

Macro Insights

Brazil: What will foreign trade look like under the 2nd Trump administration?

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Highlights

Potential positive impacts should be smaller than in 2018...

- The 2018-2020 trade war benefited Brazil by boosting foreign trade, increasing exports and expanding its market share in places like China, as the country retaliated against US tariffs.
- However, in a potential second trade war, the room for new gains seems more limited. Regarding the main commodities exported by Brazil:
 - Approximately 70% of Chinese soybean imports already come from Brazil.
 - Only about 45% of Chinese corn imports come from Brazil, and 30% from the US, but strong production and elevated domestic stocks in China could lead to lower overall imports.
 - Regarding iron ore, Australia (60%) is the the major supplier, followed by Brazil (20%).
 - As for steel, Brazil supplies about 10% of the steel imported by the US . Canada and Europe (both with 20-25%) are the main suppliers. China has a low market share (<5%). However, the US accounts for about 50% of Brazil's steel exports, and this fact restricts further gains.
 - Crude oil is apparently more decoupled from a trade war, although the commodity is influenced by other geopolitical issues. Around 45% of Brazilian crude exports head to China, compared to 11% to the US.

Total Chinese market (2022)\ Chinese imports of commodities		
Product	Share in Chinese imports	USD bn
Crude oil	13.3%	287.0
Iron ore	4.8%	103.0
Natural gas	3.4%	72.7
Gold	3.1%	67.6
Soybeans	2.5%	54.0
Copper ore	2.3%	50.5
Maze	0.3%	6.8

Source: OEC, Itau

- Thus, in terms of commodities exported by Brazil, the US currently has a relatively small share in Chinese imports (excluding corn and soybeans). Therefore, possible retaliation measures should target other items, as in the recent [ban on exports of critical minerals to the US](#) (markets in which Brazil's participation is limited).

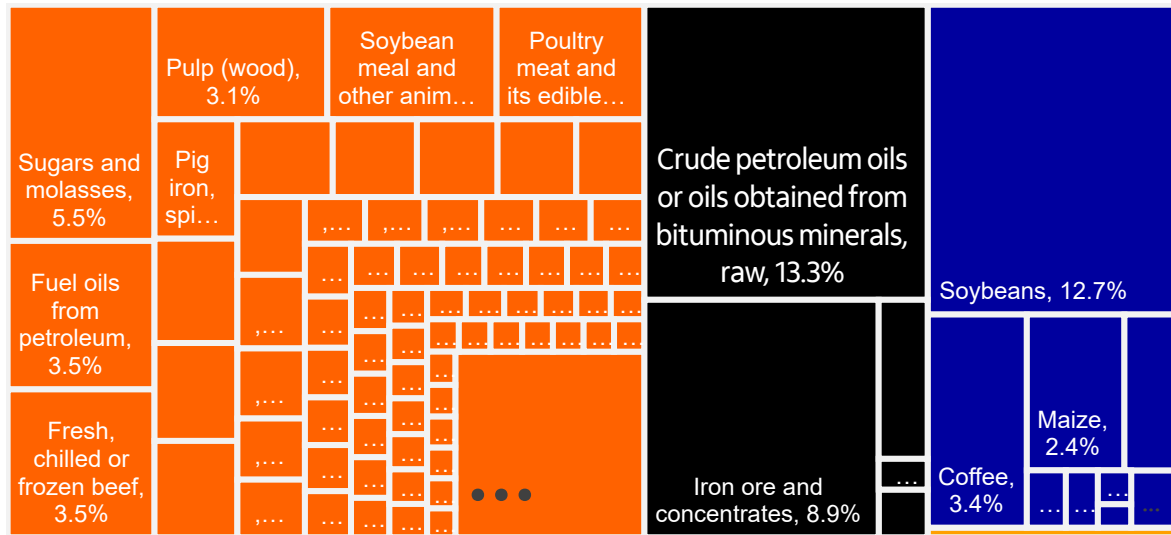
Highlights

...but the negative impacts could be greater this time

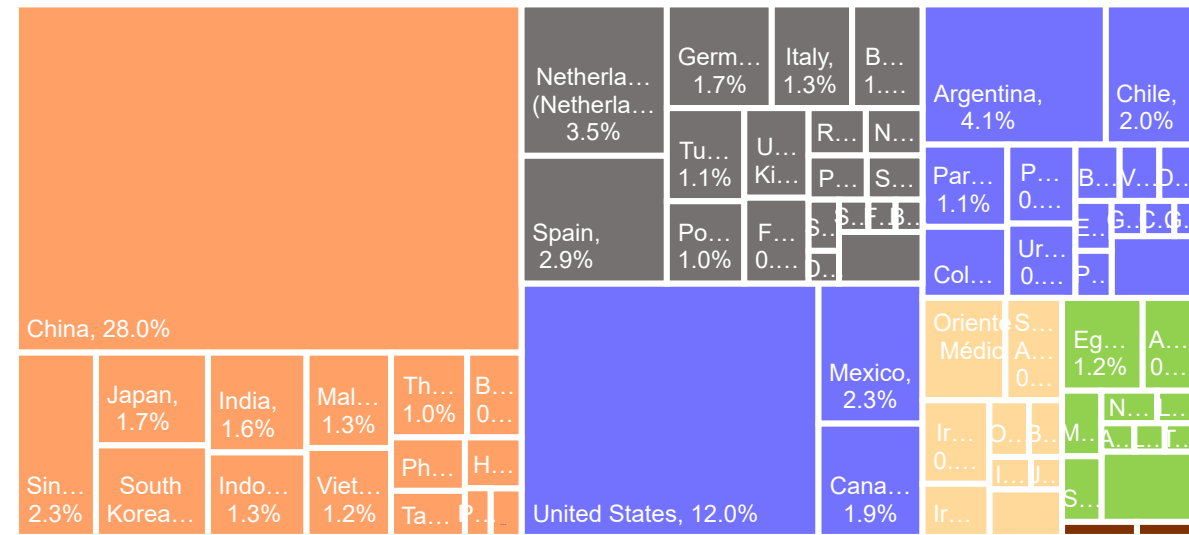
- According to recent statements by President Trump and his advisors, higher tariffs on Brazilian products are also a possibility. In 2019, Trump accused Brazil and other countries of “manipulating” the exchange rate so that a weaker currency would encourage exports. Back then, the exchange rate was at 4.00 reais per US dollar.
- Trump has mentioned a possible “universal” tariff of 10%. Moreover, Kevin Hassett, Director of the National Economic Council of the Trump administration, suggested that US foreign policy could adhere to the principle of “matching” tariffs between countries (Reciprocal Tariff Act). Brazil imposes an average tariff of 11.2% on products imported from the US, while the US applies an average tariff of 1.5% on Brazilian goods.
- Considering the composition of Brazilian exports to the US, industries such as steelmaking (steel was recently mentioned and was targeted by US tariffs in 2018, but after negotiations, these were converted into import quotas, and subsequently reduced in 2020), fuels and aviation could suffer greater impacts. Other items—including food (meat, coffee etc.)—could also be impacted, but probably at a later stage, given the potential impact on consumer inflation in the US and the fact that there are fewer substitution alternatives.
- China may aim to purchase more US agricultural products in hopes of securing an agreement to avert higher tariffs. If that is indeed the case, the positive impacts for Brazilian exports of commodities could be even lower.
- In all, the current context suggests a downwardly asymmetric balance of risks for Brazil, as upside risks seem smaller than in 2018 and the risk of new tariffs on Brazilian exports is on the rise.

