Speculators spent June selling Chicago-traded corn and soybean futures and options. Unlike most years when prices collapse in the late summer months, the sales trigger was the trade dispute between the U.S. and China, which drove futures market uncertainty.

New crop November soybean futures that traded as high as $10.60 ½ on May 29 dropped nearly $1 per bushel in four short weeks. Farmers without a pre-harvest marketing plan likely bore the brunt of this large futures price decline with no short-term indication that prices would recover.

In the absence of trade conflicts, investors probably would not have been so early to sour on U.S. corn and soybean futures prices. Speculative commodity funds don't like uncertainty, so they triggered the large selloff in futures prices that resulted.

In the four weeks ending June 26, money managers sold a record amount of CBOT corn and soybean futures and options contracts. What was different than the previous three-week period was total open interest fell sharply. This indicated the funds remain reluctant to “buy back” these futures contracts. Note the dark line below reflects this large decline in soybean futures and option contacts this spring after putting in a near record large position in March compared to the last six marketing years.

A tariff is a tax on foreign goods sold in the U.S. For example, a 25% tariff on a $10 item would be tax of $2.50. This can influence whether China would buy U.S. soybeans rather than soybeans from another country where a tariff doesn’t exist. Since the U.S. will the primary supplier of soybeans to China this fall and winter, it remains uncertain as to how those soybeans will be purchased.
Resolving Trade Deficits

“There are really two trade issues that involve the U.S. and China,” according Chad Hart, ISU ISU Economics professor. “The first involves China’s handling of intellectual property rights of U.S. goods. The second is the imbalance of trade between the U.S. and China, notes Hart.

According to Hart, there is about $130-$140 billion worth of goods shipped to China from the U.S., while the U.S. receives more than $500 billion in Chinese goods.

“When you break it down, it really isn’t good or bad,” Hart said. “The U.S. mainly exports life-sustaining goods like ag, energy and transportation. The U.S. markets are more consumer driven, so China exports a lot of our fashion, furniture and manufacturing goods.”

Despite the monetary trade deficit in those areas, Hart says the U.S. runs a surplus in other ways. For instance, we receive a large amount of money from China when they buy debt, and the U.S. gets a lot of “the best and the brightest minds” at universities and institutions.

Concerns over intellectual property and trade deficits have led the U.S. to put tariffs on more than 1,300 Chinese goods amounting to more than $50 billion. The Chinese, in return, have started putting tariffs on 128 U.S. goods, namely soybeans.

Hart thinks Trump’s rhetoric is centered on a long-term solution. The question becomes: can farmers endure short-term financial pain for a long-term trade gain?

The cause for speculative funds to cover their short futures positions yet this summer would likely be weather concerns. However, summer forecasts from the National Weather Service calls for warmer, yet wet conditions for most major corn and soybean producing states.

Fundamentals Remain Supportive

The USDA National Ag Statistics Service (NASS) annual acreage report and quarterly grain stocks were released June 29. These reports have historically triggered some of the most volatile CBOT trading days. Soybean numbers were smaller relative to expectations, but the data was largely unsurprising and triggered few new buyers of commodity futures.

U.S. soybean planted and harvested acres are expected to decrease approximately 1% in 2018 as compared to 2018. Estimates are 89.6 million acres planted and 88.9 million acres harvested, respectively.

Source: USDA NASS  June 29, 2018

In its weekly crop progress and condition report on July 1, the USDA NASS indicated some of the most favorable on record for late June. But U.S. yields are far from guaranteed as they rely primarily on the weather during July and August. Heavy rains across many parts of Iowa and Minnesota have left fields too wet, especially for soybean yield prospects.

Sources: Iowa State University Daily, June 25, 2018, Thomsen Reuters, June 29, 2018.