



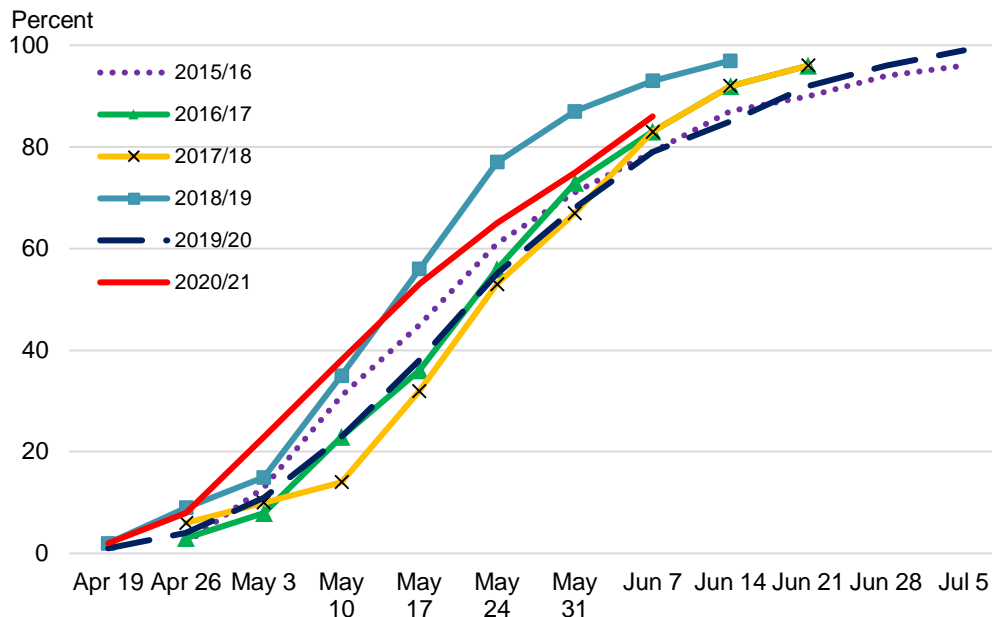
Oil Crops Outlook

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Demand for Domestic Soybean Meal Use and Soybean Oil Exports Stays Robust

The U.S. soybean crush for 2019/20 is expected 15 million bushels higher this month to a record 2.14 billion. The increase is based on continuing gains for domestic use of soybean meal, which is seen 400,000 short tons higher to 37.5 million. USDA also raised its forecast of soybean oil exports for 2019/20 by 150 million pounds to 2.7 billion. In contrast, USDA trimmed its 2019/20 forecast of U.S. soybean exports this month by 25 million bushels to 1.65 billion. This month's revisions boost the forecast of 2019/20 season-ending stocks by 5 million bushels to 585 million.

Figure 1
Planting of 2020/21 U.S. soybean crop proceeding much faster than a year ago



Source: USDA, National Agricultural Statistics Service, *Crop Progress*.

Domestic Outlook

Soybean Planting in 2020/21 Proceeds Well

In sharp contrast to a year ago, when planting of the 2019/20 soybean crop was long delayed by excessively wet soil conditions, fieldwork this spring is advancing more smoothly. As of June 7, planting was 86 percent complete for the 2020/21 U.S. soybean crop. While the pace is moderately ahead of the 5-year average at 79 percent, it is well ahead of the 54 percent sown a year ago. An exception is North Dakota, where spring planting progress has been slowed by wet weather and cold temperatures. Most of the Midwestern soybean-growing region starts the season with generally abundant soil moisture for germination. Although most soybean seedlings have only recently emerged from the soil, crop conditions for early June are widely favorable.

Outlook for 2019/20 Soybean Crushing Stays Bright

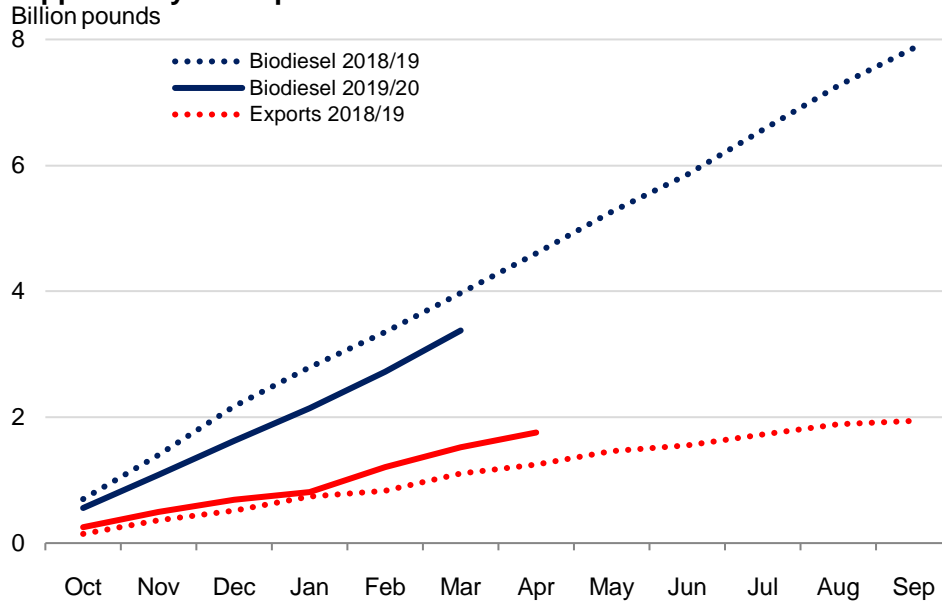
The U.S. soybean crush for 2019/20 is expected 15 million bushels higher this month to 2.14 billion based on continuing gains for domestic use of soybean meal. In April, processor demand for soybeans tapered off slightly with a decline to 183.4 million bushels from 192.2 million in March. Nevertheless, it was a record for the month. Soybean crushing for September 2019–April 2020 is 1.45 billion bushels—nearly 3 percent ahead of last season’s record.