Overview of Brazilian trade: Main products and destinations; trade with the US

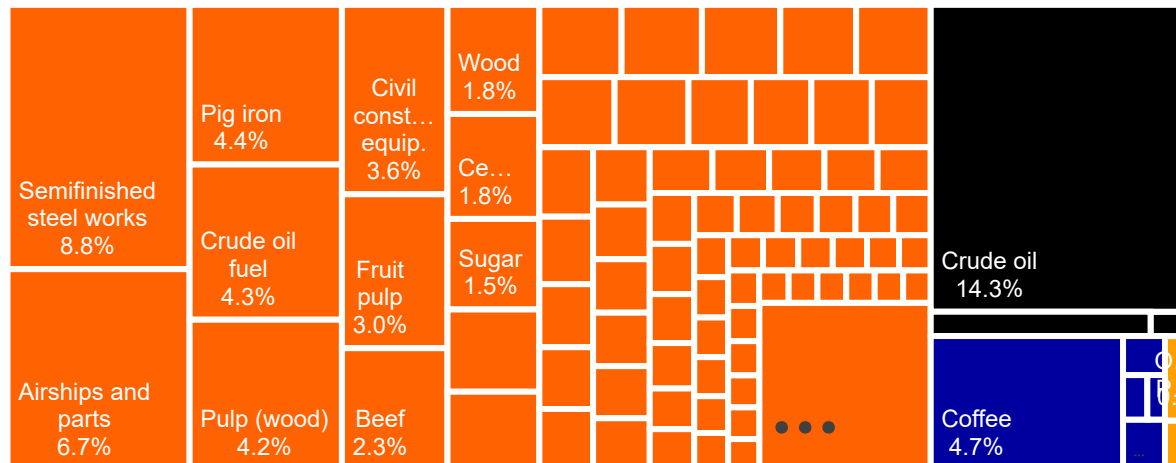
Main exports - overview



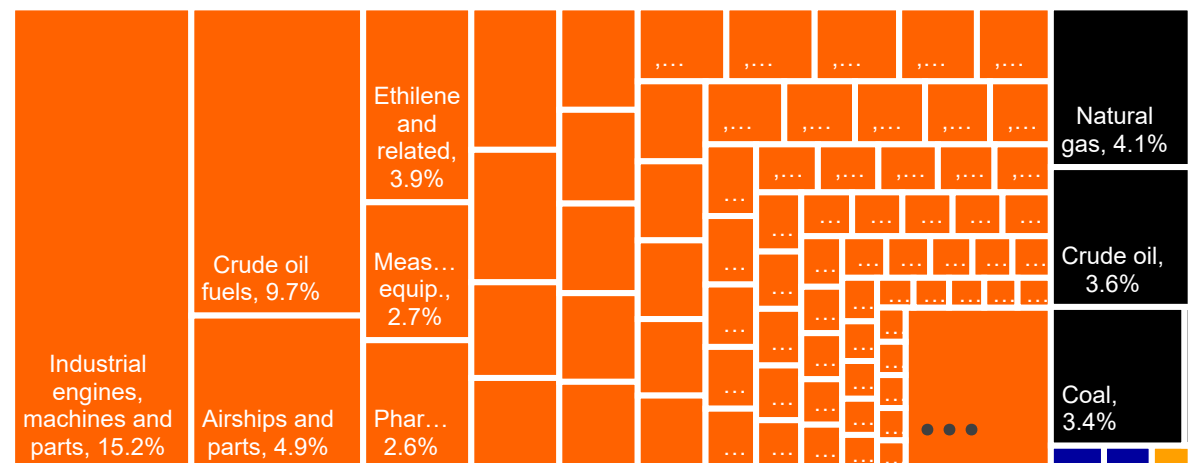
Main destinations of Brazilian exports



Products exported to the US



Products imported from the US



Manufactured goods

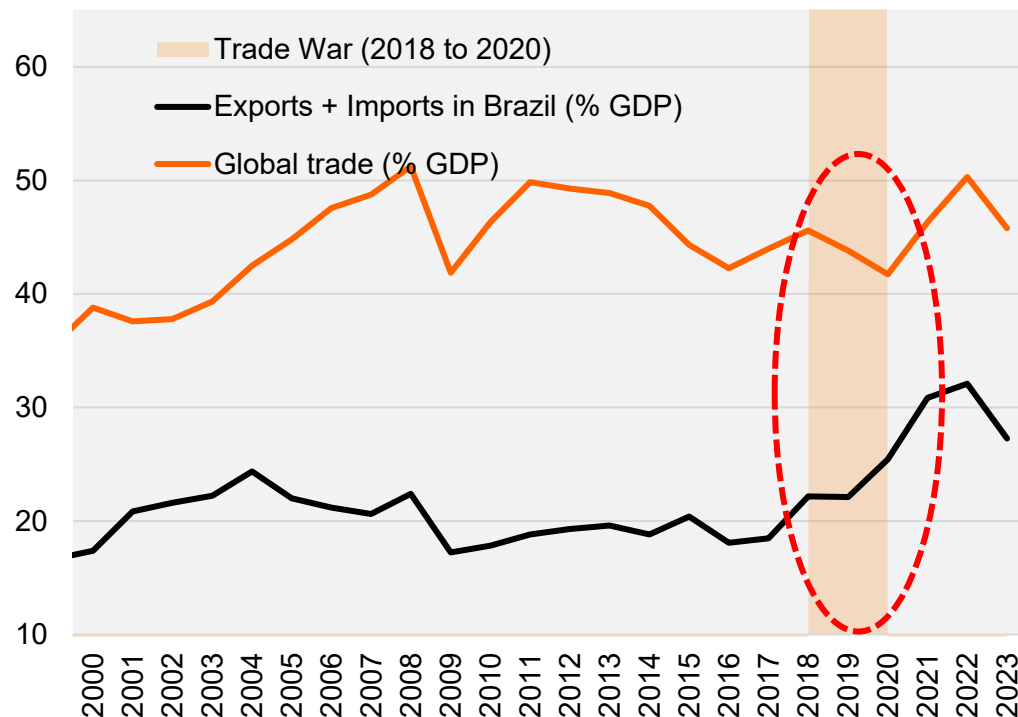
Extractive industry

Agriculture

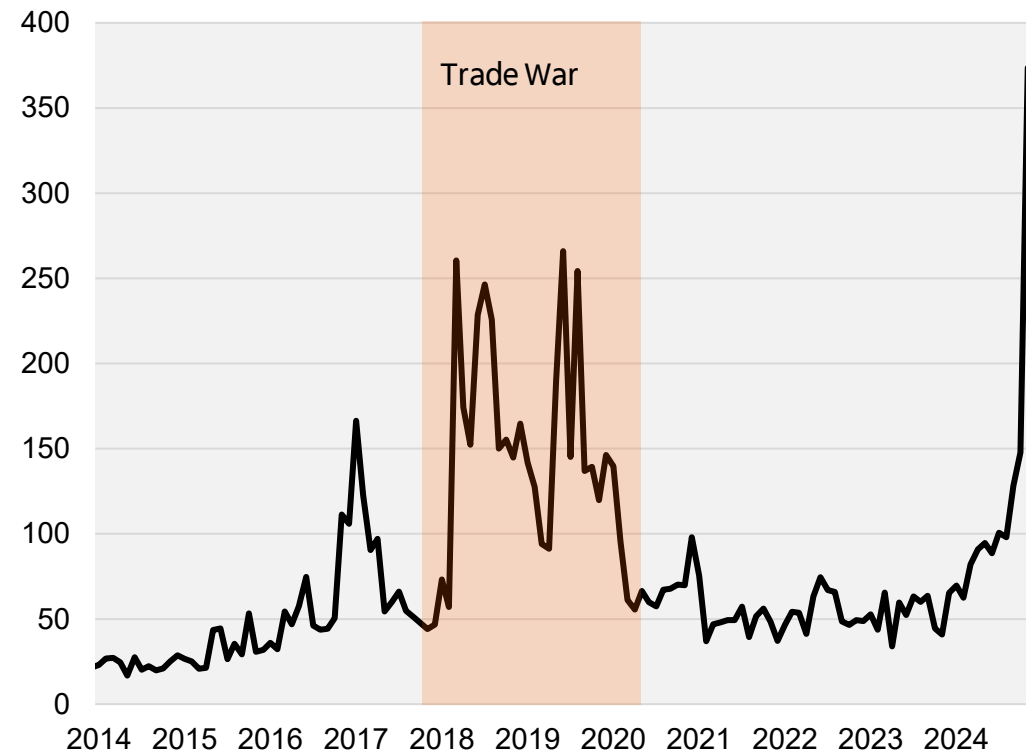
US elections and the impact on international trade

- Brazilian trade flows increased between 2018 and 2020, while flows in the rest of the world receded. Compared to countries like China, few tariffs were applied to Brazil (only quotas were imposed on steel, for example).
- Recent indicators of trade uncertainty and statements by President Trump and his team suggest that a “new trade war” could start this year.

