Trump 2.0: Impacts on global food and agriculture

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Summary

Macro impact – Donald Trump's return to the White House with a Republican majority signals a shift toward tax cuts, deregulation, high defense spending, and tariffs, likely leading to higher inflation, slower gross domestic product growth, and increased budget deficits.

Consumer trends – Inflation will pressure consumers to seek value, with an emphasis on private label products, affordable luxuries (such as convenience), and occasionally dining out.

Consumer food companies – Rising costs may cause margin pressure. Companies will further invest in efficiency, favor US supply in their product mix, cut costs, and consolidate, while focusing on innovation and strategic partnerships to stay competitive.

US & China – China's declining demand for US soybeans and corn, coupled with potential retaliatory tariffs, poses significant risks to US food and agriculture exports, with soybeans being particularly vulnerable.

US & Asia – Proposed 10% to 20% tariffs on Southeast Asian imports will raise costs for key commodities. Stable import volumes and China's adaptive strategies may mitigate some impacts despite potential retaliatory tariffs.

US & EU – Proposed 10% tariffs on European exports to the US may raise prices, but strategic adjustments will help manage the impact.

US & Africa – African countries' food exports, including cocoa, fruits, and nuts, total USD 4.1 bn. Cocoa is less affected by tariffs, but price-sensitive fertilizer exports from North Africa and Nigeria could be impacted – contributing to inflation.

US & South America – US-China trade tensions could boost Brazilian exports of soybeans, corn, beef, and pork to China. However, higher freight costs and US restrictions on ethanol may offset some gains.

US & Oceania – A second Trump presidency could increase Asian reliance on Australian and New Zealand agriculture exports. However, US tariffs on Asian partners might reduce demand for these exports, as weakened Asian economies could result in lower purchasing power.

Impacts on macroeconomic and geopolitical factors

Stickier US inflation and higher rates for longer

The headline

Trump's return to power, backed by Republican majorities in the Senate and the House of Representatives, implies a major shift in US economic policy. Trump 2.0 seems better prepared, free from the restraints imposed by the former Republican establishment and supported by a stronger Trump-aligned representation in Congress than ever before. The usual Republican policies of tax cuts, deregulation and high defense spending will be combined with President-elect Trump's love of tariffs.

The nuance

When it comes to trade, we are likely to see new import tariffs. Trump has repeatedly talked about a 10% to 20% universal tariff, possibly a 60% tariff on Chinese imports and even 100% on Chinese electric vehicles imported from Mexico. Simulations with the National Institute Global Econometric Model indicate that this would lead to a rebound in inflation and a slowdown in real gross domestic product (GDP) growth because of eroded purchasing power and retaliatory tariffs by trading partners.

As for domestic and fiscal policy, Congress can cut taxes, deregulate, and raise defense spending. This would boost economic growth, but it would add to inflationary pressures. What's more, the revenues from increased import tariffs are probably insufficient to offset the tax cuts and hikes in defense spending. Therefore, the budget deficit is likely to increase. This could add to upward pressure on the yield curve, especially at the longer end.

The incoming administration's strategy to keep inflation down amid stronger economic growth and increased tariffs is to drive down energy costs through less regulation to spur production. While energy is a cost contributor to virtually every product and service consumed, the ability to drastically lower energy costs through deregulation will be challenging. Lower regulatory costs are positive for production when viewed in a "vacuum," but production is much more tied to powerful global supply and demand dynamics. In fact, annual US crude oil production, including condensate, hit a new record in 2023. However, global oil demand growth will continue to slow, as emerging economies like China and India will not see the same fuel demand growth as in the past. US and global oil supplies will have to adjust to this new reality.

The wildcard

Trump has announced the formation of what he is calling the Department of Government Efficiency (DOGE). According to reports, DOGE is not actually a new government "agency," but will work alongside the government to "dismantle government bureaucracy, slash excess regulations, cut wasteful expenditures, and restructure federal agencies." The specifics of how DOGE will operate are still unknown, but it could have significant fiscal impacts on the US economy and help to reduce inflation.

The takeaway

For our macroeconomic forecasts, the election results have only minor implications, since we have been forecasting a Trump victory and higher import tariffs since February, when Biden was still at the top of the Democratic Party presidential ticket. We expect the increase in tariffs to lead to a rebound in inflation and a slowdown in economic growth. The negative impact on growth could be mitigated by tax cuts and deregulation by a Republican Congress. However, this would

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increase the budget deficit and reinforce inflation, especially in combination with reduced immigration. For the Fed this means that a pause in the rate-cutting cycle is likely in 2025.

Shifts in economic statecraft and geopolitical landscapes

The headline

The US election results could have significant implications for the fundamentals of the global economic and financial architecture. The US plans to use tariffs, tax cuts, deregulation, and industrial policy to onshore key industries. Additionally, the US will also use tariffs (and possibly other policies) to redirect supply chains from China to allies. Other regions and countries will respond to this "economic statecraft" according to their own "grand strategies." This process further risks global fragmentation, leading to the creation of separate FX and clearing blocs for different areas such as commodity financing, pricing and trading, goods and services trade, and financial transactions.

The nuance

Where economic policy focuses on domestic goals, economic statecraft aims at national security and foreign policy objectives. It operates alongside political and military statecraft as a tool to achieve a "grand strategy," the state's key national interests. From now on, the White House is likely to view everything from trade to capital flows, and from monetary to fiscal, infrastructure, energy, and agricultural policy through one grand strategy lens. This shift could significantly impact the current structure of the global economic and financial system.

