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Oil Crops Outlook: May 2021

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Despite High Prices, Increased Crush Outlook Limits Soybeans Available for Export in 2021/22

As demand for biofuel continues to drive soybean crush levels in the domestic oilseed market and to capture an increasing share of the U.S. soybean crop, exports of U.S. soybeans are expected to decline in 2021/22 to 2.075 billion bushels. This volume would represent a 9 percent decline from the 2.28 billion bushels of exports anticipated for this marketing year. If realized, the 2.225 billion bushels of expected soybean crush for the 2021/22 marketing year would represent a new record volume, overtaking the 2.19 billion bushels of crush anticipated for 2020/21. High prices for soybean oil are largely responsible for the larger crush volumes, even as soybean prices continue to increase. Although no change has been forecasted for the season-average ending price for the current marketing year, the 2021/22 price is expected to increase significantly at \$13.85 per bushel, the highest price received since the 2012/13 marketing year.



Domestic Outlook

Strong Oil Demand Drives Consumption of Soybeans Through 2021/22 Marketing Year

Soybean oil prices continue to move higher this year on the heels of expanding demand for biofuels. Since the beginning of the marketing year (October 2020), soybean oil prices in Decatur, Illinois, have more than doubled. Soybean oil's share of gross crush value grew to exceed 45 percent of total value at the beginning of May 2021, up from 30 percent at this time last year. Driving this growth is the rise of renewable fuels and tight global vegetable oil supplies. The soybean oil balance sheet published this month in the May edition of USDA's *World Agricultural Supply and Demand Estimates (WASDE)* shows this strength, but in a slightly different format than past versions of the report.

On March 31, the Energy Information Administration (EIA) released a new report, the *Monthly Biofuels Capacity and Feedstocks Update*, that replaced the *Monthly Biodiesel Production Report*. The new report includes feedstock use for renewable fuels and biodiesel. This change by EIA came about due to the rapid increase in renewable fuel production and the impact on

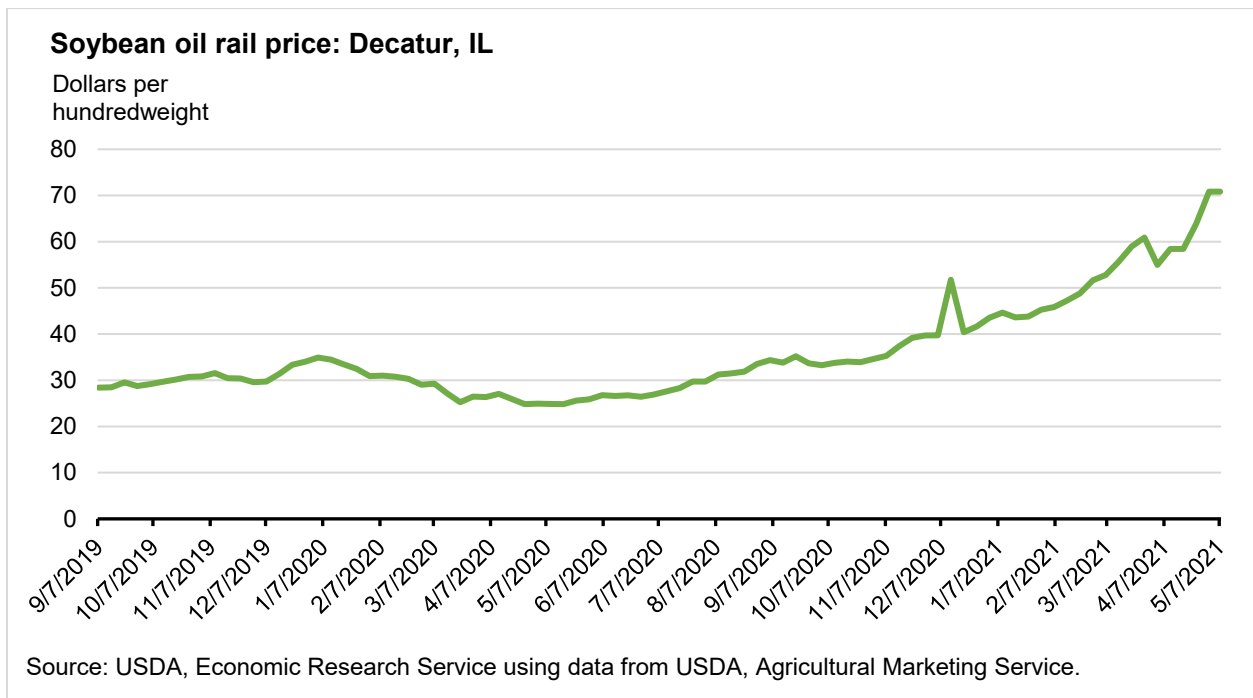
feedstock markets. The change to EIA's reporting precipitated the switch in the *WASDE* from a biodiesel category under domestic use to biofuels. The biofuels category now includes soybean oil used for renewable diesel that previously had been accounted for under food, feed, and other industrial uses.

