United States Department of Agriculture

Economic Research Service | Situation and Outlook Report

OCS-19l | December 12, 2019

Next release is January 14, 2020

Oil Crops Outlook

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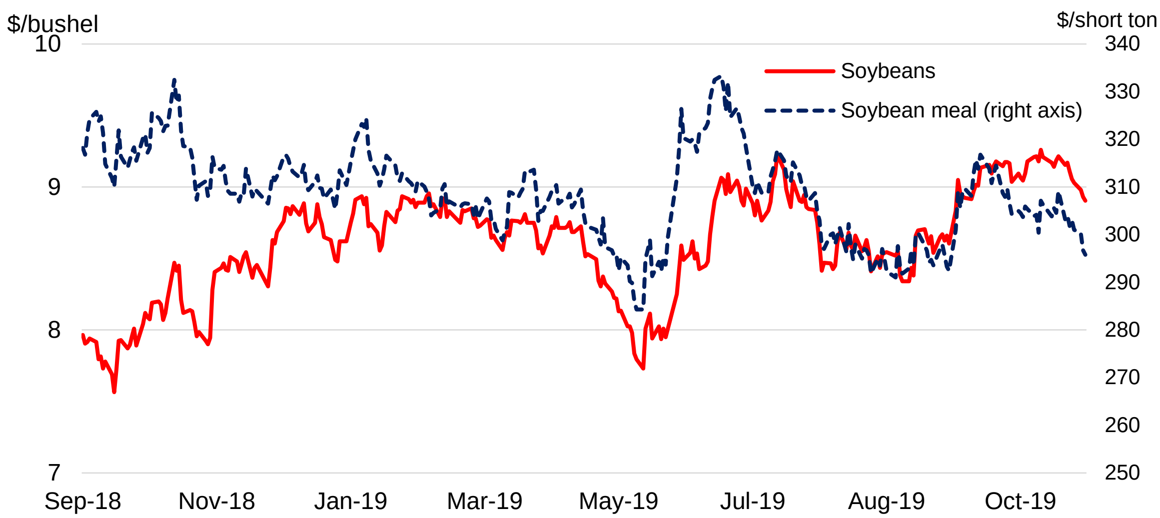
Moderate Gains for 2019/20 Soybean Demand Restrain Prices

USDA's forecast of U.S. soybean exports in 2019/20 is unchanged this month at 1.775 billion bushels. The 2019/20 crush forecast is also unchanged at 2.105 billion bushels. With supplies unchanged, USDA's forecast of season-ending soybean stocks is steady at 475 million bushels. Recent declines in cash soybean prices prompted USDA to trim its forecast of the 2019/20 U.S. average farm price by 15 cents this month to $8.85 per bushel. USDA also lowered its season-average price forecast for soybean meal this month by $15 per short ton to $310 based on dimmer export prospects.

Central Illinois cash prices fluctuate as export prospects evolve



Source: USDA, Agricultural Marketing Service, *Central Illinois Soybean Processor Bids.*