The current system relies on the US running a large trade deficit, with that flow of dollars then providing the Eurodollar liquidity for business, finance, and dollar debt repayments. As the US reduces its trade deficit, the flow of dollars into the global system will slow, logically pushing the dollar higher and pressuring the Eurodollar supply – regardless of dollar liquidity in the US. Thus further increasing the power of dollar swap lines with geopolitical quid pro quos. This would not be a cyclical FX issue but a structural one.

Global value chains could increasingly be transformed in a zero-sum game with clear losers (such as China and potentially Europe) and variable winners (those cooperating with the US). Many sectors and states may prefer not to take sides, but the US' ability to apply statecraft pressure makes this unrealistic.

The wildcard

Every society on the planet needs food for survival. At the same time, food production relies on a biological process that requires the correct combinations of soil, water, and weather (among other things) to thrive. The current global food and agribusiness (F&A) system is designed to take advantage of global differences in natural resources to ensure mass availability and affordability for global consumers. Admittedly, it's not a perfect system, as there is still food insecurity globally. In short, not every country can produce the food it needs, much less what it wants. F&A trade (much like energy) therefore occupies a unique space in every country's grand strategy. Countries with excess food supplies possess a powerful and unique lever in their economic statecraft toolboxes, while those with insufficient supplies could find themselves at a distinct disadvantage. To put this into perspective, consider this: Can a society function longer without access to the latest smart phone, or without access to enough food to eat?

The takeaway

As we've warned since 2015, and as the International Monetary Fund and the World Trade Organization have recently echoed, this process risks global fragmentation, which could lead to the creation of separate FX and clearing blocs for commodity financing, pricing and trading, goods and services trade, and financial transactions. The fattest tail risk in this process is the potential for geopolitical clashes. The Trump 2.0 view is that these tensions are already building, given the two ongoing wars, and only a fortified US economy would be in the position to prevent their escalation via a strategy of "peace through strength." The relative size and strength of the US, in terms of military, currency, general economy, and food production, make it particularly prone to success in an environment of increased realist economic statecraft, such as an "America First" policy. However, the net impacts on both domestic and international F&A sectors are complicated.

Impacts on US consumers and consumer packaged goods

Resilient consumers will adapt while businesses may adjust strategies

The headline

Since 2019, US consumers have faced numerous challenges, including political unrest, impacts of military conflicts, a global pandemic, and high inflation. Despite these difficulties, US consumers have shown resilience by adapting their food purchasing behaviors. Some evident behavioral adjustments include seeking affordable luxuries, comforts such as snacking and delivery, and reducing the frequency of dining out of home. Looking ahead to a second Trump term and possibly slightly elevated food inflation, consumers are expected to remain focused on convenience, affordable luxuries, and subsidizing food spending with more deal hunting and demand for private label products. While cumulative inflation has significantly impacted purchasing behaviors in the short term – primarily resulting in less dining out of home, demand for foodservice is anticipated to rebound in the middle part of 2025 as consumer finances improve, although value-focused purchasing will likely persist.

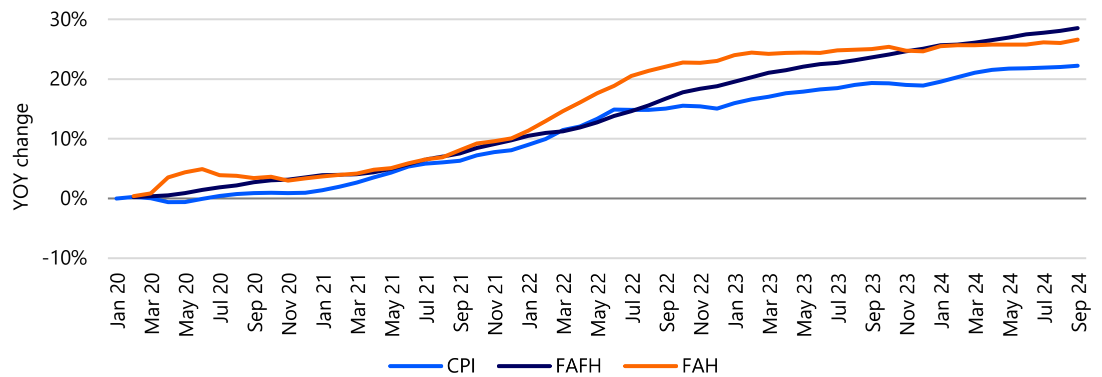
Rising cost pressures across the supply chain due to tariffs will also impact businesses. As tariffs drive costs up, companies dependent on imports may adjust their product mix or face higher input costs, which they would struggle to pass on to retailers and restaurants. Ultimately, this may squeeze profit margins for upstream food companies. This financial strain will push businesses to find efficiencies, such as optimizing operations, reducing reliance on imports, and investing in technology. Smaller businesses, in particular, may struggle to absorb these costs, leading to potential closures or mergers with larger firms. Overall, the need to adapt to these rising costs will drive innovation and strategic shifts within the industry.

The nuance

Pricing will continue to be an issue going forward. Between January 2020 and November 2024, US consumers have experienced cumulative inflation of 22%, with 29% for food away from home (FAFH) and 27% for food at home (FAH) (see figure 1).

Cumulative inflation has significantly impacted consumer purchasing behaviors. Throughout 2024, many consumers have traded down from FAFH to FAH due to the relative affordability of groceries. This trend is evident in transactional data from Earnest Analytics, which shows a 5% average decline in foodservice transactions in the first three quarters of 2024, while hard discount grocers saw 11.6% growth over the same period.

Figure 1: US cumulative inflation



Source: BLS, RaboResearch 2024

The RaboResearch's view is that Trump's second term will likely result in slightly elevated inflation for food products. Several factors will influence inflation going forward:

Tariff impact: Our analysis suggests that additional US import tariffs are likely to add at most 1% to 2% to food inflation.