Brazilian trade flows, % (exports+imports)/GDP



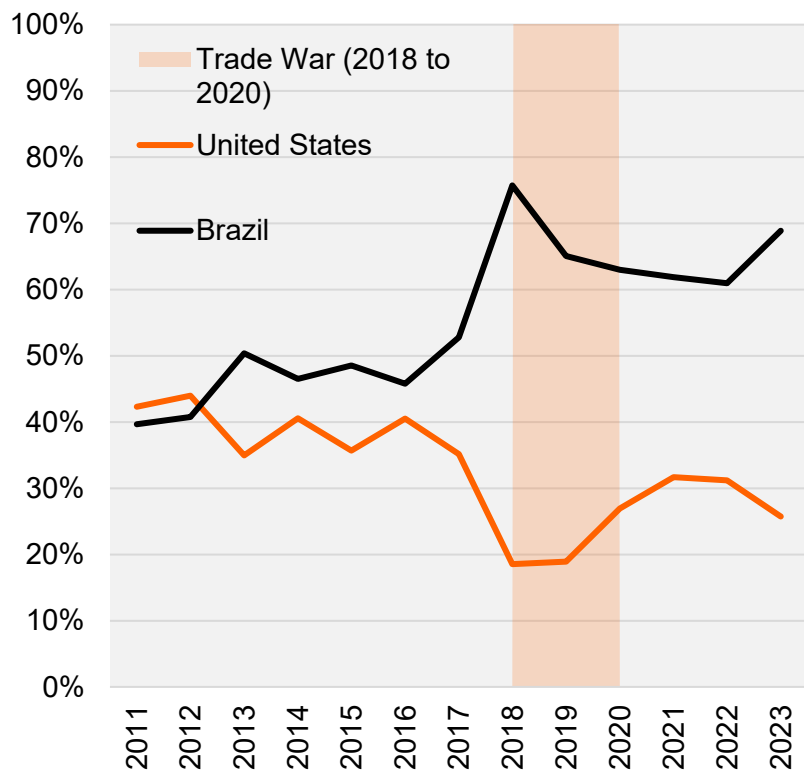
Trade Uncertainty Index



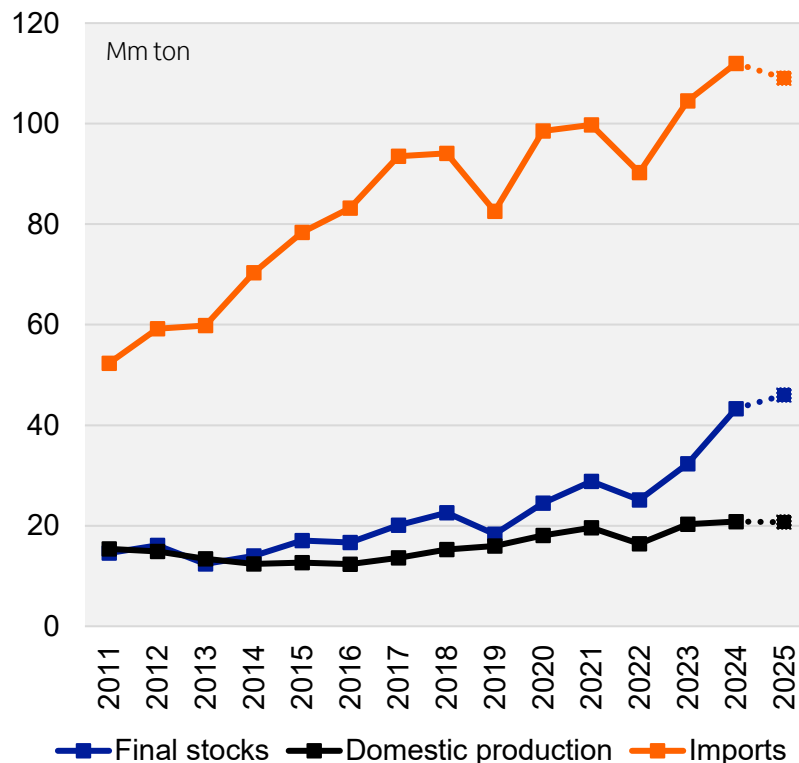
Soybeans: China is already the main destination of Brazilian exports

- A major substitution in soybean trade took place in 2018-20, with Brazil advancing and the US receding by nearly the same magnitude.
- There is room for market share gains, as the US share has rebounded in recent years. However, such advances are likely to be smaller this time because Brazil already supplies approximately 70% of soybeans purchased by China.
- On the other hand, a potential agreement under which China buys more agricultural products from the US to avert tariffs could cause some impact, but the US can only meet about half of Chinese demand at the moment, limiting the impact on Brazil.