Approved by USDA's World Agricultural Outlook Board

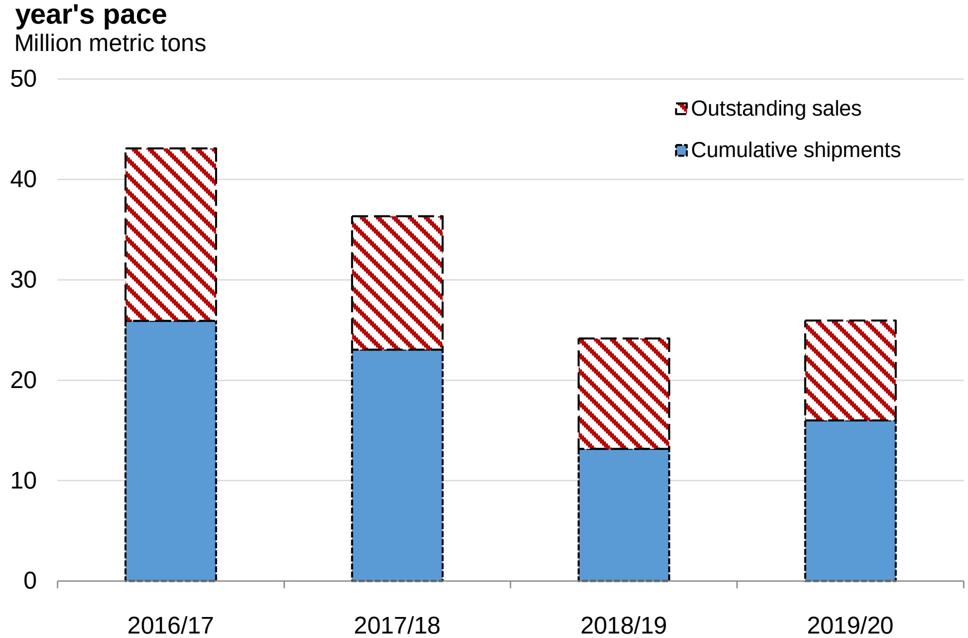
Domestic Outlook

Uncertain U.S. Export Outlook Pressures Market Prices

USDA's forecast of U.S. soybean exports in 2019/20 is unchanged this month at 1.775 billion bushels. Cumulative soybean exports through November 28 are exceeding the year-earlier pace by 23 percent. But total sales commitments (including outstanding sales) are up only 8 percent, which means that current outstanding sales are below a year ago. Considerably larger purchases by China—which make up 30 percent of current outstanding sales—are principally responsible for the year-to-year gains in soybean sales commitments. Up to now, China's state-owned companies are the primary forces behind the country's soybean imports. These importers have been granted exemptions for the higher tariffs on U.S. soybeans for placement into state reserves. Nevertheless, the expansion in U.S. soybean sales to China in 2019/20 has been partly offset by declines for the EU, Japan, Indonesia, Vietnam, and Thailand. Whether China's Government continues to provide importers with a new tranche of tariff-free quotas for U.S. soybean purchases next year may hinge on progress in bilateral trade talks this month.

Figure 2

U.S. soybean export sales commitments on November 28 exceed last year's pace



Source: USDA, Foreign Agricultural Service, *Export Sales*.

Slowing U.S. soybean sales can also be attributed partly to strengthening Brazilian export prospects. Due to declining old-crop stocks and a depreciating Brazilian exchange rate, soybean prices within the country have surged toward a record high. Since July, the Brazilian real has lost 8 percent of its value against the U.S. dollar—close to an all-time low. The accompanying boost for crop values in the local currency has provided strong encouragement for sales by Brazilian farmers, who have cleared out almost all of their old-crop stocks. In November, Brazilian soybean exports set an all-time high for the month. U.S. shipments for November, which typically dominate world trade during this period, were only 30 percent higher than the Brazilian exports. Sales of expected new-crop production in Brazil are also robust. Once harvesting begins next month for an anticipated record Brazilian soybean crop, export shipments should accelerate quickly.

The shifting dynamics of global soybean trade are being reflected in U.S. prices. The price discount that U.S. soybean exports formerly held against South American origins has been narrowed by the aforementioned factors. Consequently, the competitiveness of U.S. soybean shipments relative to Brazilian supplies is diminished. U.S. prices are being forced down to stay viable. Compared with a month ago, early December cash soybean prices for some locations have plunged 30-40 cents per bushel. Such circumstances prompted USDA to trim its forecast of the 2019/20 U.S. average farm price by 15 cents this month to $8.85 per bushel.

Foreign Competition Weakens Soybean Meal Prices

In October, the domestic soybean crush set a record for the month at 187.2 million bushels. Further gains may accrue slowly, though, so the 2019/20 crush forecast is unchanged at 2.105 billion bushels. Without any changes for soybean demand this month, USDA’s forecast of season-ending stocks is steady at 475 million bushels. Despite no supply changes for soybean meal and soybean oil, the composition of demand may shift moderately.

Easing soybean prices can allow domestic processors to earn equivalent returns while accepting a lower value for their soybean meal production. Cash prices for soybean meal dipped in November to an average of $303 per short ton from the October average of $309. A dimmer 2019/20 soybean meal price outlook spurred USDA to lower its season-average price forecast this month by $15 per short ton to $310. Less costly soybean meal may promote more domestic use, which is seen 150,000 short tons higher this month to 36.8 million. In particular, protein feed demand should benefit next year from higher production and export demand for broiler chickens.

On the other hand, this month’s expected increase for domestic use of soybean meal is fully offset by a forecast reduction in U.S. exports, which are seen 150,000 tons lower to 13.2 million.

Soybean meal exports for October-November 2019 were roughly on par with a year earlier, but total U.S. export sales commitments (the sum of shipments and outstanding sales) as of November 28 are down by 16 percent compared to a year earlier.