Energy impact: Flat to slightly lower energy costs will marginally offset inflation. Despite rhetoric around increased energy production ("drill baby drill"), current prices do not incentivize US producers to significantly expand oil production. OPEC may marginally increase production to keep US drilling flat, leading to modest downside pressure on oil prices through 2025. This will help offset food inflation through logistics and packaging (specifically plastics). Natural gas prices may see modest increases as new liquefied natural gas export terminals come online in 2025, increasing US exports to arbitrage higher prices abroad. This will impact various aspects of food prices, from fertilizers to food manufacturing plants that use natural gas, potentially adding modest upside to food prices.

Demand:

Consumer demand has been robust throughout 2024, which has been the key driver of above-trend GDP growth. However, there are some signs of slowing momentum ahead, as we forecast slower GDP growth in 2025 than in 2024. The incoming administration is likely to bring a veritable slew of new policies, which have the potential to significantly impact economic activity.

Policies such as tax credits, tax-free tips and overtime wages, reshoring manufacturing, and a focus on job growth through decreased regulation are likely to improve the livelihoods of many US consumers, bolstering the shrinking middle class.

However, there are downside risks. Additional inflation may be unsurmountable, resulting in a more dramatic drop in restaurant spending, as well as more extreme focus on value in grocery shopping. Furthermore, changes to Supplemental Nutrition Assistance Program (SNAP) payments, by the new Congress, could impact roughly 12% of US consumers who used SNAP in 2023.

Factoring in these dynamics –tariffs and stronger demand driving higher inflation, with energy costs providing some offset– we can expect a rough net impact of 1% to 2% inflation for food. With current food inflation at 2.3% as of October 2024, we could expect food inflation averages of 3% to 4% through 2028.

We anticipate that US consumers can manage this inflation. Despite the significant rise in prices over the last three years, their resilience to inflation has been notable, even as savings dwindled. Furthermore, given that food accounts for a relatively small share of the overall wallet (roughly 12%), there is room to cut back in other areas to allocate a slightly smaller share of wallet to food.

The wildcard

Nominated by Trump to be the next US Health Secretary, Robert F. Kennedy Jr., also known by his initials RFK Jr., could, if confirmed, play a significant role in reshaping key aspects of the US food system. Areas where we may see changes are:

- **School lunches:** RFK Jr. aims to remove processed foods from school lunches and prohibit SNAP funds from being used to purchase any foods deemed unhealthy. This initiative would likely lead to a review of suppliers to school programs, requiring them to assess and reformulate their ingredient lists to exclude certain additives such as dyes, preservatives, and processed sugars like high fructose corn syrup. This shift could increase the need for regional food suppliers who can provide fresher ingredients.
- **Regenerative agriculture:** RFK Jr. is an advocate for regenerative agriculture practices, specifically reducing chemical applications of pesticides and fertilizers. This could have flow-on effects through the supply chain, ultimately driving up the cost of consumer food products, which would be challenging considering the already anticipated elevated food inflation.
- **Food safety regulations:** RFK Jr. plans to enhance food safety regulations and reduce the influence of food and drug companies on regulatory bodies. This again may be an inflationary factor, as additional regulatory hurdles may reduce efficiency and increase costs.
- **Banning certain additives:** RFK Jr. supports banning “harmful” food additives and colorings, such as Red No. 3, Yellow 5, butylated hydroxytoluene, propylparaben, and potassium bromate. Many of these ingredients are also banned under updates to the Proposition 65 List,[1] which companies are already underway reformulating.

RFK Jr.'s initiatives listed above could lead to inflationary pressures. These changes would likely require suppliers to further reformulate products, increase reliance on regional food suppliers, and navigate additional regulatory hurdles, all of which could drive up food prices in an already inflationary environment.

The takeaway

The overall impact on consumer purchasing behaviors is unlikely to shift significantly from where it is today. Value-focused purchasing will remain in place, resulting in continued trade down to hard discounters like Aldi and private label products. Regarding foodservice, it is uniquely placed to rebound, as US consumers' desire for "memories, not leftovers" will remain strong as they seek comfort in a tense world. We anticipate that as household budgets get back in order, consumer spending on food will pick back up, with consumers returning to restaurants likely in the latter half of 1H 2025. Rising cost pressures across the supply chain due to tariffs are expected to increase margin pressure for businesses, necessitating a focus on greater efficiency and product mix adjustments (including sourcing more products within the US). Smaller businesses may struggle to absorb these increased costs, leading to potential consolidation in the industry.

[1] Proposition 65, officially known as the Safe Drinking Water and Toxic Enforcement Act of 1986, is a California law aimed at protecting the state's drinking water sources from contamination by chemicals known to cause cancer, birth defects, or other reproductive harm.

Impacts on F&A trade: A US perspective

Downward pressure on US F&A exports

The headline

Trump's proposed universal tariff on US imports, along with the potential of a 60% import tariff on Chinese goods, would likely result in retaliatory tariffs by China and other affected countries. As experienced since the onset of the US-China trade war in 2018, US F&A exports tend to be the preferred target when retaliatory tariffs are levied. These retaliatory measures, coupled with the expected strength of the US dollar, will have a negative impact on US F&A exports. The extent of the impact depends on the breadth and the ultimate tariff levels applied in the US, which will determine the severity of the retaliation.