Origin of soybeans imported by China



Soybean production, imports and stocks in China



Global soybean balance

2024/25 Proj.	Beginning Stocks	Production	Imports	Domestic Total	Exports	Ending Stocks
World	112	424	179	406	182	128
Major Exporters						
Brazil	28	169	0	59	106	33
United States	9	119	1	69	50	10
Argentina	24	52	6	49	5	29
Paraguay	0	11	0	4	7	0
Major Importers						
China	43	21	109	127	0	46
European Union	1	3	15	17	0	1
Southeast Asia	1	0	10	10	0	1
Mexico	0	0	7	7	0	0

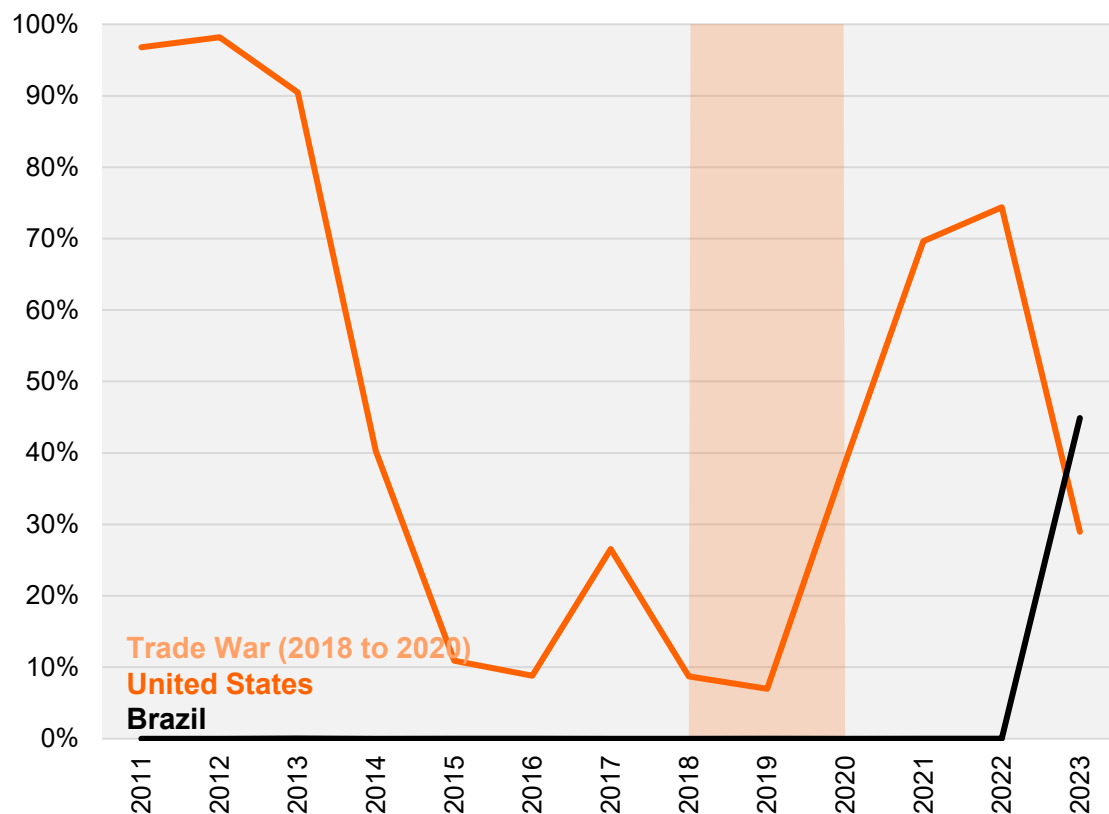
Destination of Brazilian soybean exports



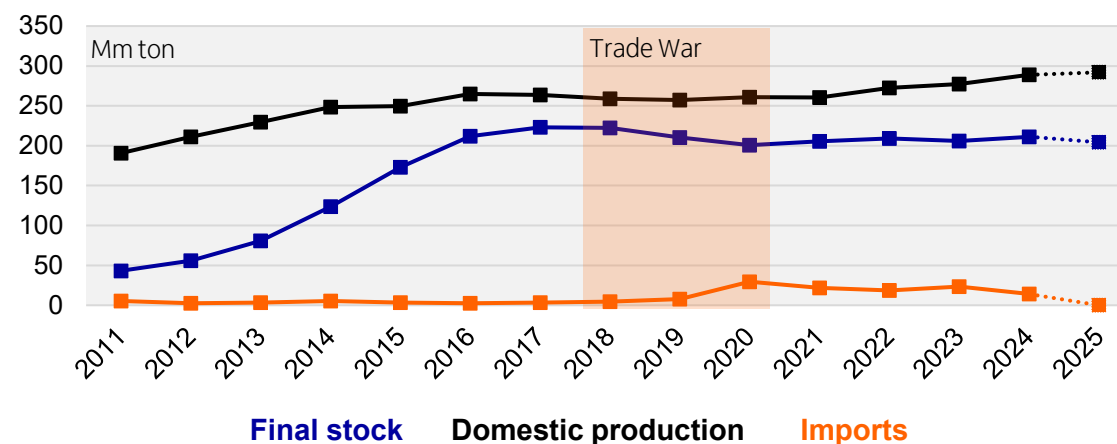
Corn: potential growth restricted by strong production and high inventories in China

- The trade war impact on corn was delayed by a few years: exports were approved in 2022 and Brazilian sales to China started later.
- From Brazil's standpoint, there is room for China to increase its share of exports; however, expectations of a strong crop and high domestic inventories indicate that the Chinese need for imports will remain close to zero.

