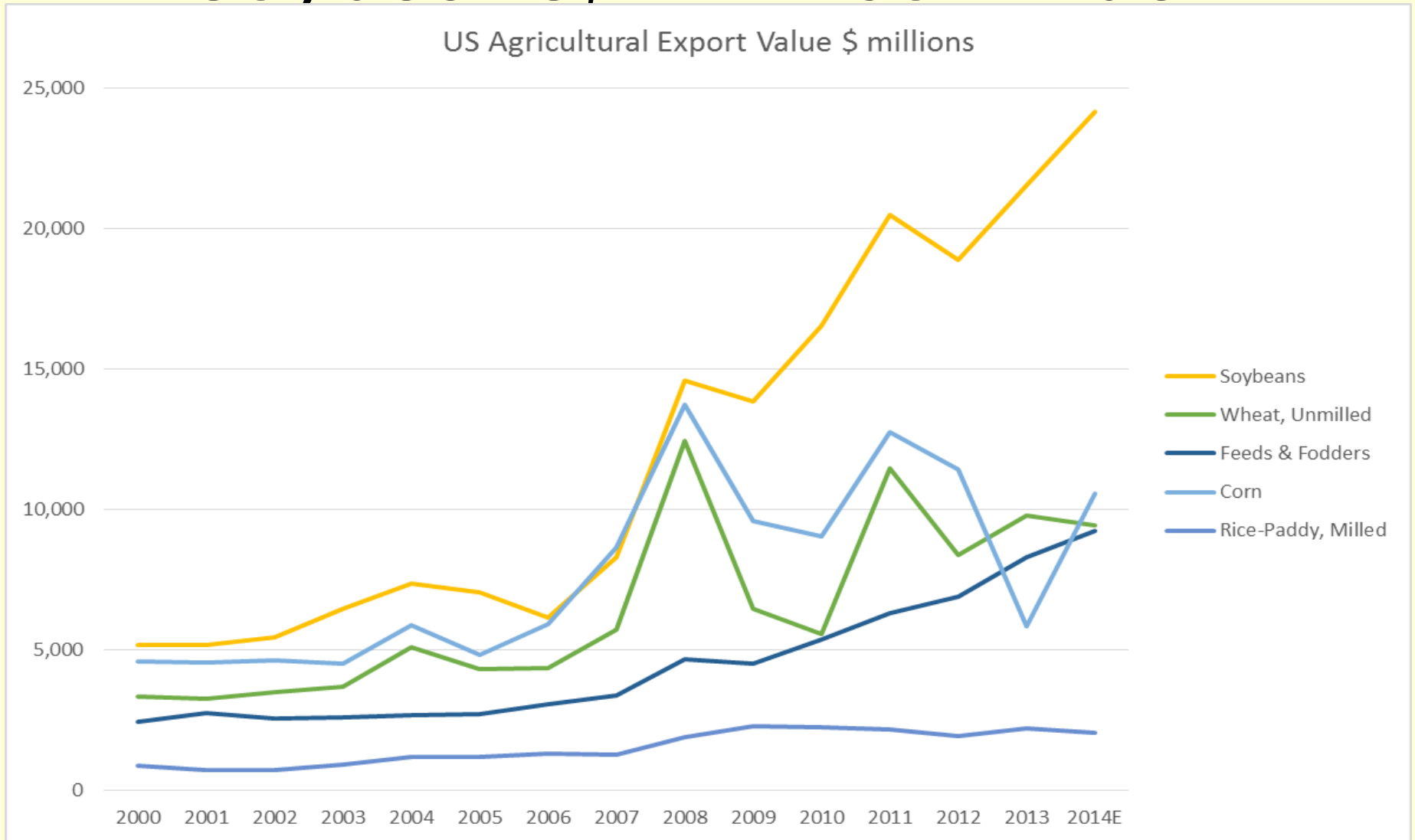
US Agricultural Export Value \$ millions