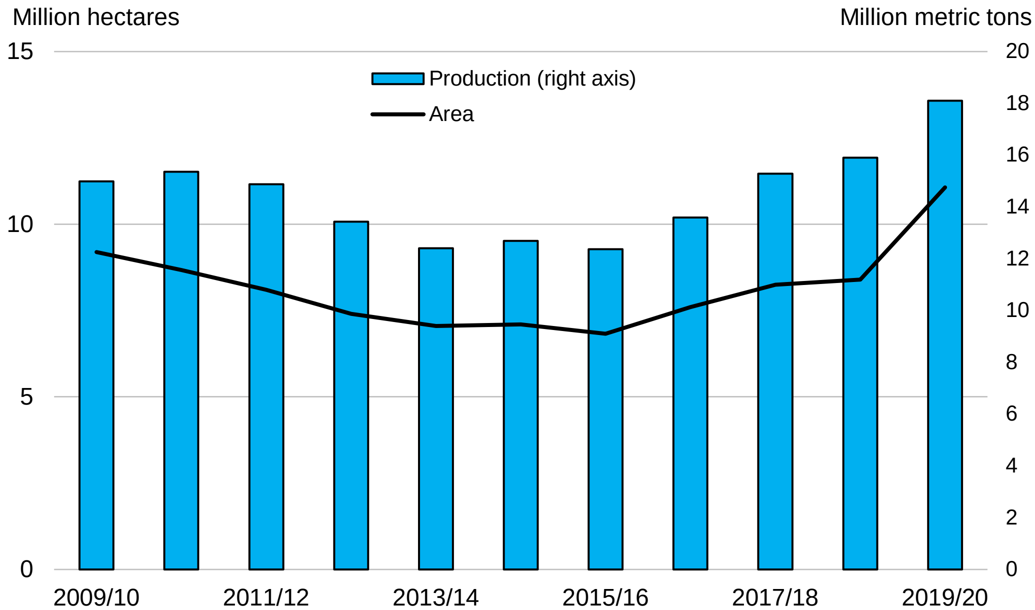
In contrast, foreign export shipments of soybean meal are likely to strengthen and present a competitive challenge to U.S. trade. Argentine exports have become particularly more competitive this year. Since July 1, there has been a sharp (41 percent) depreciation in the Argentine peso against the U.S. dollar. While fewer Argentine soybeans may be shipped abroad (down 10 percent in 2019/20 to 8.2 million tons), more of the country's supplies could be channeled into crushing plants. This month, USDA sees Argentine soybean meal exports expanding by an additional 550,000 metric tons in 2019/20 to 30.85 million. Similarly, Brazilian soybean meal shipments for 2019/20 could edge up by 200,000 tons to 15.4 million as less domestic use is anticipated.

International Outlook

Surge in China Soybean Area Swells Domestic Production

Official data in China indicates that the country's 2019/20 soybean area swelled by 11 percent to 9.3 million hectares. Higher farm subsidies incentivized the area gains. The area expansion and higher yields boosted 2019/20 production by 14 percent to 18.1 million tons. The revised crop estimate is 1 million tons above last month's forecast and 2.2 million higher than the 2018/19 harvest. Higher domestic supplies are unlikely to greatly affect import demand, though. The forecast for domestic crushing is unchanged, so a larger crop may lead to a 1-million-ton increase for season-ending soybean stocks in China to 20.2 million (versus 19.4 million for 2018/19).

Figure 3
Strong gains for China soybean area lift domestic production



Source: USDA, Foreign Agricultural Service, *Oilseeds: World Markets and Trade*.

Russia and Ukraine Harvest Record Sunflowerseed Crops

Global sunflowerseed production in 2019/20 is expected to reach an all-time high of 53.5 million metric tons—a 4-percent increase from last year's record. World output may climb 2.3 million tons this month, as gains for Russia and Ukraine far offset small reductions for Argentina and the European Union.

Based on official Russian data, USDA raised its estimate of the country's 2019/20 sunflowerseed harvest by 1.5 million tons this month to a record 14.5 million. Russian harvested area for sunflowerseed is revised upward by 500,000 hectares to 8.5 million. Crop yields were also aided by timely late summer precipitation and moderate temperatures during the main flowering and seed-filling period. Crop productivity in Russia is also being enhanced by rising use of superior hybrid seed varieties. Additional sunflowerseed supplies in Russia may boost the 2019/20 domestic crush by 1.1 million tons to 13.6 million.

Similarly favorable growing conditions were present this year for the Ukraine sunflowerseed crop. Record-high yields in Ukraine are expected to enlarge the country's 2019/20 harvest this month by 1 million tons to 15.5 million. Most of the production increase would expand the domestic crush (up 900,000 tons to 15.2 million).

Canadian Canola Production Slips

Early snowfall on the Canadian prairies this fall swelled harvest losses for the country's 2019/20 canola crop. Based on reductions for harvested area and yields, the Canadian canola harvest is now seen declining to a 4-year low. This month, USDA lowered its 2019/20 canola production estimate for Canada by 500,000 tons to 19 million. The smaller canola supply prompts a matching reduction for expected Canadian exports in 2019/20 to 9.5 million tons. Compared with a year earlier, cumulative Canadian canola exports for August-October 2019 have already slumped by 32 percent. A sharp reduction in shipments to China is primarily responsible, with China having revoked export licenses for several major Canadian exporters. The loss of canola trade with China has more than offset a strong increase for exports to the EU. Despite a smaller crop, season-ending stocks in Canada may stay elevated due to an extraordinarily high level of beginning stocks.

Suggested Citation

Mark Ash, *Oil Crops Outlook*, OCS-19l, U.S. Department of Agriculture, Economic Research Service, December 12, 2019