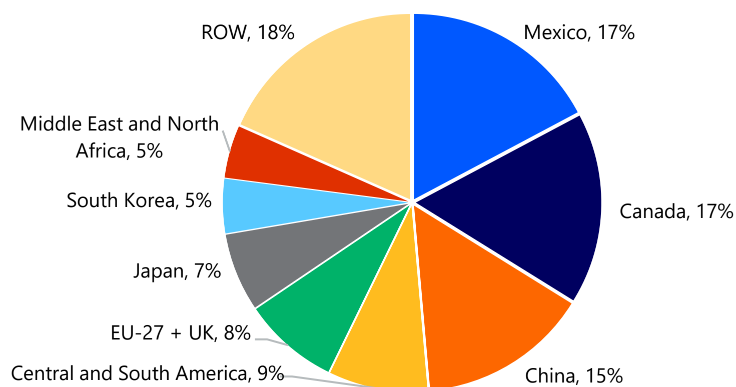
The wildcards

Whether or not the US president has unilateral authority to impose a "universal" tariff is being questioned by many, with legal opinions currently mixed. If Trump were to apply the tariff, it is highly likely to be legally challenged in short order. Targeted tariffs may prove to be a more prudent course of action for the new administration. The most likely scenario involves additional US tariffs on China, resulting in an increase in retaliatory tariffs by China on US F&A products. Another critical wildcard is the upcoming renewal of the US-Mexico-Canada Free Trade Agreement (FTA), the USMCA, in July 2026.

The nuance

Trade wars negatively impact trade flow, but many agricultural goods are necessities. Countries that rely on essential F&A imports will buy them as needed from the countries offering the most favorable prices (including tariff impacts). For example, tighter soybean supplies from Brazil (typically weather related) in any given year could result in an increase in US soybean exports, even with increased tariffs. The US is the largest exporter of F&A products globally, with direct exports to over 190 countries. While Brazil, in recent years, has become the top exporter of agricultural commodities, the US remains the largest exporter when all value-added F&A items are included. However, simply examining the breadth of US F&A exports is misleading, as nearly 50% of the value is concentrated in three countries (Canada, Mexico, and China), and 60% of F&A export value can be accounted for by including Japan and South Korea (see figure 2).

Figure 2: Percentage shares of US F&A export value for the 12 months ending September 2024



Source: USDA FAS, RaboResearch 2024

The US has FTAs with Canada, Mexico, Japan, and South Korea (among other countries). While it is entirely feasible that these FTAs could be renegotiated, it is less likely that the US will impose severe, blanket import tariffs on these countries. However, the likelihood of a 100% tariff on

Chinese electric vehicles imported from Mexico seems relatively likely. This could complicate relations with the US' most active F&A trading partner in terms of both F&A imports and exports and will have ramifications for the USMCA renewal process. The outcome is hard to predict but would likely result in initial retaliatory tariffs from Mexico, followed by some creative, additional trade concessions given to Mexico. As details unfold in the coming months, we will be better positioned to analyze the impacts. The European Union and the United Kingdom (EU-27+UK) account for roughly 8% of US F&A exports. We do anticipate additional tariffs on specific US imports from the EU, followed by additional retaliatory tariffs on US F&A products.

The takeaway

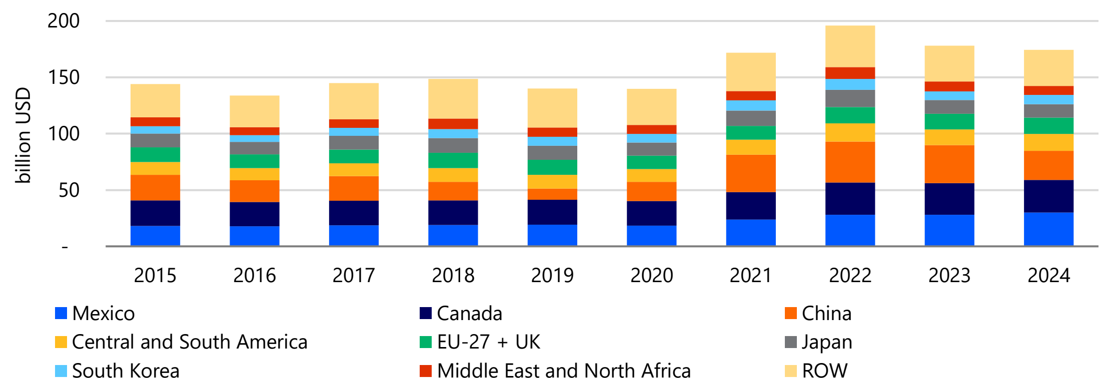
The US is so deeply embedded in the global F&A trade landscape that there are a vast number of potential retaliatory tariff permutations. The differential result will be downward pressure on US F&A exports, however that will not necessarily lead to absolute lower F&A exports nor lower prices, as other market forces are at play. Particular attention must be paid to changes in the US trade relationships with Canada, Mexico, Japan, South Korea, and China. As further details emerge in the coming months, we will be better positioned to estimate outcomes. We are most confident in the likelihood of further "trade war" escalation between the US and China, while also acknowledging the possibility that the Trump administration will choose to negotiate first, instead of immediately imposing tariffs.

Risks from US-China trade war escalation

The headline

China currently accounts for 15% of US F&A export value, making it the third largest US F&A export market after Mexico and Canada. In 2021 through 2023 (12 months ending September), China was the largest value export market for US F&A, accounting for 19%, 18%, and 19%, respectively (see figure 3). Over the past 24 months, Chinese F&A purchases from the US have fallen by 27% from their record 2022 levels, with a 22% YOY decline in the last 12 months. The falloff can be partially attributed to weaker prices in some US commodities, most notably soybeans and corn. However, these lower prices have not stimulated an increase in the volume of Chinese purchases. Further downside risk is imminent, as higher US tariffs will undoubtedly illicit a retaliatory response on US F&A products.