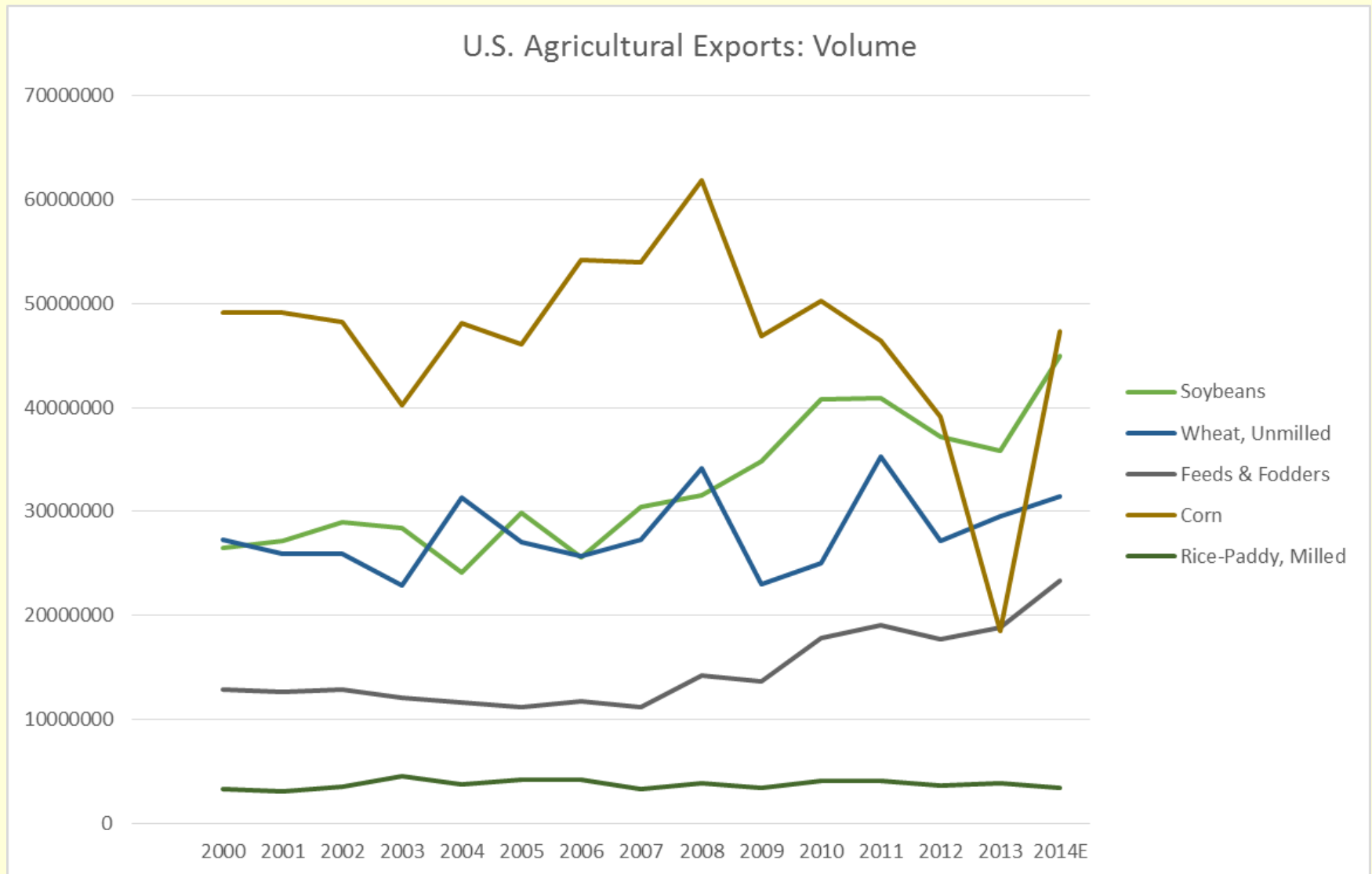
Volumes changes in 2013/14 important for grains and feeds \wedge , oilseeds \wedge , cotton ∇ ; meat \wedge