USDA forecasts the 2019/20 domestic disappearance of soybean meal 400,000 short tons higher this month to 37.5 million. Cumulative use of soybean meal for the season to date is up nearly 5 percent from the 2018/19 pace. Despite strong demand, a brisk production pace has sustained pressure on soybean meal prices. The 2019/20 average price for soybean meal is forecast down this month by \$5 per short ton to \$295.

U.S. exports of soybean oil are turning in one of the best performances in a decade. In May, export shipments of soybean oil may be a near record for the month. U.S. trade in the commodity is benefiting from stronger sales to Latin America and North Africa. Typically, these import markets are dominated by Argentine soybean oil exports but those have been slower to accelerate this year. Consequently, USDA raised its forecast of soybean oil exports for 2019/20 by 150 million pounds to 2.7 billion.

Figure 2

Domestic use of soybean oil for biodiesel lags but export gains are supported by lower prices



Sources: USDA, Foreign Agricultural Service, *Global Agricultural Trade System* and Energy Information Administration, *Biodiesel Bulletin*.

Higher domestic demand for soybeans, however, is being more than offset by dimmer prospects for foreign trade. USDA trimmed its 2019/20 forecast for U.S. soybean exports this month by 25 million bushels to 1.65 billion. Aside from these changes in demand, a USDA resurvey of North Dakota crop producers shaved 4 million bushels off the 2019/20 harvest to 3.552 billion. Overall, the revisions boost the forecast of season-ending soybean stocks by 5 million bushels to 585 million.

For the new crop year of 2020/21, a 15-million-bushel increase for the crush (to 2.145 billion) more than offsets the slight increase for beginning stocks. Thus, the forecast of 2020/21 season-ending stocks dips by 10 million bushels to 395 million.

Government Aid to Relieve Market Price Slide

In April, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act, which authorizes \$9.5 billion in funding to compensate for economic losses related to the pandemic. Eligible commodities include those that suffered a 5-percent or greater decline in market price or disrupted market chains between mid-January and mid-April. The legislation also raises borrowing authority for USDA's Commodity Credit Corporation (CCC) by \$14 billion to compensate for income losses—with \$6.5 billion of prior authority available for immediate disbursement. The higher CCC spending cap may prove vital if marketing year average prices

for 2020/21 crops stay depressed, as that could inflate producer payments under either the Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) programs.

USDA will administer the funds through its Coronavirus Food Assistance Program (CFAP). Direct cash payments under CFAP apply only to inventories that were unsold or uncontracted as of January 15 or were half of a producer's certified 2019 production, whichever is less. In the case of soybeans, eligible producers would receive a single payment (in two installments) comprising half of their inventory at a CARES Act payment rate of 45 cents per bushel and the other half at a CCC payment rate of 50 cents per bushel. The CFAP payments do not affect the level of payments under other programs, including ARC/PLC payments, trade aid under the Market Facilitation Program (MFP), or disaster assistance from the Wildfire and Hurricane Indemnity Plus (WHIP+).

