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Agricultural Trade with a Weak Dollar

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The USDA projects U.S. corn exports to be a record 2.45 billion bushels for the 2007/08 marketing year. Soybean exports are projected to take up nearly 40 percent of the 2007 U.S. soybean crop, up from 35 percent the year before. This export boom has occurred in spite of significantly higher crop prices. Corn prices averaged $3.04 per bushel for the 2006 crop; they are projected to average about $4 per bushel for the 2007 crop. The price movements for soybeans have been even more dramatic, with roughly a $4-per-bushel gain in prices over the past year. One of the major factors behind the strength of these crops is the weakness of the U.S. dollar.

Exchange Rate Movements

The dollar has been weakening relative to many countries’ currencies over the past year and a half. Not coincidentally, this period of dollar weakness overlaps with the period of higher crop prices. The combination has been good news for U.S. crop producers. Normally, higher crop prices lead to lower crop exports, but the weak dollar has offset that impact and made U.S. crops attractive to international buyers. The relative value of one currency versus another is called the exchange rate. U.S. exchange rates with most of the rest of the world have been falling, meaning you can exchange one dollar for fewer units of other world currencies. Figure 1 shows the relative exchange rates (setting the January 2007 value equal to 1) versus the currencies of several of our major trading partners. As you can see from the figure, by the end of 2007 the U.S. dollar lost ground versus all of these currencies. For Mexico and South Korea, the change was small, less than 1 percent. But for countries such as Canada and Japan, the exchange rate shift was quite large. And this shift made U.S. commodities look relatively more affordable.

Canada is one example of this effect. In January 2007, 1 U.S. dollar was worth 1.176 Canadian dollars. By December, the exchange rate had fallen to near parity. Using these exchange rates, the U.S. corn price of $3.05 per bushel for January 2007 translated into $3.59 Canadian. The December 2007 U.S. corn price of $3.76 per bushel translated into $3.77 Canadian. Over the course of 2007, U.S. corn prices increased $0.71 per bushel, but this increase only translated into an 18¢ increase for Canadian customers. This highlights the impact exchange rate changes can have on relative prices between countries. Figure 2 shows the relative price of corn (January 2007 = 1) for the United States and Canada. U.S. corn was actually cheaper in Canada from July to November than it was in January 2007. Overall, since January 2007, the United States has experienced a nearly 60 percent increase in corn prices, while Canada’s increase has been roughly 35 percent.

And as the right half of Figure 1 shows, the dollar is expected to remain weak for the rest of 2008. The projections are from the International Monetary Fund and the Federal Reserve Board, through the USDA. The U.S. dollar is projected to continue to decline versus the Japanese yen and the Taiwanese dollar, hold steady against the Canadian dollar and the Mexican peso, and strengthen versus the South Korean won. Overall, the exchange rate projections, when weighted by total U.S. trade, show the dollar declining roughly 7 percent over 2008. If the weighting is based on only agricultural trade, the decline is 8 percent.

Weakness Can Be a Strength

But this is only half of the story in how exchange rates are affecting U.S. trade. Our trade competitiveness depends on how the dollar stacks up against our trade competitors’ currencies. A weaker dollar means our goods look relatively less expensive than the same goods from our competitors. Figure 3 shows the movement of the U.S. dollar versus the currencies of several of our trade competitors. In 2007, the dollar generally weakened against the currencies of our trade competitors. The biggest drop was versus Brazil, at over 17 percent, but the dollar also declined versus the euro (10 percent) and the Chinese yuan (5 percent). The dollar strengthened relative to the Argentine peso. For 2008, those trends are expected to continue. The dollar is projected to be flat against the Argentine peso but to fall by roughly 12 percent versus the real, the euro, and the yuan. These trends bode well for U.S. agricultural exports. In fact, averaging over all U.S. agricultural trade, the dollar is projected to decline by 9 percent over 2008.

The weak dollar also means that the price signals seen by our farmers are muted to international producers. Using Brazil as an example, Figure 4 shows relative soybean prices (January 2007 = 1) for the United States and Brazil. U.S. producers have seen soybean prices increase by nearly 90 percent since January 2007. Brazilian producers have seen prices increase for their soybeans, but not nearly as strong-
ly, and most of the increase has been in the last two months. So the international production reaction to higher U.S. prices is diminished as the dollar weakens. For both corn and soybeans, the international production response has thus far been small. For corn, the 2007/08 production response amounted to less than a 1 percent production increase, mostly coming from Brazil and South Africa. For soybeans, production actually fell slightly, with only Brazil showing a slight uptick in production. In the longer term, we should expect to see a larger international response to the high U.S. crop prices we see today, but the weak dollar is currently mitigating some of that response.

Figure 1. The relative weakness of the U.S. dollar for our trade partners (Jan. 2007 = 1)

Figure 2. Relative corn prices for the United States and Canada (Jan. 2007 = 1)

Figure 3. The relative weakness of the U.S. dollar for our trade competitors (Jan. 2007 = 1)

Figure 4. Relative soybean prices for the United States and Brazil (Jan. 2007 = 1)