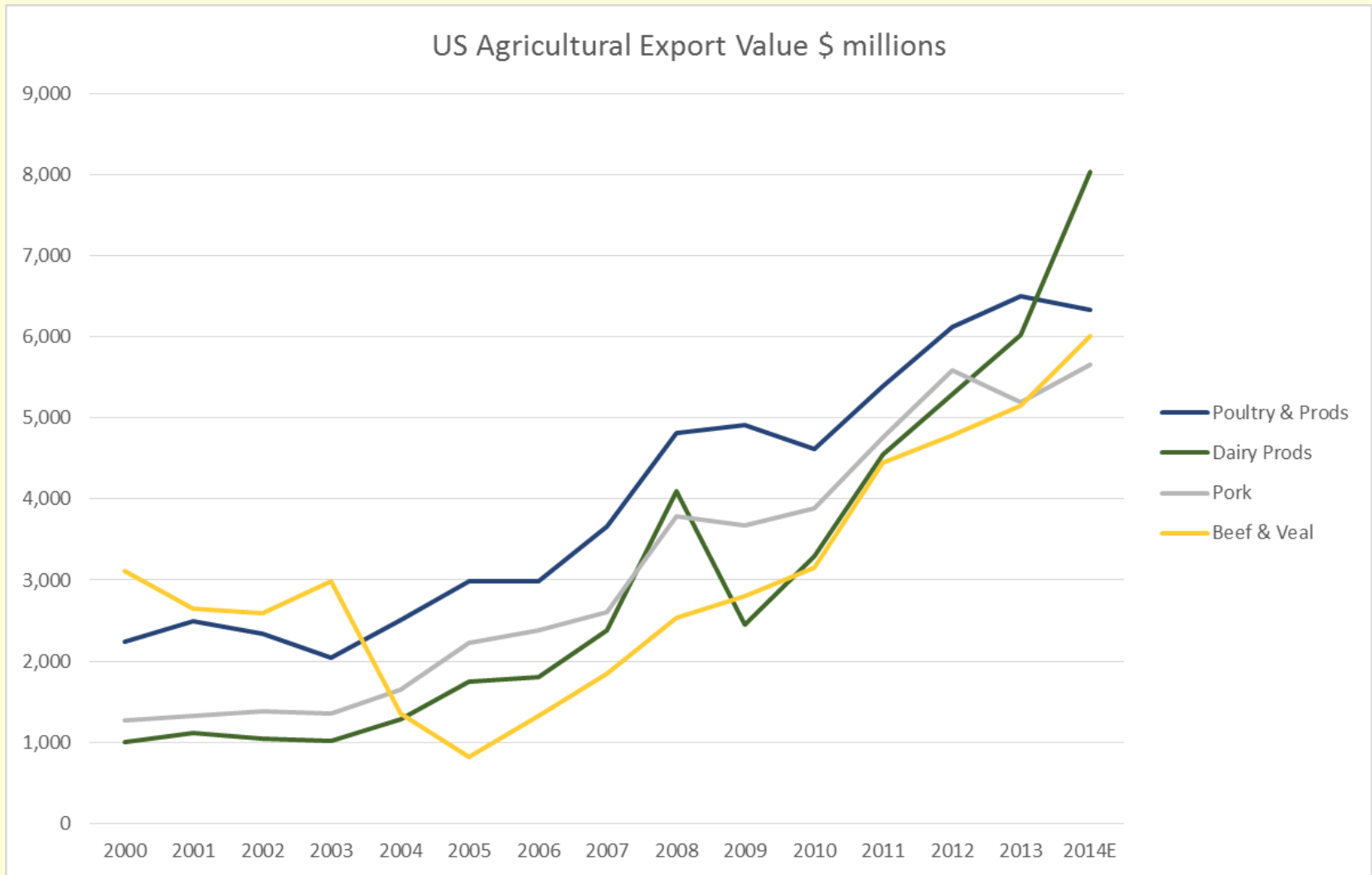
Rebound evident for corn & soybeans, will it continue?



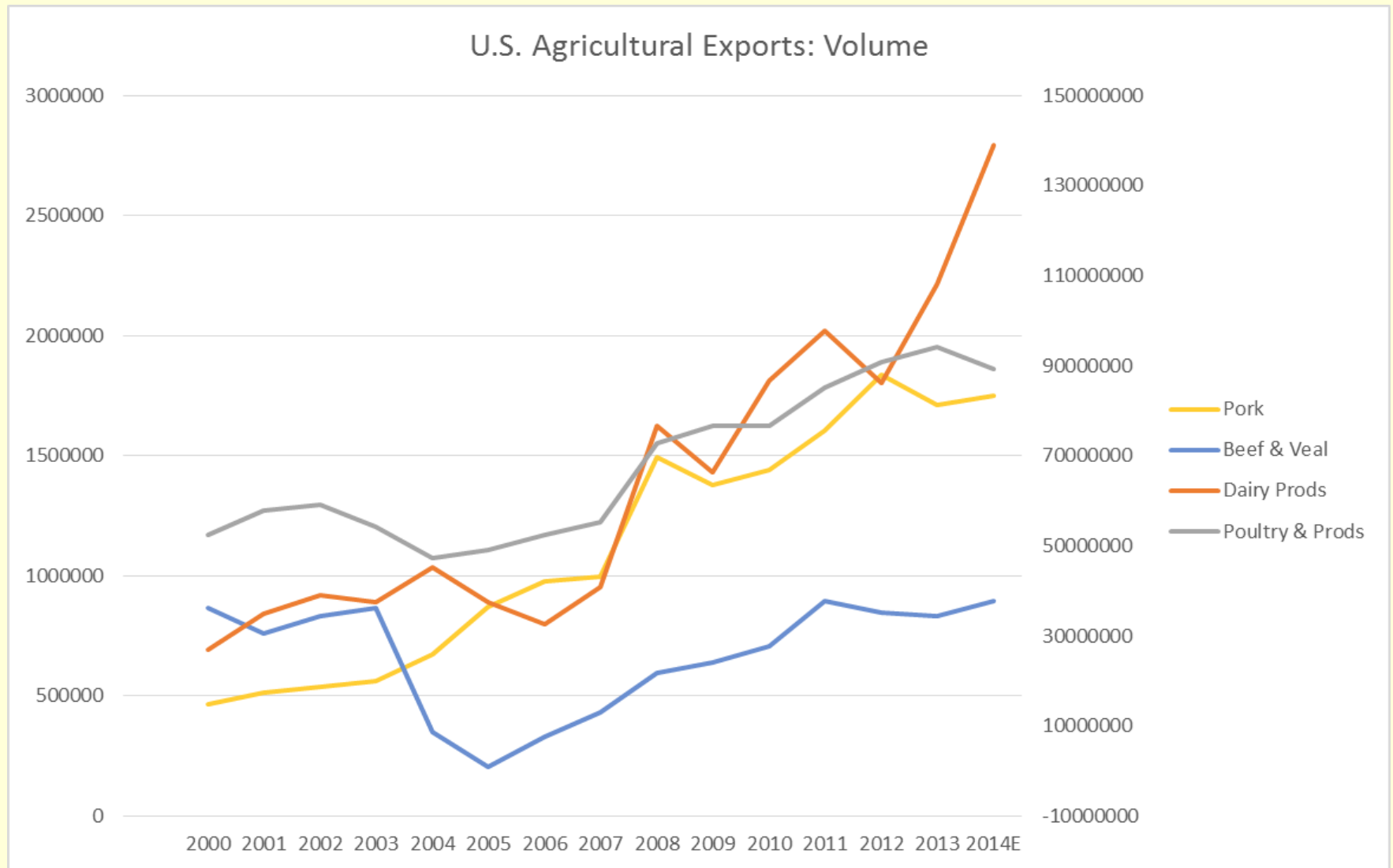
Even more so in corn volume, also soybean volume (since prices fell)