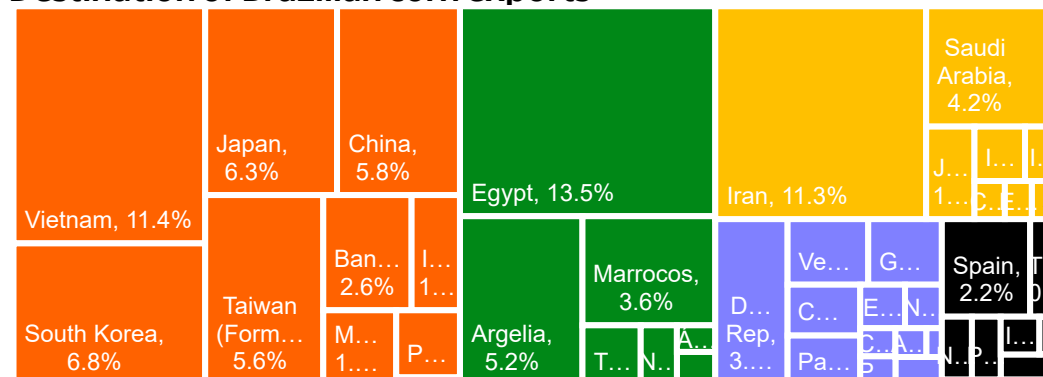
Origin of Chinese corn imports



Corn production, imports and stocks in China



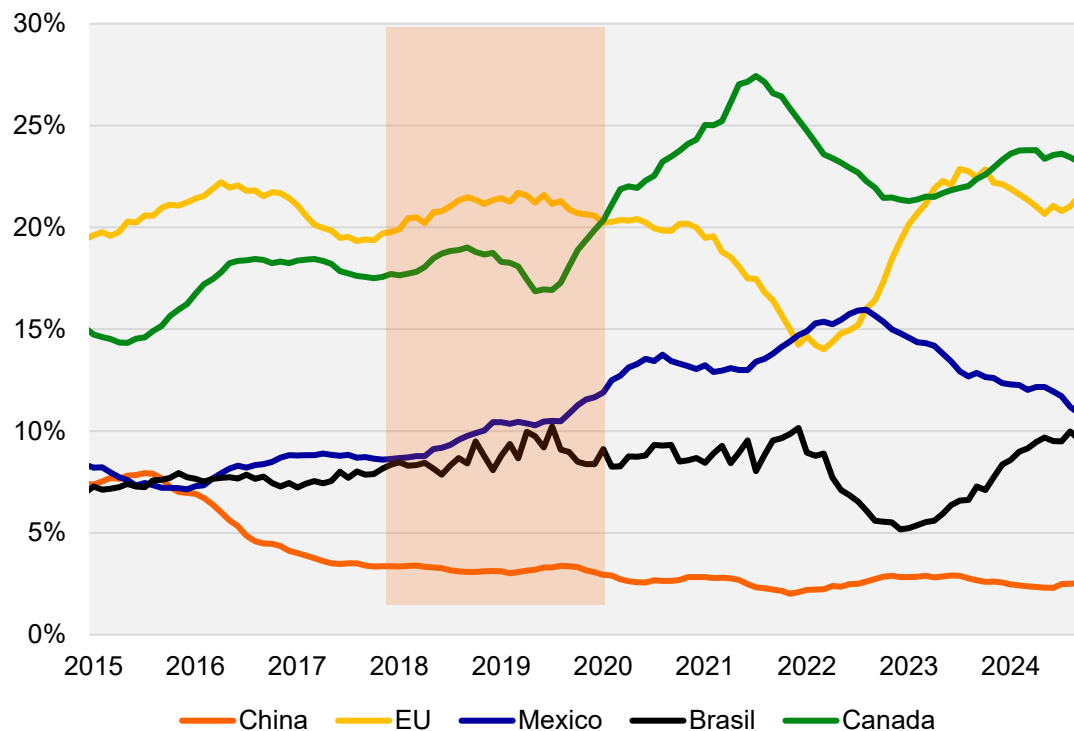
Destination of Brazilian corn exports



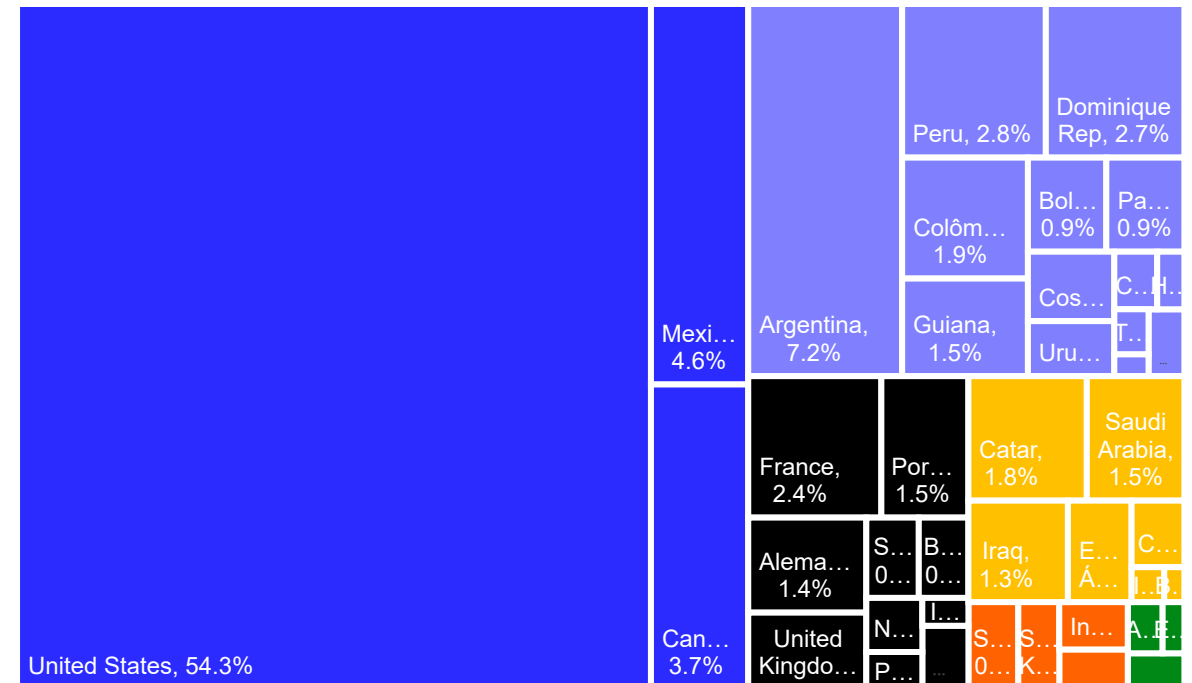
Steel: room for gains seems limited, given China's low share in US imports and the large share of the US in Brazilian exports

- Although China supplies a small share of steel imports by the US, tariffs have been imposed on Europe, Mexico and Canada (the latter two within the context of negotiations under USCMA, which replaced NAFTA).
- We see limited room for Brazilian steel to expand its market share, given that approximately 80% of Brazilian exports are already bound for the US.

