

Market Outlook

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Given what went on last weekend, I think we probably need to take a little different route today on our show. Let's talk trade and specifically about the trade war with China. We saw some major progress towards getting that resolved last weekend, didn't we?

- We did see some great progress. Ultimately, what came out of the meeting between the US and China at the G20 summit was a 90 day truce in the trade war, and agriculture was on the front lines of this truce.

I saw the President's tweet that US farmers are going to benefit greatly from the talks.

- Ag did get a boost out of the talks. This was because in the truce, China agreed to increase its purchase of American farm produce along with energy and some industrial goods. In exchange America will delay an escalation in tariffs from 10% to 25% on \$200 billion worth of goods that was set to start in January.

But, we didn't really hear anything about exactly how much China will purchase.

- That's right. All we heard was that China would purchase more. The amount hasn't been agreed upon yet, but it was said that the amount would be substantial. The intent is to reduce the US's bilateral trade deficit with China. However, without any formal dollar amounts, we cannot tell just how much this will help the US economy.

What about intellectual property protection? I know this was a huge issue with the US.

- This is another one that is just as shaky. After the meetings ended, negotiators have until March 1st to agree to “structural changes with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft”. This is pretty ambitious given the trust level between the two sides are so low.

I know that current tensions between the US and China have really damaged trust between the two.

- Boy have they. And, one of the problems in relations between the US and China lies in how hard it is to enforce a deal. The World Trade Organization has a dispute settlement process. But, this process can be slow. In the past, China has promised to do things bilaterally, but then have dragged their feet. Also, it can be difficult to prove some of the accusations the US is making. For instance, the US is complaining about an intellectual property violation that is not written into any Chinese law. Specifically, the US and other countries have complained that China forces foreign companies to hand over technology as a condition of doing business in the country. China officially denies the complaints. And, if they are occurring the demands are spoken and hard to prove. Given the number of times China has broken their pledges to make transfer of technology a condition of access into their market, the US is unlikely to settle for a simple promise again. That means China will have to find mechanisms to demonstrate that, this time, it really has changed its ways.

In other words, talk is cheap. Or “show me the money” as we heard in Jerry Maguire. This could be a tall order to achieve before March 1st.

- That is exactly right. We want proof that things have changed and it’s going to be hard to get their in 90 days. Now a more stable solution to the tensions will likely require cooperation with other countries. The European Union and Japan agree with many of the complaints by the US. In the longer term, the WTO could even help to enforce laws.

I did see that China is already planning on making some purchases...particularly crude oil.

- That's right. China has plans to resume US crude shipments by March 1st. China's crude oil imports from the US ground to a halt as the trade war heated up this year. Chinese buyers want to buy US crude and will rush to import the oil. With oil prices low, it makes economic sense to do so as they can store some crude as commercial inventories.

Then we got the “Tariff Man” tweets out of Trump this week.

- Yeah, that one kind of put a damper on the mood. The President was upbeat and did show some optimism in reaching a fair deal. He said he had a “wonderful and warm dinner” with the Chinese President. He also stated that if a REAL deal with China is possible, it will get done. Further down, Trump stated that China is supposed to start buying US agricultural product immediately and that he and the Chinese President want this deal to happen and it probably will. That’s when the negative comments started. After stating a deal would probably get done, Trump stated, “But if not remember I am a Tariff Man” and that he would up the tariffs in March if a deal could not be worked.

OK. Who is taking the lead on these talks?

- On Tuesday, Trump suggested the US will take the lead in the negotiations. Now, no mention of the 90-day time limit has been mentioned by the Chinese government or the news media in China. This is a little bothersome as it shows that again there are different accounts of what was agreed.

What can we expect to happen over the next 90-days?

- In terms of technology transfer, China denies it requires companies turn over technology. That makes it unlikely China will openly commit to reforms in this area. This means any movement on this is likely to happen behind the scenes. I will remind you that the US appears to want proof rather than just words, though.
- Cyberattacks by China on US companies have ratcheted up since July when tariffs were first placed on China. These attacks were in violation of the agreement made by China and the US back in 2015 under the Obama administration. This is probably one area the US can force China's hand.

What about agriculture?