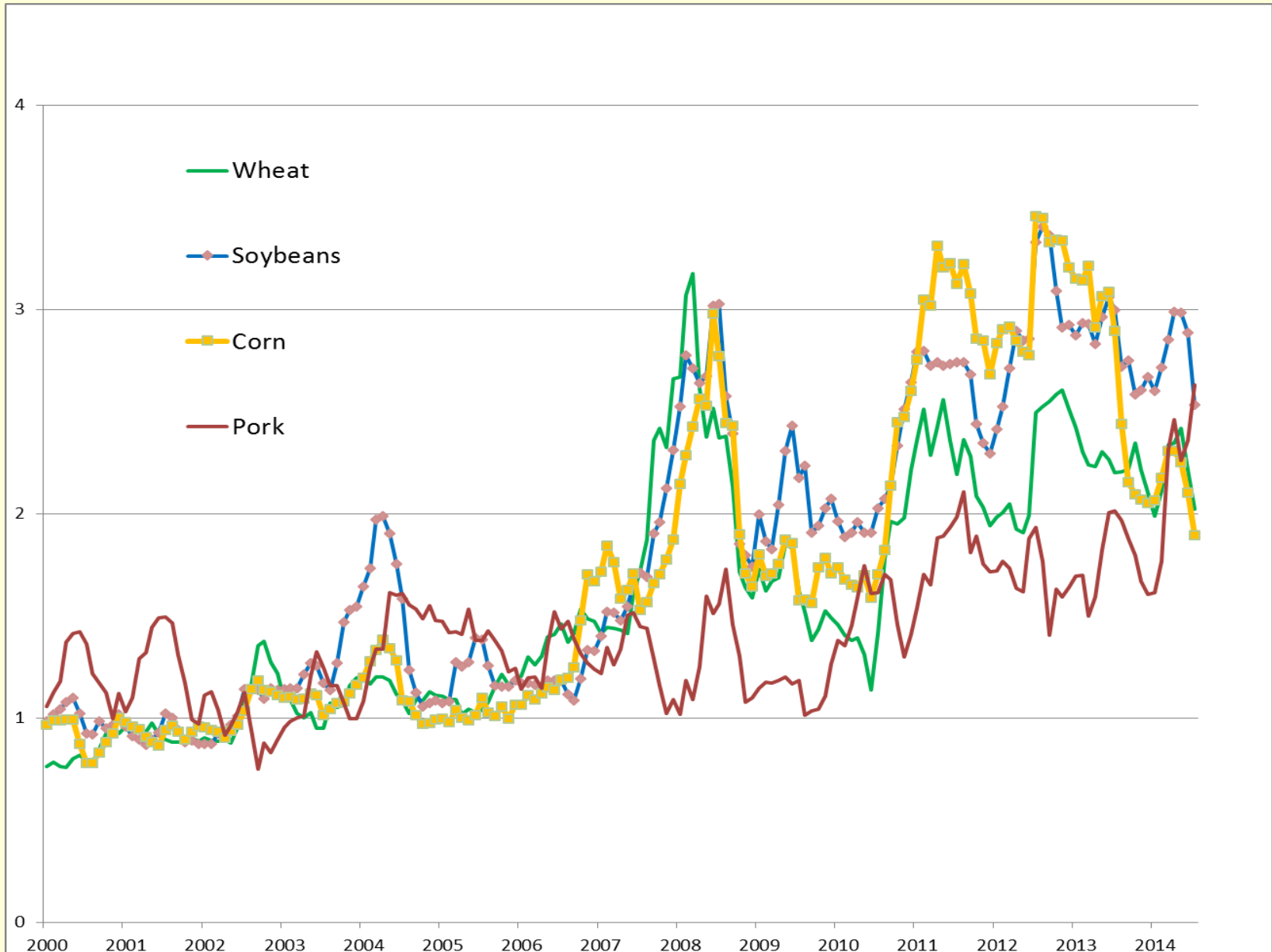
Dairy, beef and pork ^



Big volume increase for dairy, smaller for pork and beef; poultry v



World Commodity Price Indices



USDA does not see low prices fostering continued increases in exports

- Corn forecast for 2014/15 lower in volume than in 2013/14 (with even lower prices)
 - Competition from Argentina, strong global production; EU feeding wheat; China importing less; Weekly sales less than last year
- Soybean forecast flat relative to better than initially expected exports this year
- US market shares expected to remain about the same as last year!
- Meat exports - strong demand in spite of high prices (very small changes from last 2 years)
 - Beef 2.5 Pork 5.1 Poultry 8.2 (billion pounds)

Corn exports recovered more than expected last year

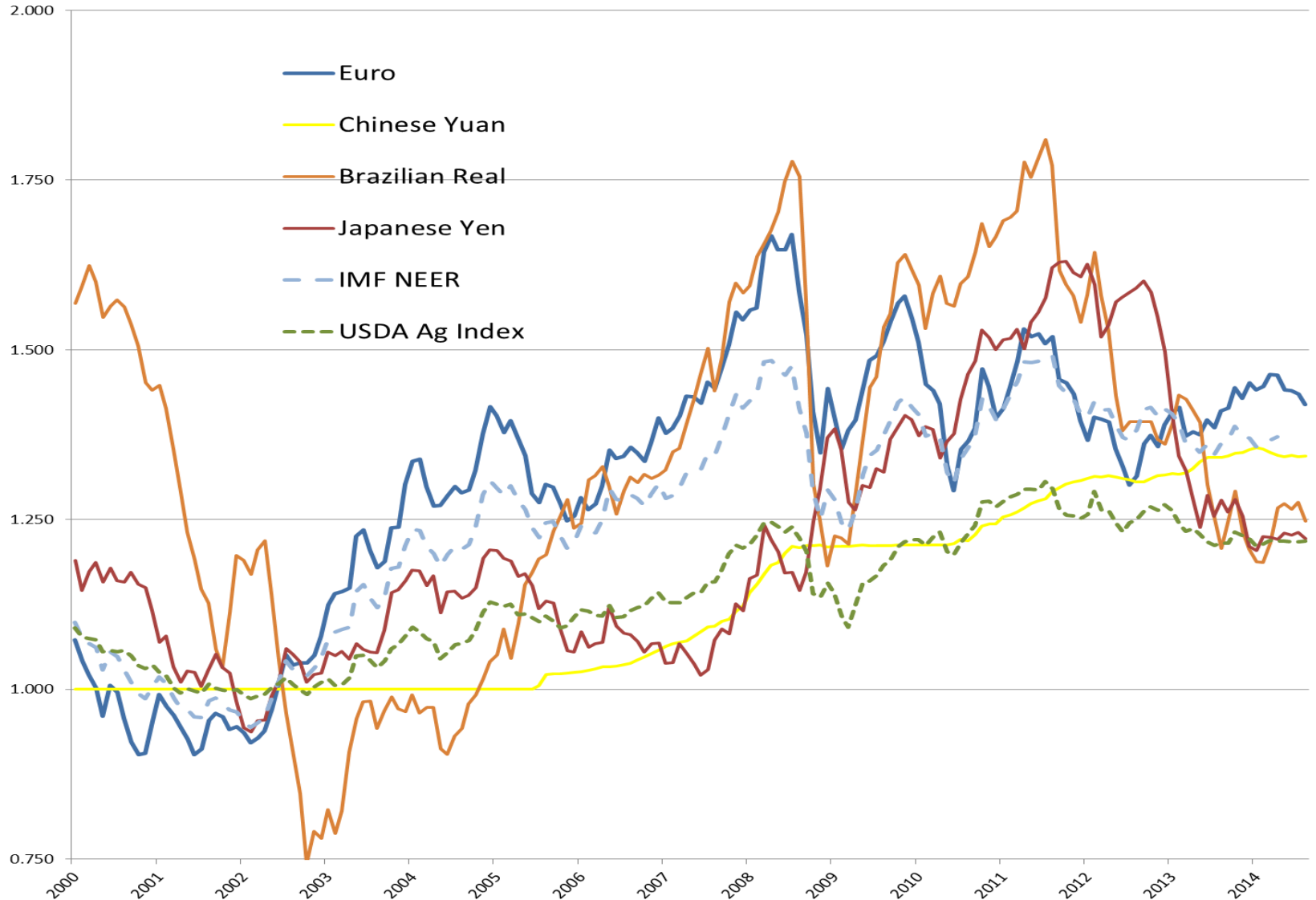
| Corn and Soybean Exports and Expectations | | | | | | | |
