Zero-sum grain

Trade war has given agricultural merchants a boost

But their longer-term prospects are dim

On December 10th Bunge, an American agribusiness giant, announced plans to replace both its chairman and its CEO. The move may seem ungrateful: the company's profits surpassed analysts' expectations in the most recent quarter, marking a turn after a string of bad years. But industry insiders were unsurprised. Despite cost-cutting and divestments, Bunge's share price is 28% below its February peak, even after a 3% jump when the reshuffle became public. Its travails are a sign of changing times for soft-commodity traders.

For decades ADM, Bunge, Cargill and Louis Dreyfus—the ABCDs of agribusiness—were unavoidable middlemen. From corn and cocoa to soya and sugar, they could best gauge supply and demand, thanks to superior intelligence on stocks and harvests. Their storage facilities placed them well to ride out price swings. State buyers and multinationals relied on their global footprint to source staples. Their networks of ports, ships and trucks meant they picked up profits all along the way.

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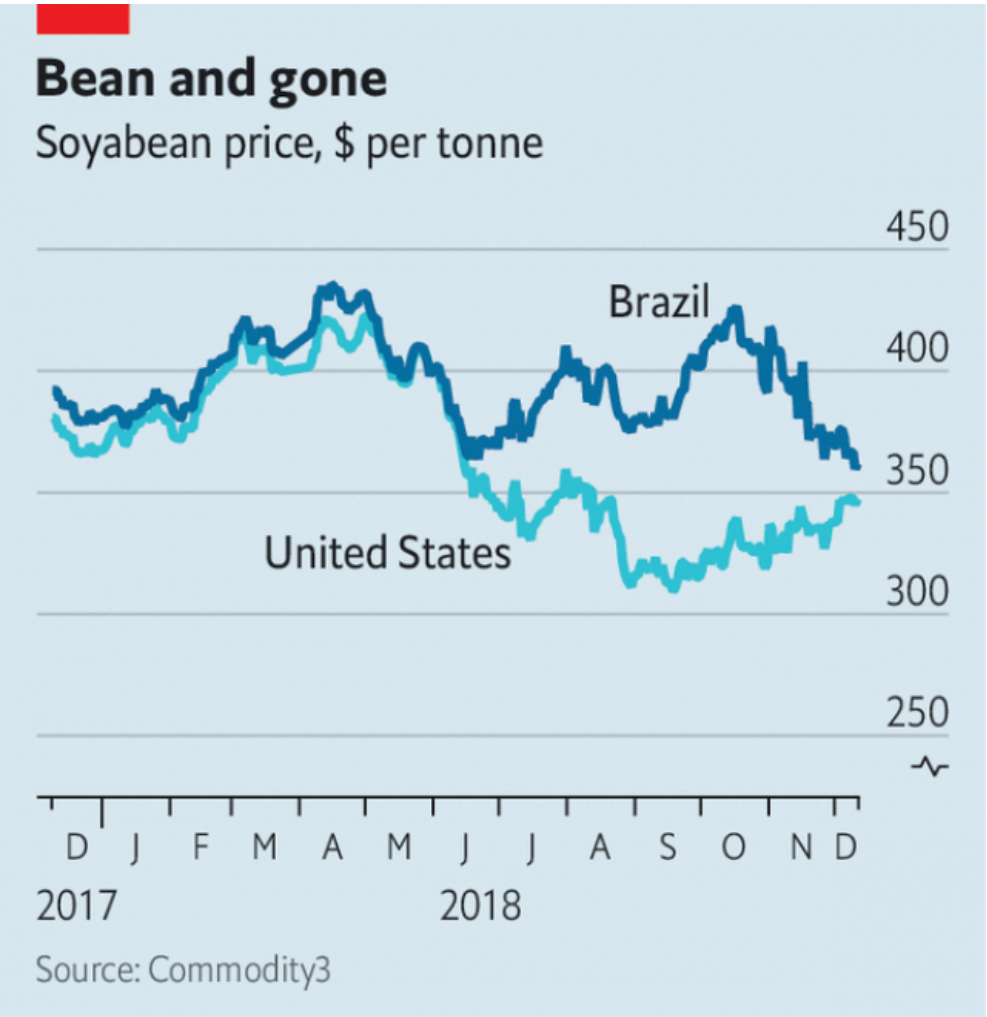
But five years ago their grip started to loosen. In 2013 the quartet posted $351bn in combined sales, equivalent to over a quarter of the world's annual food-import bill. By 2017 that had shrunk to $260bn. At most companies profits also crashed, pummelling share prices. And though they together retain 235,000 staff, many traders have left.