- What we know is that the news out of the G20 meetings said China would buy “a very substantial amount of agricultural products. This sent soybean prices soaring. Now, we don’t have any official statement from China on this front, but the markets are hopeful. This is probably one area where China may be able to make concessions which is great for agriculture.

When do you think soybean purchases will resume?

- What we are hearing out of Washington right now is January 1st. Agricultural Secretary Sonny Perdue said this week that he expects China will probably work on this timeline because their current supplier (South America) doesn't have enough supply to time them over until the new crop comes in. The US also expects China could probably make purchases of US rice, poultry, grain sorghum and wheat as well. But, the tariffs on soybeans would have to be dropped by China before significant purchases of soybeans can occur.

Well, we know that the financial markets as well as ag futures shot to the upside after the meeting this weekend. Let's look at wheat first. What has happened since?

- July Chicago wheat rose on Monday once trade resumed after the talks this weekend. Prices reached a high of \$5.40 ³/₄ before settling at \$5.33 ¹/₄. Since Monday, July wheat has been a little cautious and was down Wednesday after the "Tariff Man" tweet. I will remind everyone that the trade thought no real deal would come out of the talks this past weekend, but would be positive if they resulted in at least a start. That is what we got. If we can continue to make progress in talks, I think that the bottom for July wheat has been set at \$5.20. Progress in negotiations will likely take July wheat up to resistance at \$5.48 or higher. Negotiations falling apart will likely see us falling back to support at \$5.20.

What about corn?

- Corn looks a little different. I think this stems from wheat just getting started with the growing season and corn being in the bin along with strong demand. March Corn gapped up on the charts to a high of \$3.85 1/2 on Monday before closing at \$3.82. Since then we have tested the top at \$3.85 1/2 over and over again, but haven't been able to break it. At the same time, the top of the gap at \$3.80 3/4 has held as well. Further progress in the talks will likely send March Corn up to resistance at \$3.90 or even up to \$3.95. Tensions ramping up again will likely see March Corn eroding back down through the gap and have us settle around \$3.70.

Ok. What about soybeans?

- May beans shot to the upside and gapped up as well on Monday. We reached a high of \$9.48 before setting at \$9.30 ³/₄. Since then, volatility has remained with the gap between \$9.30 and \$9.22 holding us up. The high at \$9.48 is probably going to be a hard top for May beans unless we get some confirmation that the Chinese tariffs on beans are coming down. If tariffs are removed, all I can say is "look out". A removal of soybean tariffs and China starting to buy beans in January will probably result in a flurry of purchases by China to get beans before the March 1st deadline in case no final deal can be worked out. If this happens I think May beans could easily move up to north of \$10.50. Talks deteriorating would most likely result in May beans falling back to support at \$9.00 or lower.

And finish up with cattle.

- April feeders continue to find pressure. For one cattle are looking at the grain markets and seeing increased feeding costs. April feeders have moved down to support at \$141 ½ and are not showing signs of life at all. I am hopeful that the bottom has been set here at \$141 ½ and we can bounce. Continued strong demand is going to be key and a bounce might get us back to \$145.
- April Lives are showing a lot more life and have held up. We are still tracking an uptrend that started back in mid-November. We have resistance to deal with at \$123 that has been giving us trouble for the past couple of weeks. In about another week, either the resistance at \$123 or the trend is going to have to be broken. If we can take out the resistance, our target is going to be \$124. Have the trend broken, and we are most likely going to move down to support at \$121.

We have had a lot of trade talk today, but that is what is driving the market right now. Any closing comments?

- I am not that worried that we don't have a final deal worked out from the meeting this past weekend. The talking points between the nations run deep and have been around for a long time. It is going to take some heavy negotiations to get everything ironed out. The markets are a little fickle. They state ahead of the meetings that a start to talks will be positive. They get that and now are skeptical that more was not achieved. I believe we are going to get a trade deal worked out. It's just in the best interest of the US and China to get one. It's also in the best interest of the rest of the world. The process has to just play out. Could we see talks break down and no deal get worked out by March 1st...sure. But, I think that this happening will result in pushing the increased tariffs on China back even further. My gut is telling me that the worst of the posturing between the two countries is over. I could be wrong, but I do think that we are going to get a trade deal worked out. It may just take a little longer than March 1st to do so. If it does, expect the markets to overreact again, but I believe they will look a lot different in 6 months than they do right now.