|---|-----------------|---------|----------|--------------|----------|--------------|----------|
| | | Exports | | Export share | | Total supply | |
| | | Corn | Soybeans | Corn | Soybeans | Corn | Soybeans |
| 2008/09 | Final | 1849 | 1279 | 13.5% | 43.1% | 13729 | 2967 |
| 2009/10 | Final | 1980 | 1499 | 13.4% | 45.8% | 14774 | 3275 |
| 2010/11 | Final | 1835 | 1501 | 11.7% | 42.9% | 15656 | 3495 |
| 2011/12 | Final | 1543 | 1365 | 11.4% | 41.1% | 13517 | 3325 |
| 2012/13 | May WASDE | 1900 | 1505 | 12.1% | 43.9% | 15656 | 3430 |
| | August WASDE | 1300 | 1110 | 10.9% | 38.9% | 11875 | 2857 |
| | Final | 731 | 1320 | 6.1% | 40.8% | 11932 | 3239 |
| 2013/14 | May WASDE | 1300 | 1450 | 8.7% | 41.1% | 14924 | 3530 |
| | August WASDE | 1225 | 1385 | 8.4% | 40.8% | 14512 | 3396 |
| | Latest estimate | 1920 | 1620 | 13.0% | 46.0% | 14781 | 3519 |
| 2014/15 | May WASDE | 1700 | 1625 | 11.3% | 43.0% | 15111 | 3780 |
| | August WASDE | 1725 | 1675 | 11.3% | 42.2% | 15243 | 3971 |