International Outlook

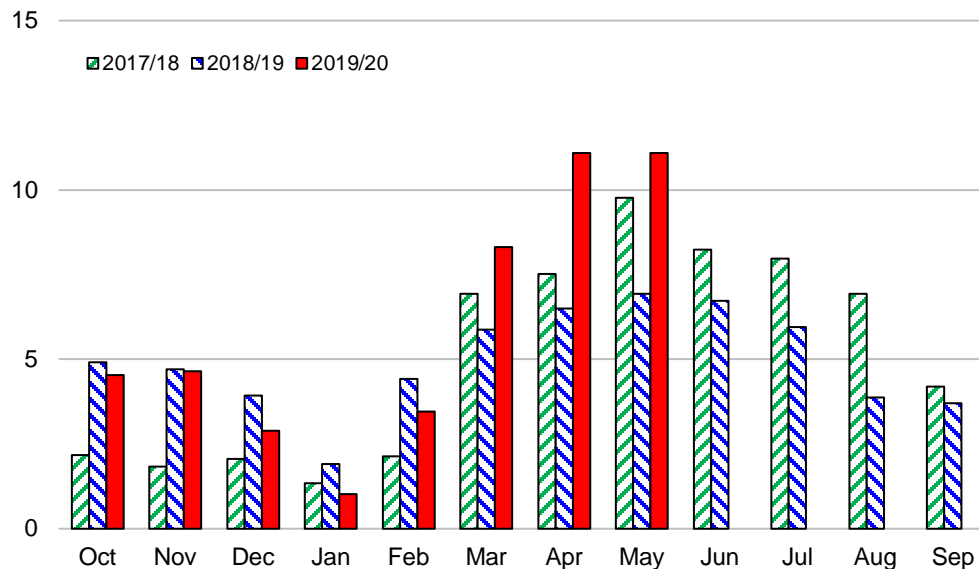
Brazilian Soybean Exports Stay Strong

Brazilian soybean producers have rapidly marketed their crops this year to take advantage of high domestic prices. As a consequence, soybean shipments from Brazil for October 2019–May 2020 total 61.4 million metric tons. This represents a 25-percent increase in exports from the same period a year earlier. Based on this robust pace, USDA edged up its 2019/20 forecast of Brazilian soybean exports this month by 1 million tons to 85 million.

China is the primary destination for Brazil's soybean exports. The abundant trade between these two countries is largely responsible for a slow recovery in U.S. exports this year. This month, USDA hiked its forecast of China's 2019/20 soybean imports by 2 million tons to 94 million. Although it is anticipated that 1 million tons of the increase will be used by soybean crushers in China, the other half, if left unused, could result in further accumulation of stocks by the end of summer.

Figure 3
Brazilian soybean exports to China surge

Million metric tons



Source: Brazil Ministry of Development, Industry, and Trade.

Prospects for Argentine Soybean Crush are Disappointing

In contrast to the situation in Brazil, soybean sales by Argentine farmers are sluggish with a smaller 2019/20 crop. This year's production estimate is trimmed 1 million tons this month to 50

million, compared with 55.3 million for 2018/19. A reduced harvest is not the only reason for slow deliveries, though, as producers are more reluctant to sell more than needed to pay outstanding bills. This hesitation is related to the value of the country's exchange rate. Despite a 40-percent depreciation in the Argentine peso from a year ago, unofficial rates indicate that the official rate (currently around 69 pesos per dollar) is still far overvalued. In September 2019, the country's perilously low reserves of foreign exchange forced its Government to reimpose currency controls. Such circumstances have formed a wedge between the official and unofficial exchange rates, which have now widened to as much as 40 percent. Farmers will postpone crop sales to see whether they can benefit from an eventual narrowing of the gap between the official rate and the unofficial rate.

USDA's expectation of the 2019/20 Argentine soybean crush is lowered this month by 800,000 tons to 40.8 million. If realized, that level represents a minimal 0.6-percent increase from the 2018/19 crush of 40.6 million. A corresponding reduction in soybean meal output is expected to curtail Argentine soybean meal exports by 1 million tons to 28 million. Likewise, lower soybean oil production is forecast to curtail Argentine oil exports for 2019/20 by 150,000 tons to 5.35 million.

In a recent development, the Argentine Government announced a plan to nationalize a major soybean crushing company that went bankrupt in February. Provided the Argentine Congress approves the takeover, the reconstituted company will still have to compete on market terms similar to those of privately owned firms. Processing margins have been smaller since 2018, when the Government eliminated an export tax differential between soybeans and soybean products. If the refashioned company can successfully navigate its dire financial straits, it could guarantee that its soybean suppliers can receive their overdue payments. Crushing capacity and employment in the industry could be preserved, as well.

A low water level on the Parana River—which is the principal route for the country's grain trade—is complicating the export shipments of soybeans this year. Despite the logistical problems, exporters are competitively bidding for supplies (principally for the China market) at the expense of domestic users. Compared with a year earlier, Argentine soybean exports for 2019/20 through April are still up by 51 percent. In acknowledgement of this fact, USDA raised its forecast of this season's exports by 1 million tons to 9 million.

Adverse Weather Trims EU Rapeseed Crop

Global rapeseed production for 2020/21 is unchanged this month at 70.8 million tons as a lower European crop is fully offset by a higher Australian crop. Due to lower yields, rapeseed production by the EU and UK is seen 200,000 tons lower this month to 16.8 million tons. Rapeseed yields were likely curtailed (particularly in Germany and Hungary) by warm and dry weather during the April–May flowering period. With a reduction in supplies and steady use, season-ending rapeseed stocks for 2020/21 are seen tightening to a 17-year low.

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