Origin of US steel imports



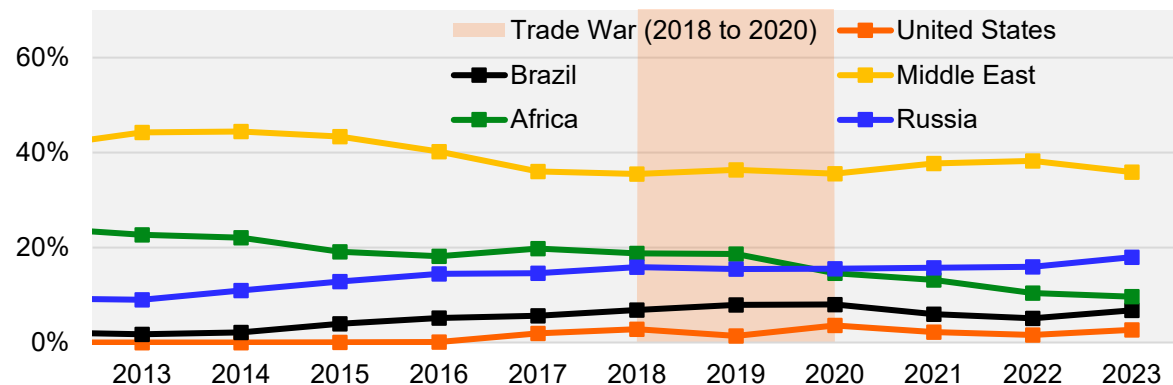
Destination of Brazilian steel exports



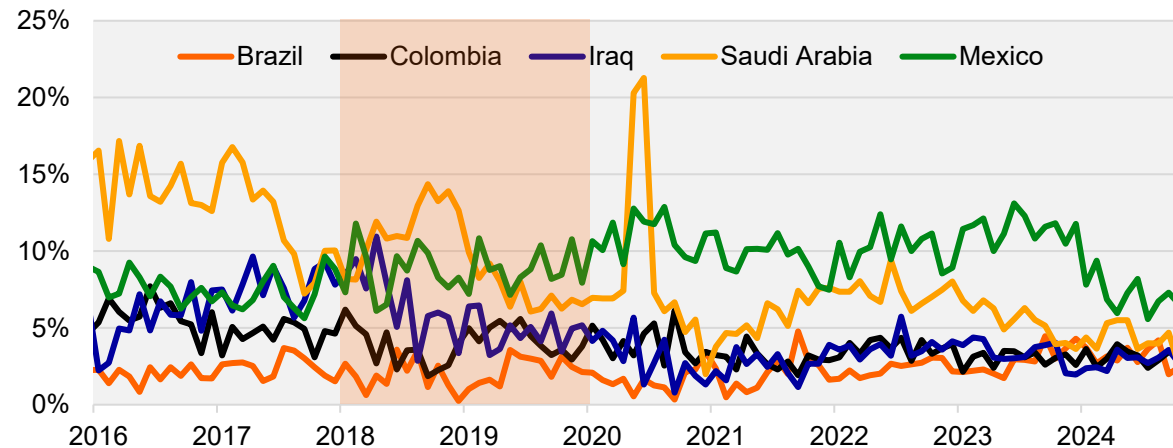
Crude oil: trade war seems to have had little impact on Brazilian exports

- China imports crude mainly from the Middle East (Saudi Arabia, Iran and Oman), Africa and Russia; Brazil's share is small.
- The volume imported by the US has already decreased in recent years, mainly due to strong growth in domestic production (particularly shale oil).