Global Monetary Policy

- QE3 tapering means end to currency wars?
 - But long term interest rates remain low (safe haven effect dominates, geopolitical risk the great concern)
- US growth forecast less optimistic (IMF)
- EU growing only very slowly – Germany negative in 1014Q2, France flat
 - Europe continues low interest rates, but resists excessive stimulus
- Japanese currency remains weaker (Abenomics)
 - Sales tax and huge GDP decline in Q2 following jump in Q1
- Emerging economies slowing
- Inflation has not taken off anywhere yet

Exchange rates

US \$ Exchange Rates, 2000-2014

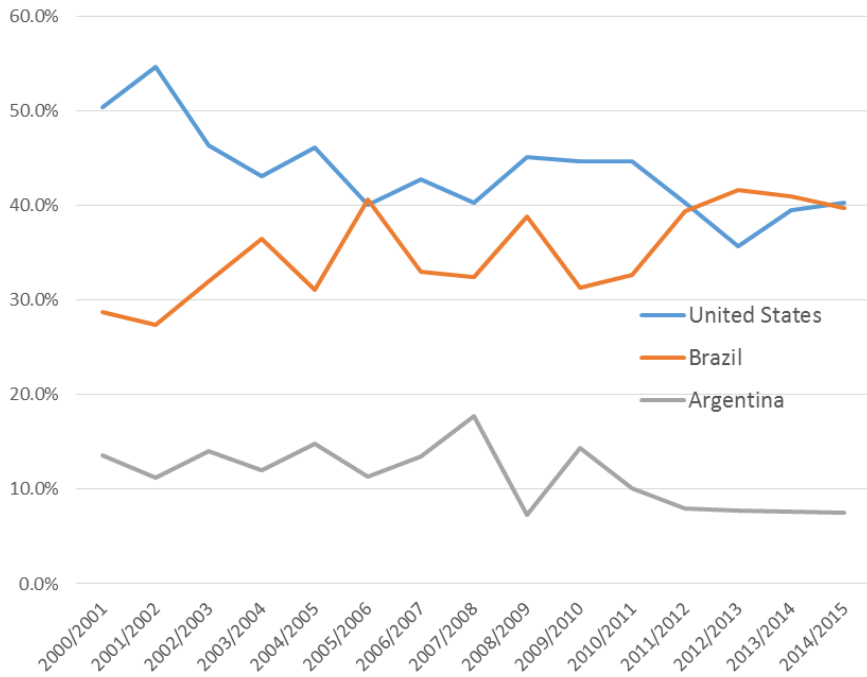


IMF July, 2014 Economic growth Projections

YEAR OVER YEAR

| | 2012 | 2013 | Projections | | Difference from April 2014 WEO Projections2/ | | | USDA | |
|---|------|------|-------------|------|---|------|--|------|------|
| | | | 2014 | 2015 | 2014 | 2015 | | | |
| World Output | 3.5 | 3.2 | 3.4 | 4 | -0.3 | 0 | | 2.8 | 0.6 |
| Advanced Economies | 1.4 | 1.3 | 1.8 | 2.4 | -0.4 | 0.1 | | | |
| United States | 2.8 | 1.9 | 1.7 | 3 | -1.1 | 0.1 | | 2.5 | -0.8 |
| Euro Area | -0.7 | -0.4 | 1.1 | 1.5 | 0 | 0.1 | | 1.6 | -0.5 |
| Germany | 0.9 | 0.5 | 1.9 | 1.7 | 0.2 | 0.1 | | | |
| France | 0.3 | 0.3 | 0.7 | 1.4 | -0.3 | -0.1 | | | |
| Italy | -2.4 | -1.9 | 0.3 | 1.1 | -0.3 | 0 | | | |
| Spain | -1.6 | -1.2 | 1.2 | 1.6 | 0.3 | 0.6 | | | |
| Japan | 1.4 | 1.5 | 1.6 | 1.1 | 0.3 | 0.1 | | 1.4 | 0.2 |
| United Kingdom | 0.3 | 1.7 | 3.2 | 2.7 | 0.4 | 0.2 | | | |