As such, domestic use this month increased by 100 million pounds to 23,600 million pounds for the 2020/21 marketing year. The new biofuels category sits at 9,500 million pounds, a noticeable increase from the previous biodiesel category use of 7,900. Although numerous renewable fuel products contribute to total biofuel use for soybean oil, renewable diesel and biodiesel constitute most gallons produced and thus reflect most of the soybean oil use in this category. Food, feed and other industrial uses dropped from 15,600 to 14,100 million pounds as renewable fuels moved out of this category. The forecast for soybean oil exports dropped 200 million pounds to 2,300 as a weak export pace reflects the high domestic demand and price for soybean oil. Ending stocks for the 2020/21 marketing year are forecasted up to 1,818 million pounds—up 100 million on the slower export pace.

USDA projects 2021/22 domestic use of soybean oil at 25,400 million pounds, up from this marketing year forecast of 23,600 million pounds. Biofuel use is expected to increase by 2,500 to 12,000 million pounds. The growth in biofuel capacity over the near term resides with renewable fuel producers. At present, the capacity for renewable fuel plants exclusively using soybean oil as a feedstock sits near 280 million gallons per year, the equivalent of 2.3 billion pounds of soybean oil. Over the next year, additional capacity could come online to more than double soybean oil feedstock demand for renewable fuels. Growing renewable fuel production and potential capacity expansion can benefit from a wide array of policies at the state and federal level. Renewable fuel mandates, like the Renewable Fuels Standard and California's Low Carbon Fuel Standard, provide the policy framework for considerable growth over the near term and help to support both biofuel prices and blender margins. The Blender's Tax Credit for biodiesel, which is due to expire in January 2022, also provides significant support. While changes to policy remain possible, the strong growth in renewable fuels seems certain over the next year.

Soybean oil supply looks to rise in 2021/22 to 28,363 million pounds, up 645 million pounds on larger crush totals. Most of the growth is destined for domestic consumption. Larger domestic consumption reduces exports, tightens soybean oil stocks, and supports higher prices. U.S. soybean exports are projected at 1,450 million pounds, an 850-million-pound decline from the current marketing year forecast. Strong demand for soybean oil could increase import demand for competing oils. Increasing use keeps soybean oil stocks tight over the next year with ending

stocks projected at 1,513 million pounds. Lower stocks lead to a season-average soybean price projection of 65 cents per pound, up from the 2020/21 season-ending average of 55 cents per pound.



Increased Domestic Demand for Oilseed Crush Impacts Soybean Meal and Sunflower Oil

In conjunction with expanded crush volumes on rising soybean oil demand, production of soybean meal for the 2021/22 marketing year is anticipated to increase to 52.5 million tons. Domestic disappearance for soybean meal has captured the bulk of the increase, jumping 500 thousand tons to 38.6 million in 2021/22. Exports remain relatively flat at 14.3 million tons. While little has changed in the 2020/21 forecasts for soybean meal (with the exception with a 50 thousand ton increase to imports), soybean meal season-average pricing for 2020/21 was increased to \$405 per ton. High prices for soybeans will continue to impact soybean meal into the 2021/22 marketing year where a \$400 per ton price is expected.