Figure 3: US F&A export value by destination for the 12 months ending September, 2015-2024



Source: USDA FAS, RaboResearch 2024

The nuance

Perhaps more of a "sledgehammer" than a "nuance" is the fact that total US F&A exports are particularly dependent on soybean shipments, and US soybean shipments are particularly dependent on China. Over the past five years, soybeans have accounted for an average 14% of

the value of US F&A exports (the next closest is corn at 7.5%), and China has accounted for over 51% of those soybean exports. Brazil, the largest soybean exporter in the world, has become China's preferred provider.

While risk to US-China soybean trade is perhaps the biggest piece of the trade puzzle, all US F&A trade categories have some exposure to China and could be negatively impacted by trade war escalation. We have identified products for which 10% or more of their export value has been to China over the past 60 months, ending September 2024 (see table 1).

Table 1: US products with the highest five-year average percent of export value to China

Product	*Five-year average of export value to China*
Coarse grains (excluding corn)	83.3%
Soybeans	51.2%
Hides and skins	48.8%
Hay	34.4%
Cotton	28.5%
Pork and pork products	19.9%
Forest products	18.6%
Seafood products	18.0%
Corn	16.6%
Tobacco	15.3%
Poultry meat and products (excluding eggs)	14.4%
Beef and beef products	13.0%
Tree nuts	10.0%

Source: USDA FAS, RaboResearch 2024

While export exposure to China is an important facet of potential trade war risk, it is only one piece of the total market puzzle for each product. Domestic utilization, changes in total export demand, and supply-side factors should also be considered in future research. Although tariffs do have a negative impact on exports, the net result of all supply and demand forces combined can still result in stronger prices for individual products in any given time.

Additional nuance

Soybeans: Expected continued growth in US domestic soybean demand, driven by renewable fuels, helps to mitigate some risk to soybeans.

Cotton: The potential impact on US cotton will also be heavily driven by general, global macroeconomic conditions under the intensified "America First" policy regime. Clothing is a much more discretionary good than food, so any significant slowdown in real, global economic activity could actually make cotton more vulnerable than soybeans.

Corn: The US remains the world's "corn reserve." Any major pullback in global corn stocks will strengthen the market for US corn.

Wheat: Global wheat dynamics and US wheat markets are more heavily impacted by other factors, such as the size of the Russian wheat crop.

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Pork: China has become less reliant on US pork since 2021, due to rebuilding its own hog herd after being significantly impacted by African swine fever.

Beef and cattle: While an intensifying trade war will have a marginally negative impact on US beef and cattle, prices are much more driven by US cattle supplies and export demand from South Korea, Japan, and Mexico.

Poultry: Given the integrated nature of the poultry value chain and the relatively short life cycle of the animals, coordinated supply-side adjustments can be made relatively quickly to profitably meet changes in demand-side dynamics.

Dairy: Nearly 40% of US whey powder exports go to China. Nevertheless, Mexico is by far the largest importer of US dairy products and continues to show strong growth in dairy import demand.

Pricing pressure: Downward pricing pressure on some F&A products is positive for others. For example, lower grain prices result in lower feed costs for animal protein and dairy producers.

Potential impacts on farm inputs

US farm input supply chains will also be affected by any trade war escalation, but production cost impacts would likely be mixed. China is essential to the global agrochemical industry, with over 70% of global production having supply chain links to that country. China accounts for approximately 10% of global urea exports and 15% to 25% of global phosphate exports. Domestic US agrochemical production would be impacted, potash exports would be re-routed, and domestic nitrogen and phosphorous production and exports would be down. While agrochemical prices are likely to rise, the impact on US fertilizer prices could be neutral or even positive, as more domestic production would likely be made available in the US.

The wildcard

While deserved attention is often given to the negative effects of the US-China trade war that began in 2018, three important points should be noted: 1) The Chinese retaliatory tariffs on US agricultural imports are still largely in place today; 2) US agricultural exports to China actually hit new all-time highs after the trade war began and retaliatory tariffs were put in place; and 3) The original punitive tariffs placed on US soybeans (and pork) in 2018 have been relaxed by the Chinese government since the start of the Phase 1 trade deal negotiations in late 2019. If higher US tariffs are imposed on China, the reinstatement of those original retaliatory tariffs is likely to be immediate.

The takeaway

While the specifics of how US-China trade relations will evolve as a result of the US election are still uncertain, there is a significantly high likelihood that increased Chinese tariffs on US F&A products could quickly follow. The differential impact on US F&A would be negative, but additional supply and demand forces –unique to each product– will ultimately play a significant role in the absolute strength or weakness of a particular product market. US F&A exposure to China is broad, and nearly all products could be impacted, but US grains and oilseeds –especially soybeans– are particularly exposed.

Impacts on global F&A trade: International perspectives

Headline

Brazilian F&A could see a net positive outcome, although the extent and beneficiaries of this impact are uncertain. Negative impacts on European, African, and Southeast Asian F&A should be limited and manageable but will depend on the level of trade disruption and the adaptability and strategic flexibility of specific value chains. Chinese domestic F&A value chains have already begun to enhance their resilience to increased trade tensions. Oceanian F&A will face a mix of both positive and negative forces, with the net result depending on economic impacts within Asian markets and the level of geopolitical ramifications for Australia and New Zealand.