| Canada | 1.7 | 2 | 2.2 | 2.4 | -0.1 | 0 | | 2.2 | 0 |
| Emerging Market and Developing Economies | 5.1 | 4.7 | 4.6 | 5.2 | -0.2 | -0.1 | | | |
| Russia | 3.4 | 1.3 | 0.2 | 1 | -1.1 | -1.3 | | | |
| China | 7.7 | 7.7 | 7.4 | 7.1 | -0.2 | -0.2 | | 7 | 0.4 |
| India | 4.7 | 5 | 5.4 | 6.4 | 0 | 0 | | 4.7 | 0.7 |
| Brazil | 1 | 2.5 | 1.3 | 2 | -0.6 | -0.6 | | 1.4 | -0.1 |
| Mexico | 4 | 1.1 | 2.4 | 3.5 | -0.6 | 0 | | 3.3 | -0.9 |
| South Africa | 2.5 | 1.9 | 1.7 | 2.7 | -0.6 | 0 | | | |
| World Trade Volume (goods and services) | 2.8 | 3.1 | 4 | 5.3 | -0.3 | 0 | | | |

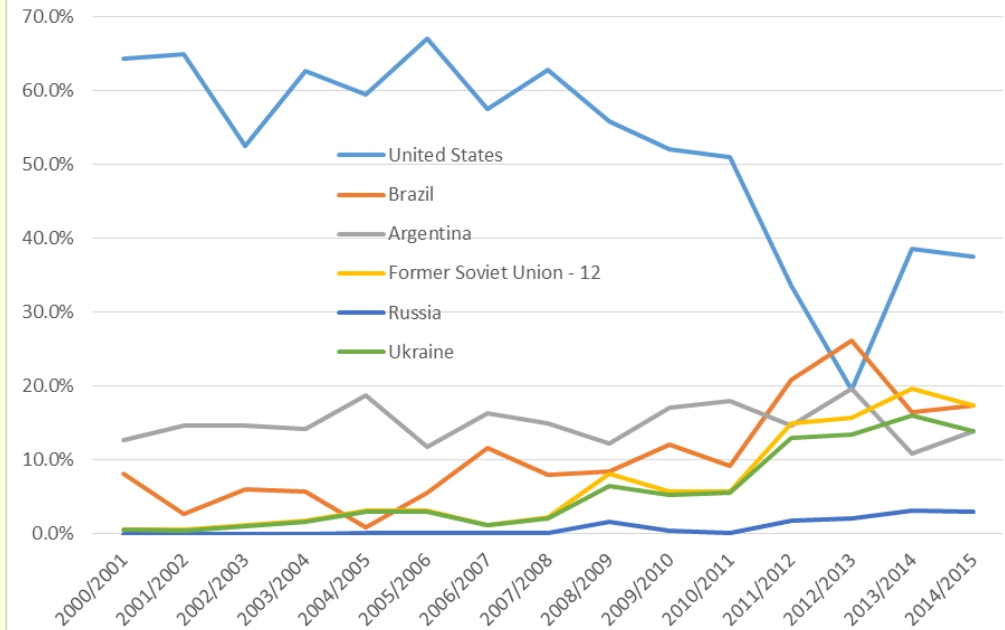
Soybean World Market Shares



Market shares hold constant in 2014/15 after recovering somewhat in 2013/14

Still much lower than 2001!!

Corn World Market Shares



Ukraine/ Russian sanctions

- Russia banned food imports in retaliation for Western sanctions on August 6, 2014
 - US food exports to Russia \$1.5 billion in 2013
 - US Poultry the most vulnerable sector here
 - EU has much greater trade with Russia: \$13.7 billion
 - Other countries may divert supplies to Russia
- Ukraine and Russia important wheat and corn exporters

| | | World Market Shares | | | |
|--------------|---------|---------------------|-----------|-----------|---------|
| | | 2012/2013 | 2013/2014 | 2014/2015 | Average |
| Corn | Russia | 2.0% | 3.2% | 3.0% | 2.8% |
| | Ukraine | 13.4% | 16.0% | 13.9% | 14.4% |
| Wheat | Russia | 8.2% | 11.3% | 12.9% | 10.8% |
| | Ukraine | 5.2% | 5.8% | 5.9% | 5.7% |

