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PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Value of the dollar and exports of major agricultural crops

Over the last year, the US dollar has appreciated by 27 percent against the Euro. For US residents, this strengthening of the dollar has made traveling to European countries that use the Euro a bargain. At the same time it has made imports from the Eurozone cheaper and US exports more expensive.

Not only has the dollar strengthened against the Euro, it has strengthened against currencies in general, making US goods more expensive in most markets and imports cheaper. One important exception to this trend is the Chinese renminbi which is on a par with the US dollar from a year ago. That would indicate that other things being equal, the manufacturing jobs that have returned to the US from China are under no threat based on exchange rates.

But what does this mean for US agricultural exports? Many agricultural economists have long argued that a strong dollar has a negative impact on exports. So what can we expect this time around?

Let's start with a discussion of the major exportable bulk commodities, corn, soybeans, wheat, and rice and the dynamics of those markets. To start with, soybeans are in a class by themselves. The major growth in world soybean exports over the last decade has come from one customer: China.

In 1994, China imported just under 6 million bushels of soybeans. Twenty years later China is projected to import 2.7 billion bushels, an average increase of 136 million bushels a year. The rest of the world has increased soybean imports by 556 million bushels or 28 million bushels a year, so China is responsible for the lion's share (83 percent) of the growth in this important export market for the US, Brazil, and Argentina.

With the US dollar and the Chinese renminbi on a par with each other over the last year, the strengthening of the US dollar is likely to have little impact on total US soybean exports to China. Normally, Argentina and Brazil tend to float exportable soybean surplus out their ports rather use storage, even if they have to discount their prices to do so. (As noted below, this year the farmer strikes in Argentina are disrupting the Argentine export pattern, which in turn affects the intra-year price pattern and intra-year timing of exports by US and other soybean exporters.)

In addition, to the extent that farmers in Argentina and Brazil have to purchase their inputs denominated in US dollars, they are affected by the stronger US dollar in the same way as US farmers.

For soybeans, US farmers face a greater risk than a strong dollar. And that risk is a decision by Chinese officials to level off on their imports of soybeans. They do not even have to reduce their imports to cause havoc for soybean producers worldwide. Without the average increase of 136 million bushels a year from China, producers will face a glut of soybeans on the world market and the strong US dollar will have little to do with that.

And, sooner or later there will be a price-hiccup in world soybean markets when Argentine farmers and their government come to an agreement over export taxes on soybeans. The USDA projects that at the end of the 2014 marketing year, Argentina will have a carryover 685 million bushels of soybeans, compared to a more normal 150 to 200 million bushels, as farmers hold soybeans off the market as a part of their tax protest. Those 400 to 500 million extra bushels of carry-over will be a headache for everyone once they come on the market and again a strong US dollar will have little to nothing to do with that problem.

Looking at the three grains—corn, wheat, and rice—the US is the residual supplier of these crops, with the trend over the last 20 years being flat to down. Most countries generally only import the difference between what they need and what they produce. If production is up elsewhere, imports are down no matter what the price. If production is up among our export competitors, our exports are down and vice versa.

The value of the dollar may speed up the exports of a given year's exportable surplus but it does not have that much effect on short-term total exports because most of our grain export competitors do not want to carry much stock from year to year. Over time, the exchange rate could/would affect the amount that is produced in competitor countries; that is it could/would change the amount of exportable surplus in a given competitor country in the future moderately reducing production when the value of the dollar is down and increasing production when the value of the dollar is high and the reverse for the U.S.

But even then, it must be remembered that additional acreage comes into production much faster than those same acres leave production. And the addition of acres happened most quickly in response to a strong price increase. With prices down significantly this year, the impact of the strong dollar is unlikely to be enough to pull additional acreage into production in the US or elsewhere.

For US farmers a product likely to be significantly affected by the strong dollar is beef exports. People do move away from beef when the price is high and go to lower priced protein sources. That is to say, if

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the demander is highly influenced by price, the value of the dollar is very important because it affects the price (the foreign) customer sees and pays. The current cyclical increase in beef production along with reduced exports due to the strong US dollar could put a downward pressure on cattle prices.

So what does that mean for US crop farmers? The greatest worry should be the political decisions that are made in China with regard to soybean imports; the strong US dollar pales in comparison because in the case of a leveling off of Chinese soybean imports some of those soybean acres will be shifted to other crops, negatively affecting all crops. For cattle producers there will certainly be some impact as the result of the strong US dollar.

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