Europe: Potential for limited impacts, strategic rethink may be required

While it remains to be seen if any of the suggested import tariffs will be put in place, the outcome of the elections has sent a signal to European F&A companies. European F&A exports to the US were valued at USD 41.6bn in 2023. Much of these exports are value-added products such as olive oil, frozen bakery items, beer, and wine. The US market is attractive due to its size and ability to pay premium prices. The tariffs could affect prices and volumes differently, with minimal impact on some products, but noticeable increases for others. European exporters might absorb costs, reduce their focus on the US market, or localize production in the US. Despite challenges, many believe they can manage the impact.

Assuming a 10% tariff on the price paid to producers, the impact will vary by product. For instance, a bottle of branded beer sold by a producer for EUR 0.50 and retailed in US bars for USD 5 would see a minimal producer price increase to EUR 0.55. The impact on the final retail price is minimal and unlikely to significantly affect consumer prices or sales volumes, as the additional costs can be absorbed within the value chain.

Conversely, retail products like frozen croissants, sold by producers for EUR 0.50 and retailed for USD 1.00, would experience a more substantial price increase. The smaller mark-ups and additional costs in the US retail sector mean that a 10-cent increase could lead to noticeable price hikes for consumers, provided producers choose to pass on the higher cost, potentially affecting sales volumes.

European food exporters have three primary strategies to mitigate the impact of the proposed tariffs:

1. **Absorb the costs:** Companies can maintain their current strategy, absorbing the additional costs or passing them on to consumers. This approach requires vigilance regarding changes in the competitive environment.
2. **Lower ambitions and exit the US:** For lower value-added, commodity-type products, companies might consider reducing their focus on the US market. However, this decision could impact production and asset utilization, necessitating a careful evaluation of alternative markets and the potential effects on pricing in those markets.
3. **Go west!** Establishing production facilities in the US could be a viable option to circumvent tariffs. This strategy aligns with the intended purpose of the tariffs and could involve greenfield investments (building new facilities from scratch) or brownfield developments (repurposing existing facilities), as well as mergers and acquisitions. Companies might benefit from a grace period to build factories in the US, avoiding immediate sanctions.

A combination of these strategies may also be appropriate, depending on the specific circumstances of each business.

Certain products, such as olive oil, are likely to see price increases for US consumers due to Europe's dominant position in production and the time required to increase US production. The limited domestic production capacity in the US means that tariffs could lead to higher consumer prices in the short term.

There is a scenario where the US may impose 20% tariffs (as threatened by Trump) or introduce additional non-tariff barriers such as stringent regulatory requirements or quotas. This could drastically alter the landscape for European exporters, making it much more challenging to absorb costs or pass them on to consumers. While we see this as a less likely scenario, it is something to watch.

In such a scenario, European companies might face severe disruptions, leading to a substantial reduction in exports to the US. This could force many companies to either exit the US market entirely or accelerate their plans to establish US production facilities. Additionally, higher tariffs could prompt retaliatory measures from the EU, escalating into a broader trade conflict that impacts a wider range of industries and products.

Table 2: Top 10 imports from EU-27+UK into the US in 2023

Product	*Value (billion USD)*	*Notes*
Wine and related products	5.4	High-value product; potential for price increases but manageable impact.
Distilled spirits	4.9	Premium pricing may absorb additional costs. Costs are relatively small when all other costs and taxes are considered.
Essential oils	3.9	Niche market; potential for price increases.
Forest products	2.8	Diverse applications; impact may vary by product.
Dairy products	2.8	High demand; potential for price increases but manageable impact.
Baked goods, cereals, and pasta	2.3	Retail products like frozen croissants may potentially see noticeable price hikes over time.
Processed fruit and vegetables	2.2	Impact varies; some products may see price increases.
Vegetable oils	2.0	Essential product; potential for price increases.
Biodiesel and blends > B30	1.8	Price-sensitive; potential for significant impact.
Seafood products	1.4	High-value product; potential for price increases but manageable impact.

Source: USDA, RaboResearch 2024

Africa: Changes in specific African commodity segments

The primary F&A-related export categories of African countries to the US include cocoa, fruits, and nuts. According to the USDA, these exports totaled USD 4.1bn in 2023.

- **Cocoa:** Cocoa exports are unlikely to be impacted by additional tariffs due to the lack of alternatives. However, currently most of the processing of beans takes place outside the US, and semi-finished product is brought in. A 10% tariff may not immediately sway processors to change processing locations, but marginal investments might shift to the US in the next few years. African growers might be more impacted, especially in those areas where competitive product from the US is available.

- **Fruits and nuts:** Morocco's exports of fruits and nuts to the US are significant, amounting to USD 200m, but still only account for 1% of their total exports.
- **Fertilizers:** Fertilizer exports, predominantly from North Africa and Nigeria, can be affected as they are very price sensitive. However, the US market represents less than 1% of the total fertilizer exports from North Africa.

Table 3: Top 10 imports from Africa into the US in 2023

Category	*Value (million USD)*	*Notes*
Cocoa beans	521.8	Unlikely to be impacted by tariffs due to lack of alternatives.
Cocoa paste and cocoa butter	464.5	Processing mostly outside the US; potential future investment in US processing.
Processed fruit and vegetables	395.2	
Seafood products	363.1	
Coffee, unroasted	352.9	
Vegetable oils	261.6	
Fresh fruit - other	246.2	
Spices	227.4	
Forest products	125.9	
Tree nuts	122.1	
Total	4,080.8	
Fertilizer exports		Price-sensitive; US market is less than 1% of total exports from North Africa.
Morocco's fruits and nuts	200.0	Significant exports to the US, but only 1% of Morocco's total exports.