- Safe haven effect on interest rates

Russian Ag trade with U.S. (\$ millions)

| Product | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014E |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Agricultural Products | 1,838 | 1,429 | 1,132 | 1,241 | 1,655 | 1,208 | 1,234 |
| Poultry Meat & Prods. (ex. eggs) | 826 | 761 | 311 | 249 | 310 | 310 | 258 |
| Tree Nuts | 53 | 47 | 62 | 91 | 124 | 172 | 114 |
| Soybeans | - | 39 | 19 | 28 | 46 | 157 | 1,315 |
| Live Animals | 14 | 13 | 13 | 99 | 267 | 149 | 33 |
| Prepared Food | 29 | 30 | 35 | 41 | 71 | 84 | 39 |
| Fish Products | 38 | 27 | 62 | 60 | 47 | 83 | 152 |
| Tobacco | 74 | 40 | 35 | 32 | 40 | 41 | 23 |
| Fresh Fruit | 35 | 36 | 44 | 28 | 22 | 34 | 28 |
| Pork & Pork Products | 440 | 273 | 204 | 218 | 268 | 18 | 62 |
| Feeds & Fodders NESOI | 15 | 13 | 12 | 7 | 4 | 11 | 7 |
| Dairy Products | 66 | 11 | 81 | 3 | 3 | 7 | 3 |
| Beef & Beef Products | 90 | 36 | 147 | 250 | 299 | 1 | 0 |

Erratic (bargain hunter), declining since 2008, especially meats & poultry

Chinese Corn Imports

- 2014/15: 3 mmt; 13/14 3.5 mmt; 12/13 2.7 mmt
- GMO controversy may limit both corn and DDGs
 - Certification that Syngenta MIR162 strain not in imports
 - China wants USDA not US Grains Council to certify
 - Zero tolerance issue
 - Chinese DDGs imports: 2011-- 1.4 mmt; 2012 -- 2.2 mmt
 - 2013 – 4.5mmt 2014 Jan-Jun -- 3.0 mmt → 6mmt?
 - WASDE China corn imports don't reflect GMO issue?

- Bali Ministerial, December 2013
 - Low hanging fruit (little accomplished for Ag): Export subsidies, TRQ underfill, public food security stocks, green box general services
 - Food security stocks (India)
 - India objected to completion of Trade Facilitation Agreement (7/31/14) due to lack of progress on stockpiling issue
- Farm bill/ Brazil dispute
 - Crop insurance shift: from green box to amber box
 - Likely to stay under current (URAA) commitments for now; but little room to cut further; Congress not interested
 - 2014 Farm Bill rewrote some of law under dispute with Brazil, issues remain but little action;
 - US no longer paying \$147 million “bribe”
- US interest now: Trans Pacific Partnership (TPP); Transatlantic Trade and Investment Partnership (T-TIP)
 - **No** Trade promotion Authority (Fast track)

Bilateral Trade Agreements

- Trans Pacific Partnership (TPP)
 - Exclude Japan due to ag??
- US-EU bilateral agreement talks (T-TIP)
 - Agriculture content still uncertain
 - Technical issues (SPS, TBT), market access highlighted in early discussions

WTO & Farm Bill

- Commitment to **Brazil** over **cotton dispute**
 - Retaliatory sanctions (services, intellectual property -pharmaceuticals) authorized by WTO in March 2010
 - June 2010 compromise: suspend sanctions, \$147 million/year to Brazil, change cotton program & export guarantees in next farm bill
 - June 2012 – threats to restore sanctions if not satisfied with new farm bill
 - 2014 Farm bill
 - **USDA says it will stop cotton payments to Brazil (AP, 8/7/13)**
 - **Brazil won't rule out retaliation if U.S. cotton payments end (Reuters 8/8/13)**
 - Payments affected by sequester budget cuts
 - Retaliation on Brazilian ag imports from US, pharmaceutical patents
 - **Brazil has stated that US farm bill has not brought complete compliance with dispute ruling, but has not taken action in WTO, or to enact retaliation**

Argentine default

- August, 2014: result of 2002 default, restructuring bonds/debt in 2005 & 2010
- Subsequent court ruling in favor of hedge funds who refused to accept new bonds at discount
 - Sovereign debt: Can a country now default?
 - Same method to restructure Greek, other EU debt (hedge funds a problem there too!)
 - Argentina defying New York judge for now
- Unlikely to limit ag exports?

Closing Thoughts

- Record ag exports in 2013/14. Likely to be smaller in 2014/15 in spite of record crops?
- Exports rebounded surprisingly in 2013/13. Will they really decline in 2014/15 with even lower prices?
- Farm bill, move to crop insurance, counter to WTO decoupling philosophy. No room for US to negotiate in WTO. Greater emphasis now on bilateral agreements
- Russian sanction most likely to matter for US poultry. Much bigger issue for EU.
- Chinese GMO restriction on corn most important for expanding DDGS trade.