



TEUCRIUM

Coronavirus

A BUYING OPPORTUNITY FOR SOYBEANS?

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INTRODUCTION

The immediate reaction to the coronavirus is pushing soybean prices lower toward their cost of production. This near-term pull-back may present a long-term opportunity. The fundamental picture for soybean demand has not changed. China is likely to be a buyer of US soybeans as they rebuild their swine herd and look to support their Phase 1 commitments.

The ultimate impact of the coronavirus remains to be seen. However, we can look back to the SARS outbreak in 2003 for an example of what we might expect.

SARS

SARS originated in China in 2002. It went global in 2003 and resulted in 8,098 reported cases and 774 fatalities.

The current transmission speed of the coronavirus suggests that the total reported cases will likely exceed 8,000 in a matter of days. It took over five months for SARS cases to reach that level. The faster transmission speed is certainly worrisome; but the lower fatality rate presents somewhat of a silver lining. Additionally, it appears that the global response has been swift. We're optimistic that the travel restrictions and quarantines will be effective, and the virus will soon be contained.

IN THIS ISSUE:

- Soybean prices being pushed down to cost of production could be presenting an opportunity
- We estimate the impacts to Chinese demand to be limited in the long run
- China's economy likely to take a hit but still experience relatively robust growth in 2020
- China must continue to feed one of the worlds' largest populations

"...long term, we believe China will buy US soybeans in order to meet their growing demand, and support their trade commitments."



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ECONOMIC RAMIFICATIONS

It is estimated that SARS shaved off approximately \$18 billion from China's GDP in 2003, or 1.2%. Even so, China posted a GDP of 10% in 2003, up from 9.13% in 2002.

Today, a 1.2% decrease in Chinese GDP represents \$163 billion dollars (\$116 billion inflation adjusted). China is estimated to grow at 6% this year. A 1% reduction would be meaningful; however, the resulting 5% growth rate is would still be among one of the highest in the world.

BAD TIMING

Unfortunately, the coronavirus outbreak occurred on the eve of Chinese New Year celebrations. Last year Chinese consumers spent approximately \$149 billion during the celebration. It is fair to assume that only a fraction of that amount will be spent this year. This increases the odds that the negative impact from the coronavirus will exceed that of SARS.

POTENTIAL IMPACTS ON SOYBEAN DEMAND

China is the world's largest importer of soybeans. The coronavirus outbreak is unlikely to lead to an actual reduction in China's demand for soybeans. We know SARS had a negligible impact on Chinese demand for soybeans. Chinese Soybean consumption was up 38% in the 2002 - 2003 crop year and only down slightly (5%) in 2003 - 2004. If history rhymes, then we would expect little to no reduction in Chinese soybean demand.

The fact is both China's population and its economy are still growing. The growing Chinese economy is producing an ever-expanding middle class which demands a diet rich in animal protein. Pork is the preferred meat in China, and hogs eat soybeans. China's soybean demand has already seen a setback due to complications from African Swine Flu which has led to the depletion of approximately 50% of the Chinese swine herd.

The Chinese however are working to rebuild their swine herd and will import pork in the near term to meet domestic demand. As China's economy and swine herd continue to grow it is likely that their demand for pork and soybeans will continue to grow as well.

What's more, the coronavirus has already led to some discussions about food quality and safety in China. These conversations bode well for US producers given the quality of our farm products. Additionally, China recently committed to purchasing large amounts of US agricultural goods, including soybeans, as part of Phase One of the Trade Deal.

The coronavirus outbreak could potentially dampen demand and delay those purchases in the short term. However, long term, we believe China will buy US soybeans in order to meet their growing demand and support their trade commitments.

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TEUCRIUM

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