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## **Agri-food sector outlook: in a global economy marked by protectionist tensions, what does the future hold?**

*Central to the current trade tensions, notably between the USA and China, the global agri-food sector is impacted by knock on effects, notably via downward trends on the prices of key agri-food commodities, such as soybean. Coface has conducted an in-depth analysis of future trends in this market.*

A particularly strategic sector, agri-food (along with ICT) is one of the sectors key to the current trade war between the United States and China. Recently, Chinese authorities have taken steps to ban all agri-food imports from the United States, in response to the tariff increases announced by the Trump administration.

### **Commercial tensions and soybean prices trend downwards**

The movements around soybean are a perfect illustration of the situation. A commodity that is widely used for both human consumption and livestock feed (like maize or wheat), soybean's prices have experienced high volatility and a downward trend.

Thanks to its statistical model that forecasts selected commodity prices, Coface estimates that soybean prices will fall by 9% in 2019 compared to the previous year, due to both trade tensions between China and the United States, and to the serious outbreak of African swine fever (ASF). The latter has led Chinese pork producers to slaughter a large part of their livestock to limit the spread, and therefore to buy less soybean to feed them. At the same time, this situation has directly impacted global pork production, half of which is produced in China. Chinese consumers will therefore have to turn to other animal proteins, such as poultry and beef, leading to increased demand from major global exporters like Argentina and Brazil.

Another consequence of the US-China trade tensions for the global agri-food sector is the transformation of "export routes" for certain raw materials, including soybeans and pork. Although some of the world's major soybean producers and exporters, such as Brazil and Argentina, could benefit somewhat from the situation in the medium term, risks to the agri-food sector as a whole remain high.

### **Other risks that weigh on global agri-food sector outlook**

In addition to the aforementioned global protectionist context, there are other potential risks for agri-food companies, such as the African swine fever epidemic, or the fall armyworm that threatens the global maize market. In terms of structural risk, the sector is vulnerable to weather conditions that can affect crops, such as severe droughts or the El Niño phenomenon.

Finally, even though agri-food is strongly affected by a global economic environment marked by protectionist tensions, it is also often a key sector in free trade agreements, as evidenced by the recent agreement between the European Union (EU) and MERCOSUR.



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Governments often negotiate these agreements to facilitate trade in products that would notably benefit their domestic agri-food sector. However, local farmers do not necessarily support them, and they are received with growing skepticism by part of the public opinion, sometimes leading to delays in the ratification of these free trade agreements by public authorities.

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