**The Story of Soybeans…** 

We have decided to look at soybeans due to the current tariff war between China and the United States, and the importance of soybeans. Soybeans are a crucial part of the global food chain. It’s used in many diversified fields including vegetable oil, animal feed and foodstuffs. Due to its importance in the food industry, soybean is an investable asset. It’s traded in the futures contracts, and we will look into these traded prices.

The [importance of China](https://ussec.org/wp-content/uploads/2018/02/2017-Annual-Report-final-low-res.pdf) as a market for soybeans has been driven by an explosion in demand for meat as consumers switch from a diet dominated by rice to one where pork, poultry and beef play an important part. Chinese production of meat from those three animals [surged 250 percent](http://www.scmp.com/business/commodities/article/1516060/chinas-soaring-demand-meat-change-face-global-trade-feed-grains) from 1986 to 2012 and is projected to increase another 30 percent by the end of the current decade. However, China is unable to produce enough animal feed itself, hence the need to import soybeans from the United States and Brazil.

U.S. soybean exports have also increased dramatically since 2000 as the demand for meat and poultry has increased in Europe, Asia, and other developing economies. In recent years, U.S. soybean producers faced increased competition from South American farmers in Argentina and Brazil, who have a lower cost of production. Domestic demand for soybeans is handled primarily by truck and rail. Transportation of exported soybean is by ocean freight, with the ocean shipping cost being a factor in the choice of port. We will also be looking into these shipping routes and the top soybean exporters and importers.

**Soybean Trade Factors:**

1. Weather:  
   For a high yield harvest, warm weather and ample water are needed. The mean optimum temperature for the growth of soybean is between 20 and 30**°**C. Therefore, extreme conditions including droughts are negative for soybean yield.
2. Trade tariffs, politics, and logistics:  
   Depending on local laws, for example, our soybeans are genetically altered soybeans and have a 30% greater yield than those produced domestically in China. The current political climate between the US and China has Chinese officials in major soybean-producing provinces describing the promotion of planting local soybeans as “the most important political task in agricultural production at present.” Logistic problems also directly affect soybean trade. Brazil, another major exporter of soybeans, underwent a truckers’ strike that has been slow to unwind, even after the government agreed to subsidize diesel prices in a bid to end protests, and drove the prices of soybeans up.
3. Dollar strength:  
   A stronger dollar makes U.S. grains less competitive on the world market.
4. Carryover in stocks:   
   With high carryover in stocks from previous years, prices will be affected because imports will slow.
5. Protein content:  
   Soybean content from Brazil are in high demand in the Chinese market right now due to its higher protein content compared to the US’s soybean protein content.
6. Other grains:

Due to limited acreage, agricultural commodities such as soybeans have large effects on one another. For example, Corn has a large impact on the prices of soybean. They compete in many fields such as cooking oil, animal feed and the biofuel industry. In general, if the production of corn falls, soybean prices are anticipated to rise.

*(Optional Transition Paragraph to ETFs…)*

At every stage of the soybean production chain, from planting, growing and harvest, to exporting and processing, market participants face the risk of adverse price movements caused by the fluctuations of the market and supply and demand.

Futures and options on Soybeans, Soybean Meal and Soybean Oil, as well as options on the Soybean Crush, provide a means to manage this risk and take advantage of potential profit opportunities.

Sources:

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