Stable, low crop prices, induced by a persistent global glut, were squeezing margins. But the disintermediation owed more to structural forces. Phone apps could provide farmers with real-time data on prices in all markets. Farms became bigger, and invested in storage. "Today you don't need all these in-between halfway houses," says Detlef Schoen, a former head of Cargill's European grain business. The traders' decline seemed unstoppable.



The Economist

Until this summer. In June, after President Donald Trump slapped tariffs on $50bn-worth of Chinese goods, Beijing retaliated by targeting soyabeans, America's biggest farm export. That hammered American prices; Latin American substitutes soared. Brazilian soya, on par with American soya in May, opened up a wide lead before falling back as Brazil's export season drew to a close and hopes for a truce in the trade war briefly rose (see chart).

American farmers were hit hard. But trading became profitable again. All four ABCDs have hinted at strong earnings for the period since June. In their high-volume, low-margin business, says Vincent Andrews of Morgan Stanley, a bank, agricultural traders shovel "pennies, nickels or dimes". Until relatively recently, pennies were all they could pick up; now they are earning nickels. Volatility brings opportunities for arbitrage; depressed American prices mean bigger margins on processing soyabeans into animal feed.

Dimes may soon be on offer. "America must find new clients, China new suppliers. Traders have a new raison d'être," says Jean-François Lambert, a consultant.

But the good times are unlikely to last. Trade shifts will outlast the war. And China will want to diversify away from America, says Heather Jones of Vertical Group, an

investment firm. Disintermediation is likely to resume once the market settles. Digital market-places such as FarmLead, which covers 12% of North America's grain market, mean farmers can shop around for the best price. "There's no more loyalty in this business," buyers tell Alain Goubau, the startup's operations chief.

And the established players face another problem: new competition for supply. Glencore Agriculture, a trader backed by Glencore, a metals and mining firm, and by two Canadian pension funds, has been quicker to move into the Black Sea region, which now exports more wheat than America and Canada combined. Olam, a 30-year-old firm owned by Singapore's state fund, has carved out a lucrative niche in Asia and Africa, in spices and nuts.

Eat or be eaten

Meanwhile China is advancing in Latin America. Since 2014 it has spent billions building up COFCO, a state-owned food processor, into an international trading platform. Though marred by integration problems, its acquisitions of parts of Noble Group and Nidera, two traders with South American presence, have made it a top-five exporter of Brazilian produce. It has invested in elevators, ports and processing plants, including a 60,000-tonne silo complex in Mato Grosso, Brazil's top soya-growing state. Valmor Schaffer, COFCO International's Brazil chief, says China buys 70% of the produce the company exports from Brazil, up from some 30% three years ago. Tariffs are a boon to Latin American farmers, he argues. China can test the quality of Brazil's late-year shipments, and likes what it gets. COFCO is not interested in sharing the spoils. Mr Schaffer says it would not like joint ventures with other traders unless it holds a majority stake.

The ABCDs remain the only truly global firms. But regional competition is adding to their main problem: too many companies are doing the same thing, says Sönke Lorenz of BCG, a consultancy. Tariffs or not, there are only two ways they can restore stable profits. They can diversify into food-manufacturing: Cargill, the most successful, derives two-thirds of earnings from its animal feed and protein business. Or they can consolidate, though their distinct cultures and ownership structures have till now made this hard.

Could the shake-up at Bunge create an opening? Saddled with bad investments in sugar production, it started a "strategy review" in October. Yet there have been two failed takeover approaches in the past year, suggesting it remains too pricey for rivals to swallow whole.

Antitrust issues also loom large. "This company should already have been acquired five times. But no one is doing it," says a former employee. Rivals may be waiting for Bunge to become a better bargain before slicing it up.

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