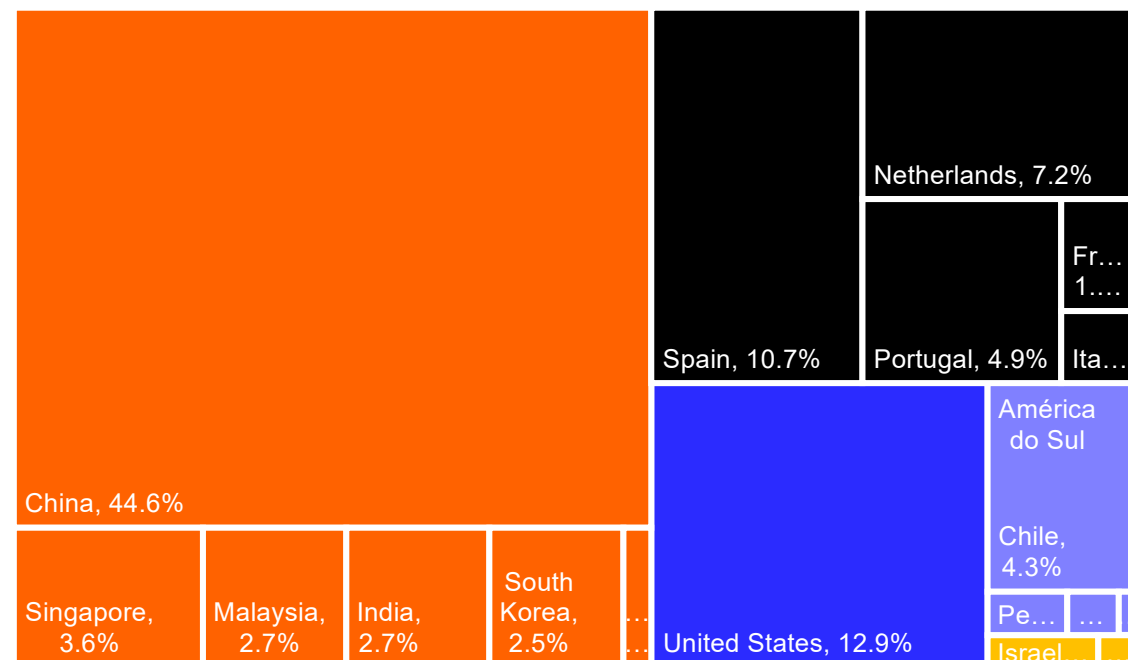
Main origin of Chinese oil imports



Main origin of US oil imports



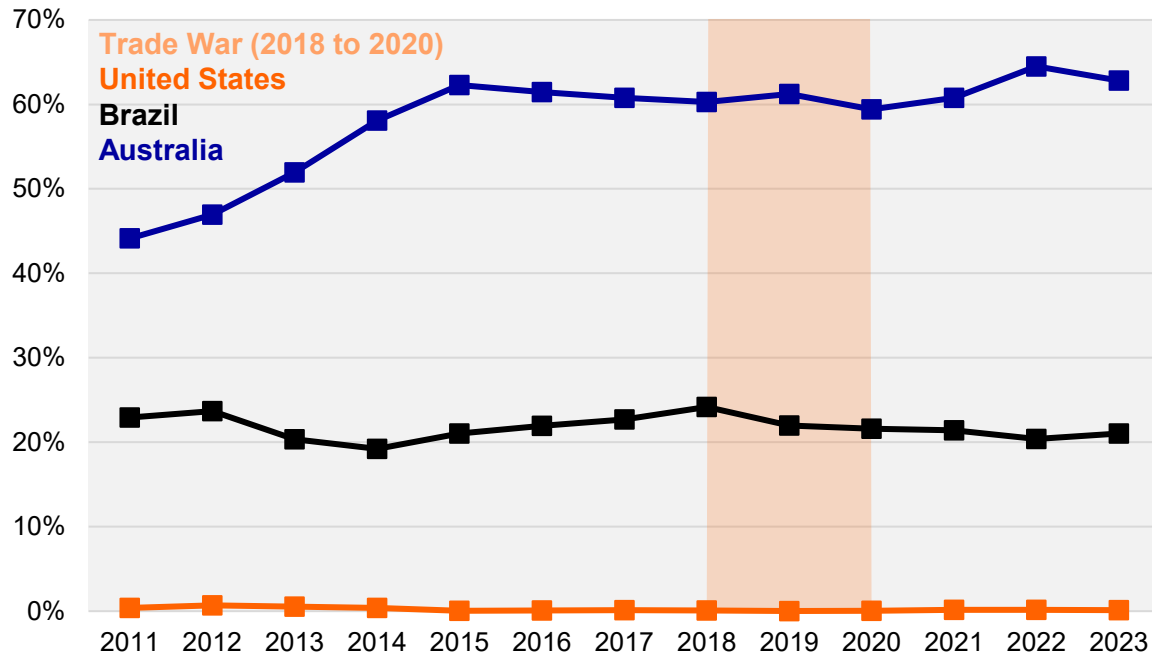
Destination of Brazilian oil exports



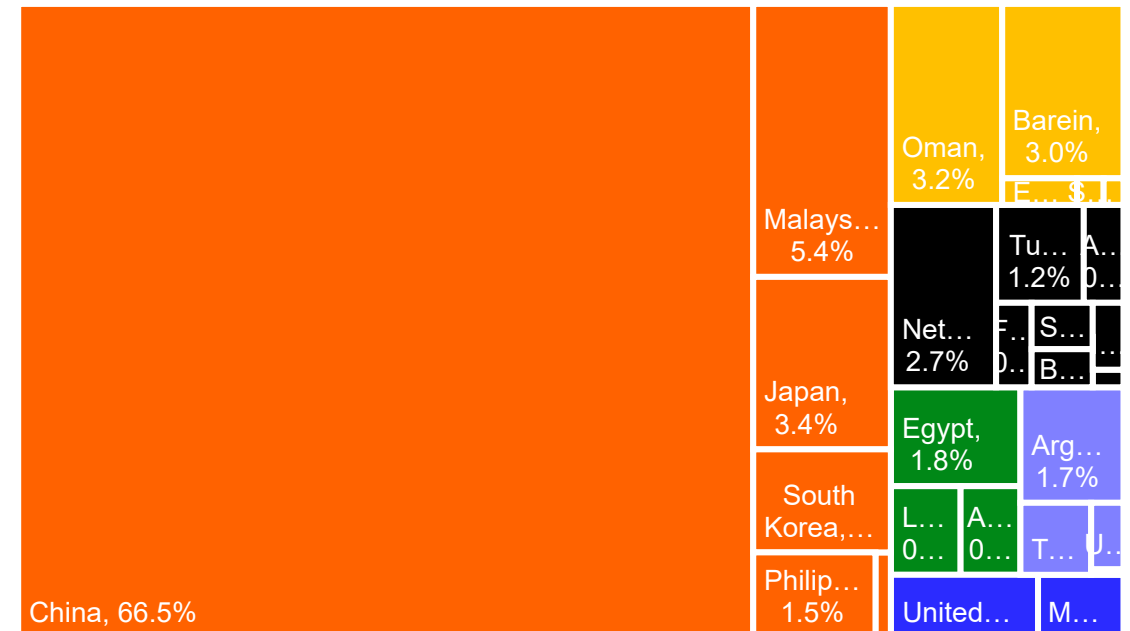
Iron ore: dynamics seems decoupled from US vs. China issue

- Australia and Brazil are the main suppliers of iron ore to China. There are no US exports to China, so there is no chance of retaliation based on this input.

Origin of Chinese iron ore imports



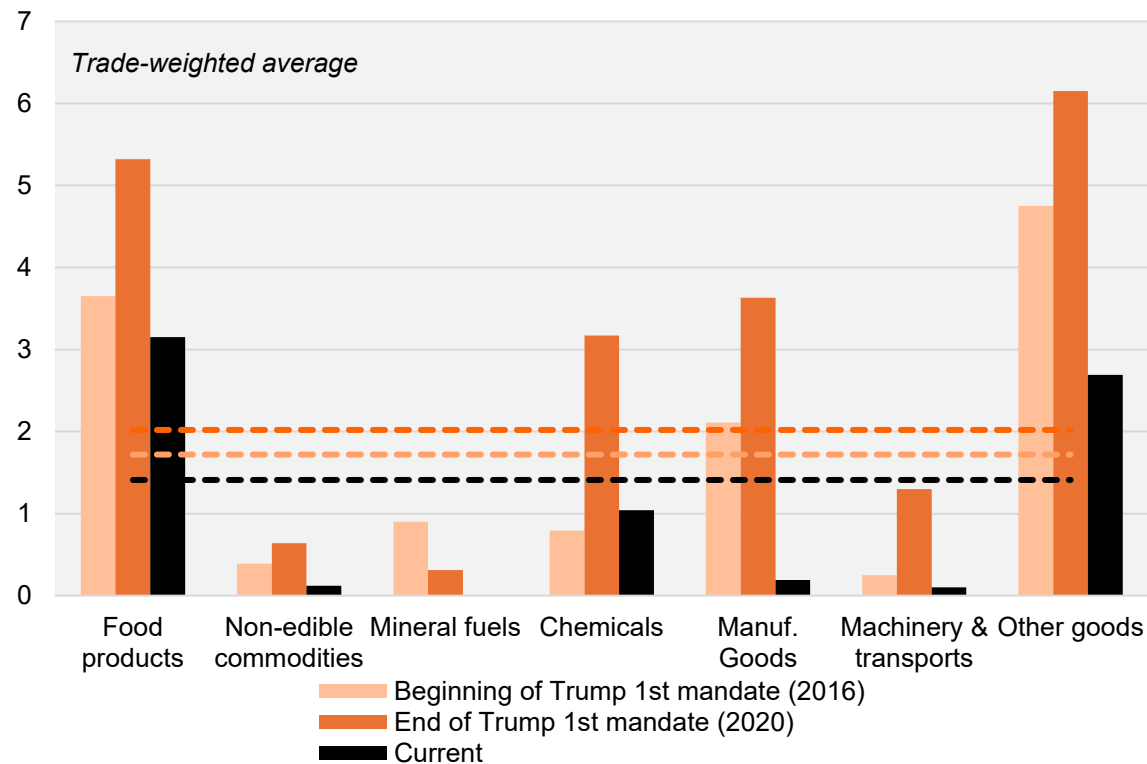
Destination of Brazilian iron ore exports



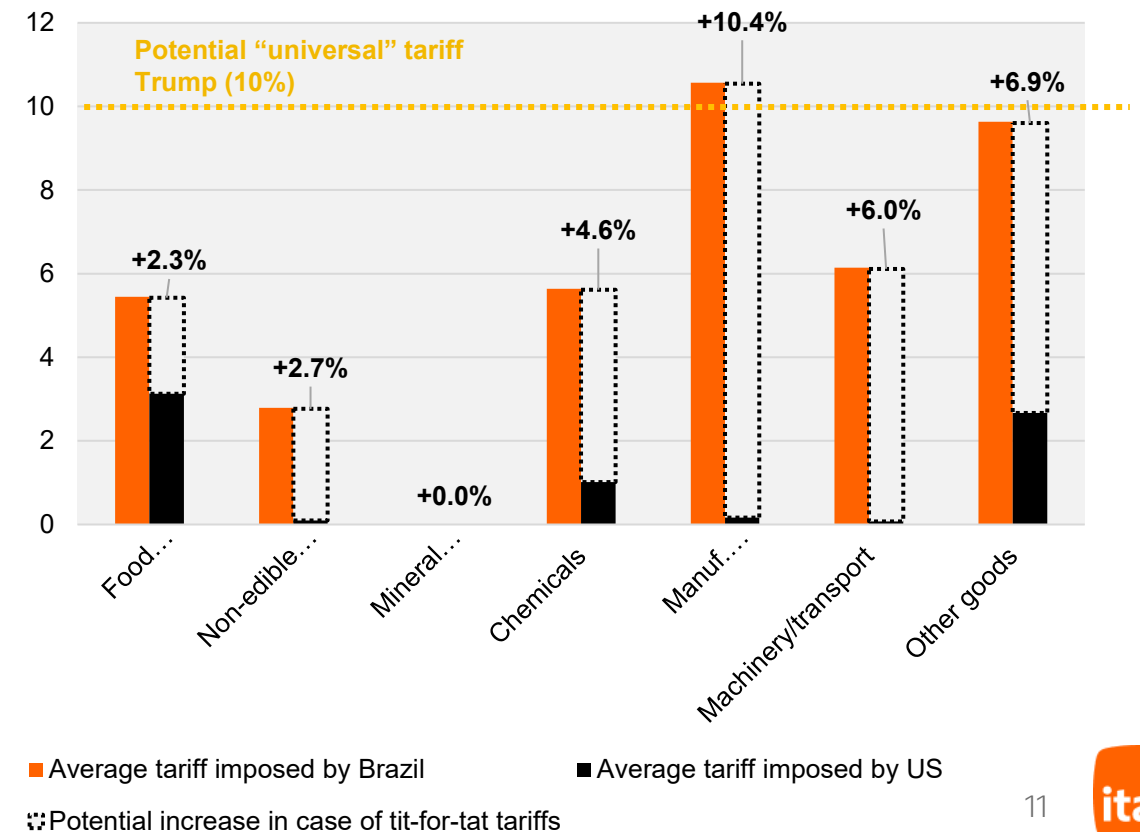
Tariffs: which industries would be most affected?