Source: USDA, RaboResearch 2024

Brazil: Mixed potential impacts

US-China trade tensions could benefit Brazilian agriculture by increasing exports of soybeans and corn to China, though higher internal freight costs may offset some gains. Brazilian ethanol exports to the US, currently tariff-free, might face new restrictions under an "America First" policy. For animal protein, Brazil could see more opportunities to export beef and pork to China, but US import restrictions could pose risks. Maintaining access to both US and Chinese markets is crucial for Brazilian beef exporters, given their significant market shares. Overall, these tensions present both opportunities and challenges for Brazilian agriculture, impacting export volumes, prices, and market access.

If China imposes restrictions on US soybean imports, Brazil could seize the opportunity to maximize its shipments to China. Additionally, if China pressures its allies to restrict US imports, Brazilian soybeans would become even more desirable, benefiting Brazilian exports. However, the impact to prices is complex. In 2018, Chinese tariffs on US soybeans led to a drop in the global reference price (CBOT), but increased demand from China for Brazilian soybeans resulted in higher premiums for Brazilian soybeans over the CBOT price. A similar pattern could emerge if new US tariffs on Chinese goods provoke retaliation. For Brazilian corn, heightened US-China trade tensions could open more export opportunities to China and its allies.

Given Brazil's smaller corn surplus compared to soybeans, increased export demand could tighten domestic supply and raise local prices. Increased exports of Brazilian soybeans and corn could push local logistics closer to full capacity, raising internal freight costs. Thus, while CBOT/world FOB prices might decline, the increased premium for Brazilian products and higher internal freight costs could offset these declines, affecting farmgate prices.

Currently, Brazil exports ethanol to the US tariff-free, with most of it blended with gasoline for motor fuel some used in the US' first Sustainable Aviation Fuel (SAF) facility. Brazilian ethanol producers hope that expanding SAF demand in the US will boost shipments of Brazilian ethanol, which has a lower carbon intensity than US ethanol. However, an "America First" trade policy could introduce tariffs or other restrictions on Brazilian ethanol or implement rules to enhance the competitiveness of US ethanol, reducing Brazilian ethanol's market opportunities in the US.

As with soybeans, increased US-China trade tensions could create opportunities for Brazil to export more beef and pork to China, though likely in smaller volumes than we saw between 2018 and 2021. The US currently accounts for just 6% of Chinese meat imports. For pork, even with China's anti-dumping investigation in the EU market and potential tariffs on EU pork, the US would struggle to increase shipments to China due to the 25% tariff imposed in 2018. Brazil and Argentina could capitalize on this by increasing their exports to China, especially for offal.

The considerable decline in the US beef and dairy cow slaughter has led to significant increases in US lean beef imports, turning the US into a net importer. Consequently, US imports of Brazilian beef have increased, making the US the second-largest destination for Brazilian beef. This dependency creates a vulnerability for Brazilian beef if specific trade restrictions are imposed by the US. Currently, China and the US are Brazil's top two beef export markets, accounting for 46% and 7% of total exports, respectively. Maintaining access to both markets is crucial for Brazil, as aligning with one side could risk losing access to the other market, significantly reducing Brazil's overall beef sales.

Increased Brazilian exports could push local logistics closer to full capacity, raising internal freight costs and adding potential bottlenecks at ports. Consequently, the overall impact on local prices is unclear. While CBOT and world FOB prices might decline, this could be offset by higher premiums for Brazilian soybeans and corn. However, increased freight costs would mean that less of the FOB price is transmitted to farmgate prices.

Asia: Diverse economic impacts

The US imports several key commodities from Southeast Asia, including palm oil, lauric oils, coffee, natural rubber, jasmine rice, and white rice. A proposed 20% tariff will increase the landed costs of these commodities in the US. Despite higher costs, export volumes from Southeast Asia to the US are expected to remain stable due to the lack of domestic production and limited alternatives. While soy oil can substitute for palm oil in cooking, replacing palm oil in food products is more challenging. Used cooking oil exports from Southeast Asia to the US may decline as the tariff makes them less competitive compared to domestic soy oil, potentially increasing soy oil use for hydrotreated vegetable oil production.

The outlook for US-China trade relations is uncertain, hinging on the potential evolution of a "Trump trade war 2.0." If additional tariffs are imposed on Chinese goods, China is likely to retaliate, targeting grains and oilseeds, particularly soybeans. The impact on China's soybean market may be less severe than in previous trade wars due to higher state reserves, increased South American supply, and adaptive feed mills. Chinese traders may front-load US soybean imports before potential tariffs, shifting to Brazilian soybeans if a trade war reignites. Brazil's share of China's soybean imports could rise, with the increasing demand raising import costs and soymeal prices, affecting Chinese livestock farming margins. China may also increase imports of

Argentine soybeans and soymeal, driving up international soymeal prices. Despite potential tariffs, truce talks and goodwill purchases of US soybeans by China are expected.

The impact on China's feed grains will be smaller, with alternatives available from other exporting countries and large state reserves. The impact on food grains (wheat and paddy rice) is negligible, as the US is not a significant trading partner, and China emphasizes food security and self-sufficiency in these commodities.

The movement of soy oil prices will be influenced by potential changes in US biofuel policy and potentially weaker crude oil prices due to support for fossil fuels, adding complexity to the overall market dynamics.

Australia and New Zealand: Balancing positive and negative impacts

Australian and New Zealand agriculture could face several impacts under a second Trump presidency. A stronger US dollar and decreased US competitiveness in global markets would be positive for Australian and New Zealand grain, oilseed, dairy and beef exports, particularly in the Asian wheat and dairy markets and global beef trade. However, increased US import tariffs on countries with large trade surpluses with the US, such as Indonesia, Vietnam, South Korea, Japan, and China would create negative economic pressure on those exporters because they rely heavily on exporting to the US. This economic strain could lead to reduced spending power and lower Asian demand for Australian and New Zealand imports. In the less likely scenario of a weaker dollar – perhaps due to White House pressure on the Fed – the opposite effect would occur. A weaker dollar makes US goods more competitive globally, which could challenge Australian and New Zealand exports both to the US and other markets.