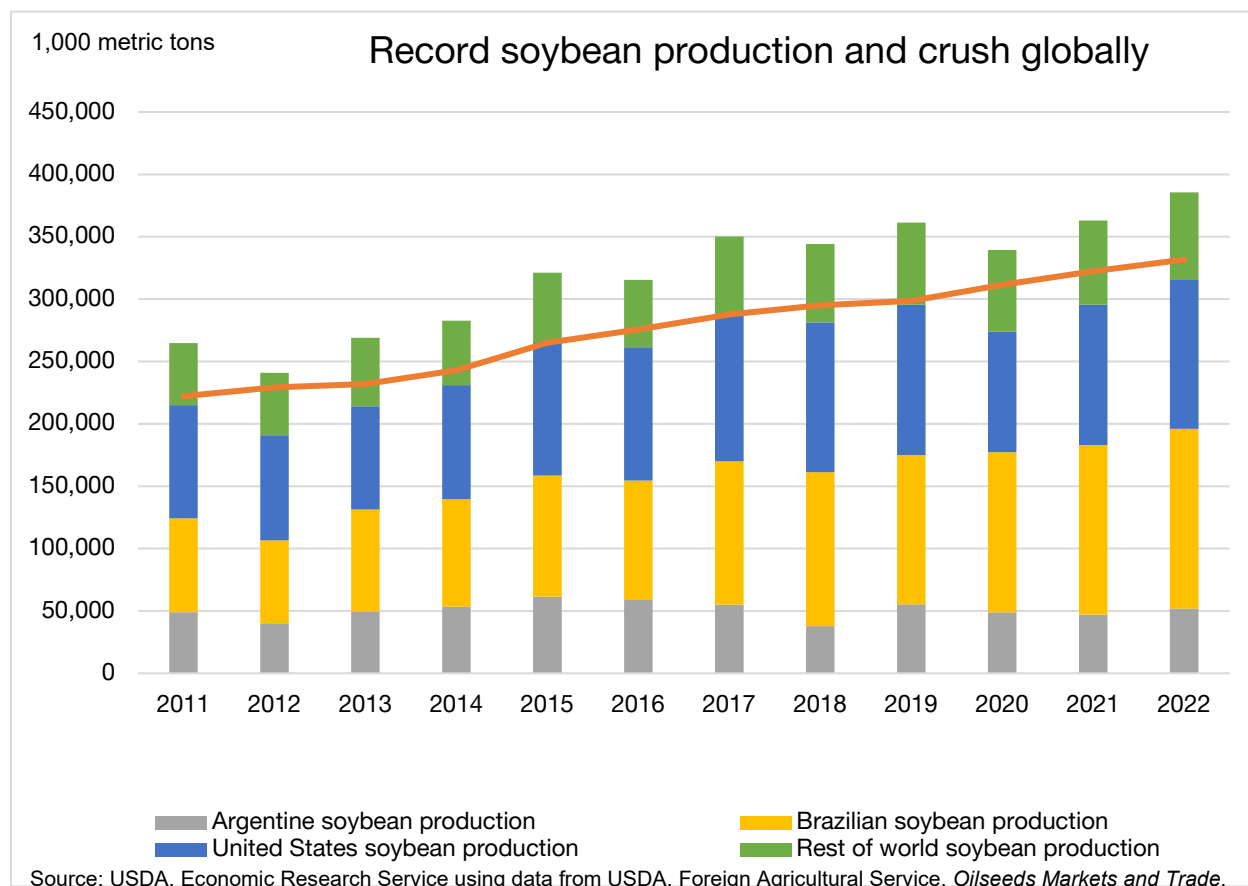
International Outlook

High Prices and Lower Than Average Stocks Spur Increased Global Soybean Production; High Crush Levels Expected to Continue into 2021/22