- Trump has said that his basic foreign policy will be to “match” tariffs charged on US products. If this is the case on a sector-by-sector basis, virtually all items will be affected. Manufactured goods and machinery would get the largest increases.
- On the other hand, if Trump adopts a universal 10% tariff on imported products, commodity and fuel industries would see the largest increases.

US tariffs on Brazilian imports, start vs. end of 1st Trump administration and current term



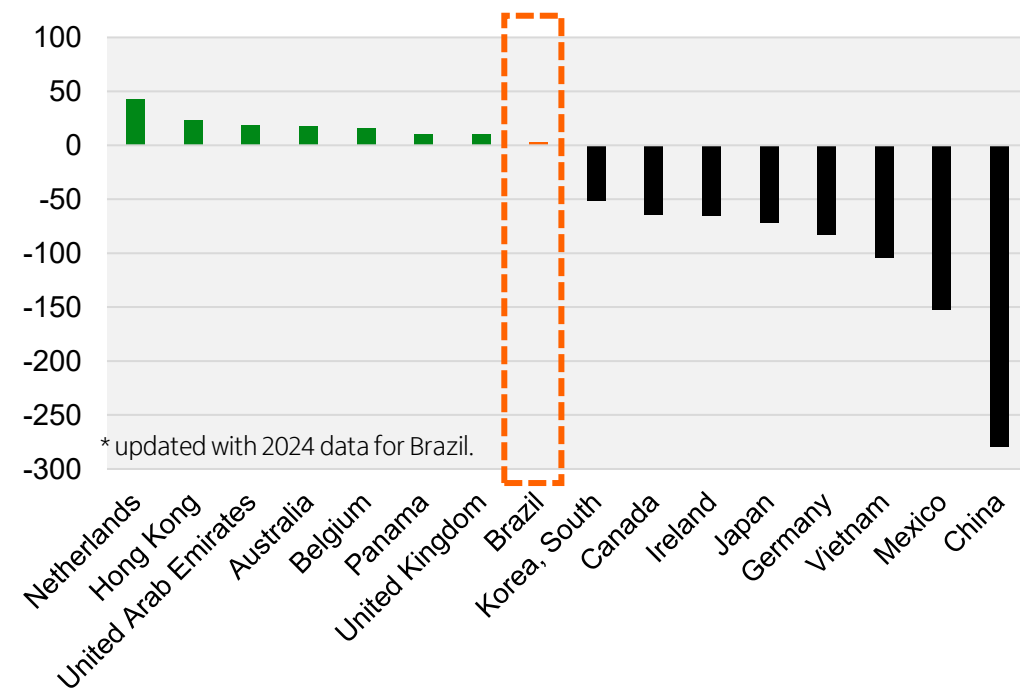
Brazilian tariffs on imports from the US



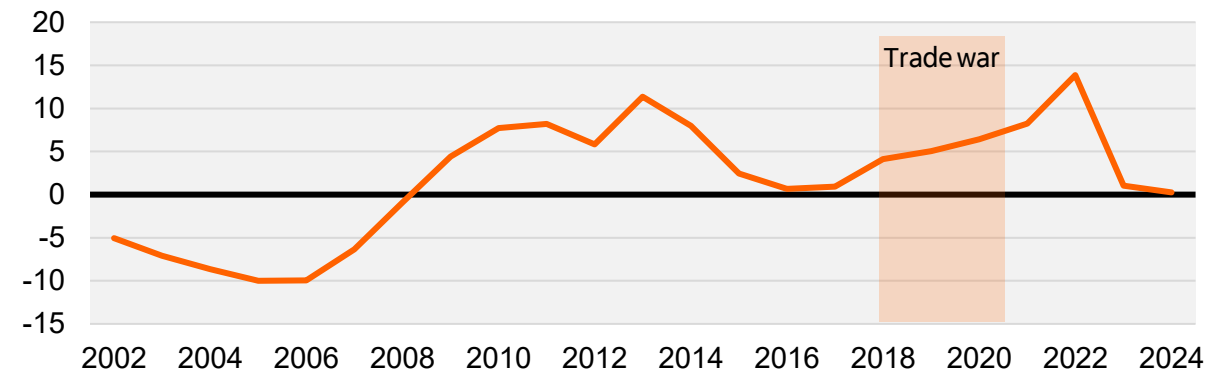
Another perspective: US surplus with Brazil could divert focus to other countries

- The US has significant trade deficits with countries such as China, Mexico and Vietnam, which could be the first “targets” of tariffs. The US has a small trade surplus with Brazil, suggesting lower propensity to implement such policies.
- Furthermore, the composition of Brazilian exports—heavy on basic products like oil and food—could serve as a positive distinction. If adopted, the tariffs should initially target industries such as steel and aviation.

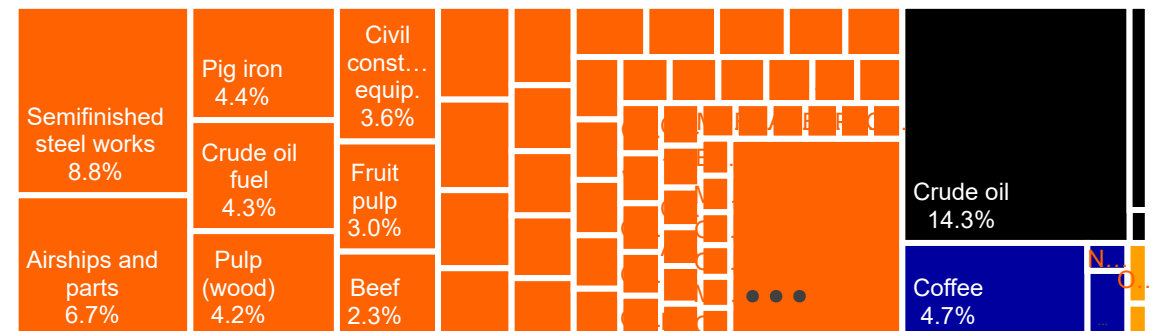
**US trade balances with selected countries:
8 largest surpluses (+) and deficits (-), \$ bn,
2023***



US-Brazil trade balance (\$ bn)



Main products exported to the US



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