

PANORAMA



Global outlook for the agri-food sector within a protectionist environment

2 TRADE WAR IMPACT ON THE GLOBAL AGRI-FOOD SECTOR OUTLOOK

10 WHAT ARE THE OTHER MAIN RISKS ON AGRI- FOOD GLOBAL TREND IN THE MEDIUM TERM?

The agri-food sector (alongside the ICT sector), has been at the heart of the global trade war¹, aggravated by the fact that China's retaliation measures have often targeted US soybean imports. As a consequence, the US agri-food sector, notably American soybean exporters are negatively impacted by this situation. Coface's sector risk assessment for the agri-food sector in the United States is on high risk. China is a world-leading importer of soybeans and soybean is a key commodity in the global agri-food sector, as it is widely used both as food for livestock (including pigs) and for human consumption.

A significant knock-on effect of the protectionist environment – and particularly the trade war between the US and China – on the global agri-food sector has been on commodities prices. The latter have recorded high volatility and the dynamic of the ones analysed in this study (corn, soybean, and wheat) have experienced downward trends. Coface has developed a statistical model, using the LASSO technique (Least Absolute Selection Shrinkage Operator - **Insert 2**) which aims at forecasting commodities prices, notably soybean ones. According to Coface's model, soybean prices are expected

to decrease by 9% in 2019 compared to the previous year.

This outcome is consistent with the analysis that the downward trend of soybean prices is explained by trade tensions and weaker demand from China, notably due to the severe African Swine Fever (ASF) epidemic that led Chinese pork producers to sizeably slaughter their livestock to prevent ASF from spreading. This situation has had an impact on global pork production as Chinese producers used to represent nearly 50% of it. Hence, Chinese consumers will have to turn to other animal protein such as poultry and beef; and as a result, large global exporters of the latter such as Argentina and Brazil are likely to benefit from it.

Another consequence of the trade tensions between the US and China on the global agri-food sector is the transformation of "export routes" for certain commodities, particularly soybean (it has also impacted US production of corn, sorghum and pork). Although some of the major soybean producers and exporters worldwide such as Brazil and Argentina could somewhat benefit from the situation in the medium term, the risks for the agri-food sector as a whole remain on the upside.

¹ Coface (2019), Trade Tensions Return To The Forefront Of The Global Economy - Country And Sectors Risks Barometer, available at: <https://www.coface.com/News-Publications/Publications/Trade-tensions-return-to-the-forefront-of-the-global-economy-Country-and-Sectors-risks-Barometer>