Geopolitical shifts might also pressure Australia and New Zealand to align more closely with the US, potentially jeopardizing exports to China. Therefore, the agribusiness sector in Australia and New Zealand should focus on profitability drivers, optimization, and diversification of products and markets to navigate these changes.

International takeaways

The anticipated strength of the US dollar creates opportunities for all US F&A export competitors. However, the prospect of a universal US tariff could negatively impact import demand into the US market.

Impacts on European and African exports to the US are most likely to be mild but could trigger fresh strategies for specific products, especially if tariffs become significantly elevated. The expected escalation in the US-China trade war should be beneficial for Brazilian exports to China, although logistical strains in Brazil make domestic price impacts less clear. Additionally, Brazil will have to carefully balance its trade relationships with both important markets.

F&A trade impacts on Southeast Asia are expected to be limited, as the US will have limited alternatives to replace its Southeast Asian imports. The impact on Chinese domestic F&A is expected to be lower than in previous years due to higher state reserves, greater internal capabilities, and an increased reliance on Brazil.

Impacts on Oceania will be mixed, as export demand from Asian markets could be negatively impacted, but a stronger US dollar makes Oceania more price competitive. Geopolitical alignment with the US could also have negative ramifications for Australia and New Zealand's trade relationships with China.

Other major themes for consideration

Tariff impacts on consumers and global trade appear most inevitable and are certainly the most tangible given the current information. The execution of a grand strategy is complicated, and it is challenging to untangle the many confounding policy-change impacts on F&A that are likely coming. As more information becomes available, we will be better positioned to dive deeper into specific areas that deserve their own, focused attention. Among these areas, we identify the following as especially impactful and equally difficult to determine whether their ultimate outcomes are a net positive or net negative for global F&A:

- **Scrutiny over "green" policies:** This could lower regulatory costs and ease some value-chain expectations, but it might also weaken tax incentives, other government support, and commitments to crop-based renewables.
- **Slowdown in "green adoption":** This could lower costs and production risks in the near term but might put US F&A product differentiation at a disadvantage in some markets and contribute to greater climate risk for F&A in the long term.
- **Support for fossil-based energy production:** If this results in lower energy prices, it is economically positive but could also result in less dependence on crop-based fuels.
- **Strengthening of Farm Bill risk management programs:** This is a possibility, but so are changes to the Supplemental Nutrition Assistance Program (SNAP), which could threaten Congress's ability to pass a new Farm Bill next year.
- **General regulatory burden:** This could be eased, but the appointment of RFK Jr. could bring greater scrutiny (and regulatory burden) to critical parts of the F&A value chain.
- **Changes in southern border and deportation policies:** These are viewed by many US residents as beneficial but could have unintended consequences for the F&A (among other industries) workforce.
- **Higher economic growth:** This is positive for demand (incomes) and investment but could put further stress on labor availability and labor costs in the F&A value chain.
- **US "peace through strength" policy and greater military spending:** It could bring greater global stability, which is positive for demand and supply chain integrity, but a more "non-intervention" stance could contribute to instability.
- **Changes to trade between Canada, Mexico, and the US:** Coupled with the upcoming USMCA renewal period in 2026, these changes could have significant ramifications for all three countries.
- **Mexican and Canadian F&A exports:** These benefit from a stronger US dollar, but close alignment with the US could have geopolitical ramifications for their export potential to China.
- **Global consumer impacts:** These may include higher inflation, but we have focused on the US consumer in this edition due to the direct nature of impacts.

Conclusion

The return of Trump to the White House, coupled with a Republican majority, marks a pivotal shift toward tax cuts, deregulation, high defense spending, and tariffs. These changes are likely to drive higher inflation, slower GDP growth, and increased budget deficits. While general deregulation efforts might curb inflation, the administration's goal of lowering energy costs through deregulation will be a challenge amid global supply and demand dynamics.

Consumers in the US will feel the inflationary pressure, leading to continued focus on comfort, affordable luxuries (including convenience), and increased demand for private label products. As food companies face margin pressures from rising costs and fluctuating consumer demand, many will seek relief through efficiency gains, potentially leading to an increased rate of consolidation strategies.

While lower regulatory costs are welcomed by the industry, key trade risks loom for US agriculture as China's demand for US soybeans and corn declines, alongside potential retaliatory tariffs. The proposed 10% to 20% tariffs on Southeast Asian imports may raise commodity costs but could also see stable import volumes due to China's adaptability. Furthermore, proposed 10% tariffs on European food exports to the US might raise prices, although strategic adjustments could mitigate the impact.

African food exports, notably cocoa, may remain unaffected, but sensitive fertilizer exports are more likely to face inflationary pressures. US-China trade tensions could boost Brazilian agricultural exports, yet higher freight costs and US ethanol restrictions may counteract some advantages. A second Trump presidency could make Australian and New Zealand agricultural products more competitive globally, thereby enhancing exports. However, US tariffs on imports from Asian partners could lead to economic difficulties for these countries, reducing their economic power and dampening demand for imports from Australia and New Zealand.

In summary, Trump’s return and the resulting policy shifts will create a complex landscape for global food and agricultural trade. The implications of these changes include potential disruptions to established trade relationships, shifts in export demand, and rising costs for consumers and businesses alike – highlighting the delicate balance that will shape inflation, consumer behavior, and international trade dynamics going forward.

Imprint

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