Global production of soybean for the 2021/22 marketing year is forecast at nearly 386 million metric tons, a 6 percent increase year over year. Brazil leads the way in increasing soybean production. With 40.4 million hectares of soybeans expected to be harvested and a forecasted yield of 3.56 tons per hectare, Brazil's 2021/22 soybean production is estimated to reach 144 million metric tons. If realized, this volume would set a new record for Brazilian soybean production. With increased demand for oilseeds and favorable pricing relative to U.S. soybeans, Brazil's exports are expected to reach a record high 93 million metric tons. It should be noted that there is still much uncertainty surrounding global oilseed production in 2021/22, including South America. Even so, it is clear that Brazil will remain a dominate force next marketing year in the global trade of oilseeds, particularly as demand for soybeans and other oilseed products continues to increase. Argentina is also expected to increase soybean production next marketing year at 52 million metric tons on 17.2 million hectares harvested. However, increased anticipated domestic consumption and crush will leave Argentinian soybean exports stagnant year over year at 6.35 million metric tons.

For the 2020/21 marketing year, Brazil remains on pace to produce 136 million metric tons as harvest draws to a close. In Argentina, drier weather is expected to accelerate what has been a slower than anticipated harvest pace caused by unseasonably wet weather throughout the planting and growing seasons. As such, USDA has slightly lowered its expectation for Argentina's crop by 500 thousand metric tons to 47 million metric tons largely on a slightly lower yield expectation.

High soybean prices and strong global crush demand foreshadow increased soybean production for the 2021/22 marketing year. At 332 million metric tons, the forecasted 2021/22 soy crush volume would represent the largest to date and nearly 3 percent above the 322 million metric tons anticipated for this marketing year. China's 2021/22 crush is expected to rise 4 percent to 100 million tons, slower than rates seen in the previous decade as China faces weak crush margins and alternative feed sources for a hog herd still recovering from African Swine Fever (ASF).



Demand for Vegetable Oil Propels Global Oilseed Production

Amidst increased global consumption of oilseed products, demand for other oilcrops such as sunflower and palm oil have increased in conjunction with soybean demand. Global sunflower production is forecasted to grow 5.2 million metric tons to nearly 55 million metric tons. Ukraine leads the world in sunflower production, increasing 2.6 million metric tons to 16.7 million metric tons in 2021/22. Production recovered from last year’s drought-reduced crop signalling a return to normal growing conditions. Ukrainian sunflower crush is also expected to increase next marketing year, up nearly 18 percent to 16.3 million metric tons due to high demand for sunflower oil. In 2021/22, Ukrainian sunflower oil production is forecast at 6.99 million metric tons, up 1.05 million from 2020/21. Nearly all of this sunflower oil production is expected to be exported, with 2021/22 Ukrainian sunflower oil export volumes estimated at 6.40 million metric tons, an increase from the 5.38 million metric tons of anticipated sunflower oil exports this year.

Russia is also expected to capitalize on increased demand for sunflower—increasing its 2021/22 production by 1.23 million metric tons to 14.5 million metric tons. Russian sunflower crush is also forecasted to increase by 850 thousand metric tons in 2021/22 to 13.3 million

metric tons with anticipated sunflower oil production of 5.49 million metric tons, up slightly from the 5.14 million in 2020/21. Additionally, USDA anticipates the European Union will increase its production of both sunflower and rapeseed in 2021/22 to 10 million metric tons and 16.6 million metric tons, respectively.

Global production for palm oil is also anticipated to increase in 2021/22. The 76.4 million metric tons of expected palm oil production would be the most ever produced and would represent a 2.71 million metric ton increase from 2020/21. This increase would largely come from a 1 million metric ton increase in Indonesia and a 700 thousand metric ton increase from Malaysia and Thailand.

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