



United States Department of Agriculture

Outlook

Economic Research Service | Situation and Outlook Report

OCS-21i | September 14, 2021

Next release is October 14, 2021

Oil Crops Outlook: September 2021

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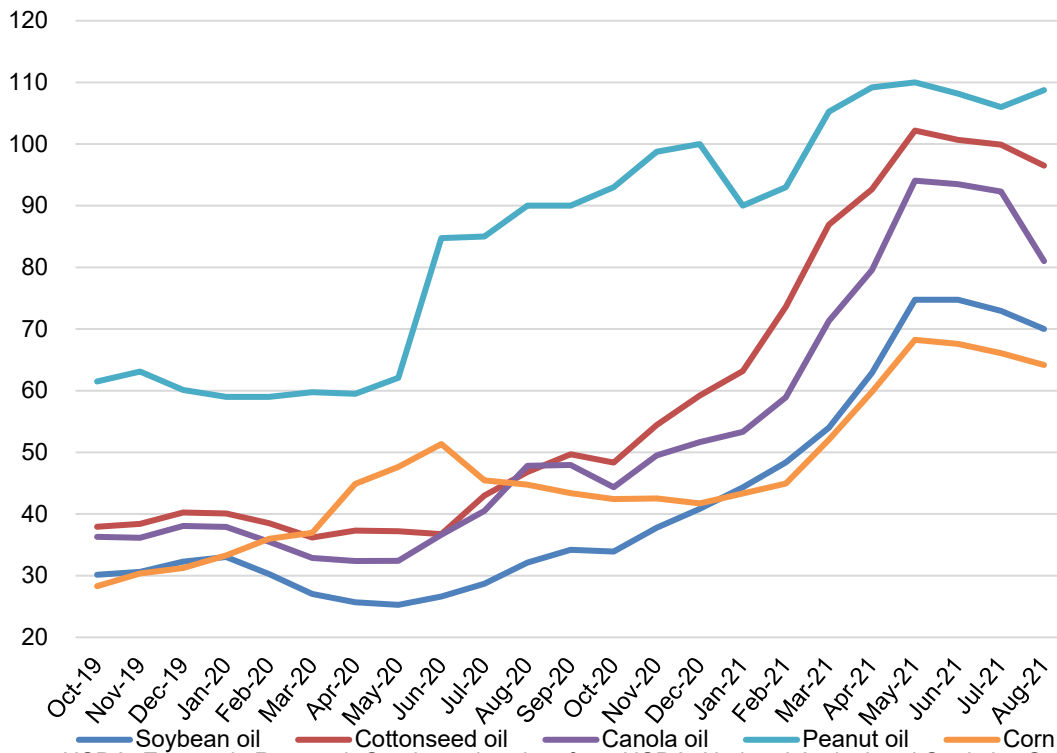
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Recent Run-up in Vegetable Oil Prices Slows While Domestic Crush Wanes

Throughout the 2020/21 marketing year, soybean oil prices have continued to rise; however, it is not the only vegetable oil that has been exhibiting higher prices in the U.S. In fact, the domestic prices of cottonseed, canola, and peanut oil have more than doubled since August 2020. Cottonseed and canola oil prices reached highs in May 2021 of 102 and 94 cents per pound, respectively, which have not been matched since the 1994/95 marketing year. Corn oil prices also peaked at 68 cents per pound in May, nearly 26 cents higher than the 2020/21 marketing year opening price. Oil prices have moderated over the last couple of months as higher prices curtailed soybean oil use in the biofuel and export sector. Driven largely by expansion for biofuels, vegetable oil prices look to maintain strength moving forward in the next marketing year.

Historical U.S. vegetable oil prices

Price, cents per pound



Source: USDA, Economic Research Service using data from USDA, National Agricultural Statistics Service, *Monthly Feedstuff Prices* and Sosland Publishing, *Milling and Baking News*.

Domestic Outlook

Survey Results Lead to Higher Soybean Yield Estimates

The USDA, National Agricultural Statistics Service (NASS) September *Crop Production* report indicates a higher soybean yield forecast of 50.6 bushels per acre. This forecast is 0.6 bushels per acre higher than last month's projection based on higher yields out of Iowa and Minnesota. Minnesota is seen with the largest bump in yield projections, up 4 bushels per acre from last month's estimate to 47 bushels per acre. The U.S. soybean crop production forecast for 2021/22 is raised 35 million bushels this month to 4.37 billion bushels because of the higher yield estimate.

Planted and harvested acreage estimates for soybeans are also revised this month, based in part due to the latest certified acreage data from the Farm Service Agency (FSA). Planted and harvested acres are down approximately 0.3 million acres to 87.2 million and 86.4 million acres, respectively. Several States, including Missouri, Illinois, and Tennessee are responsible for the change. And, for reasons discussed below, carry-over inventories from the 2020/21 crop are expected to be 15 million bushels above USDA's August forecast at 175 million bushels. Consequently, total supplies for 2021/22 are seen 40 million bushels higher this month to 4.57 billion. Given higher supplies, new crop soybean ending stock forecasts are raised 30 million bushels to 185 million bushels. A retreat from the market's high last spring prompted USDA to lower its forecast of 2021/22 U.S. season-average farm price by \$0.80 to \$12.90 per bushel.

Soybean Crush Weakens Up to End of the 2020/21 Marketing Year

The pace of domestic soybean crush for the 2020/21 marketing year has continued to stagnate. In July 2021, 166.4 million bushels of soybeans were crushed—a 4-year low for the month. Although crush is up 3 percent from the June crush of 161.7 million bushels, it is also 18.1 million (10 percent) fewer bushels of soybeans than were crushed in July 2020. Despite robust year-on-year gains over the first half of 2020/21, the cumulative change has fallen 1 percent below the 2019/20 pace, equating to 17.5 million fewer bushels of soybeans crushed this marketing year. With tight stocks remaining for the final month of the marketing year, the 2020/21 soybean crush forecast is lowered by 15 million bushels to 2.14 billion bushels. The

2021/22 soybean crush projections are lowered by 25 million bushels to 2.18 billion bushels considering the current and anticipated market conditions for soybeans and their by-products.

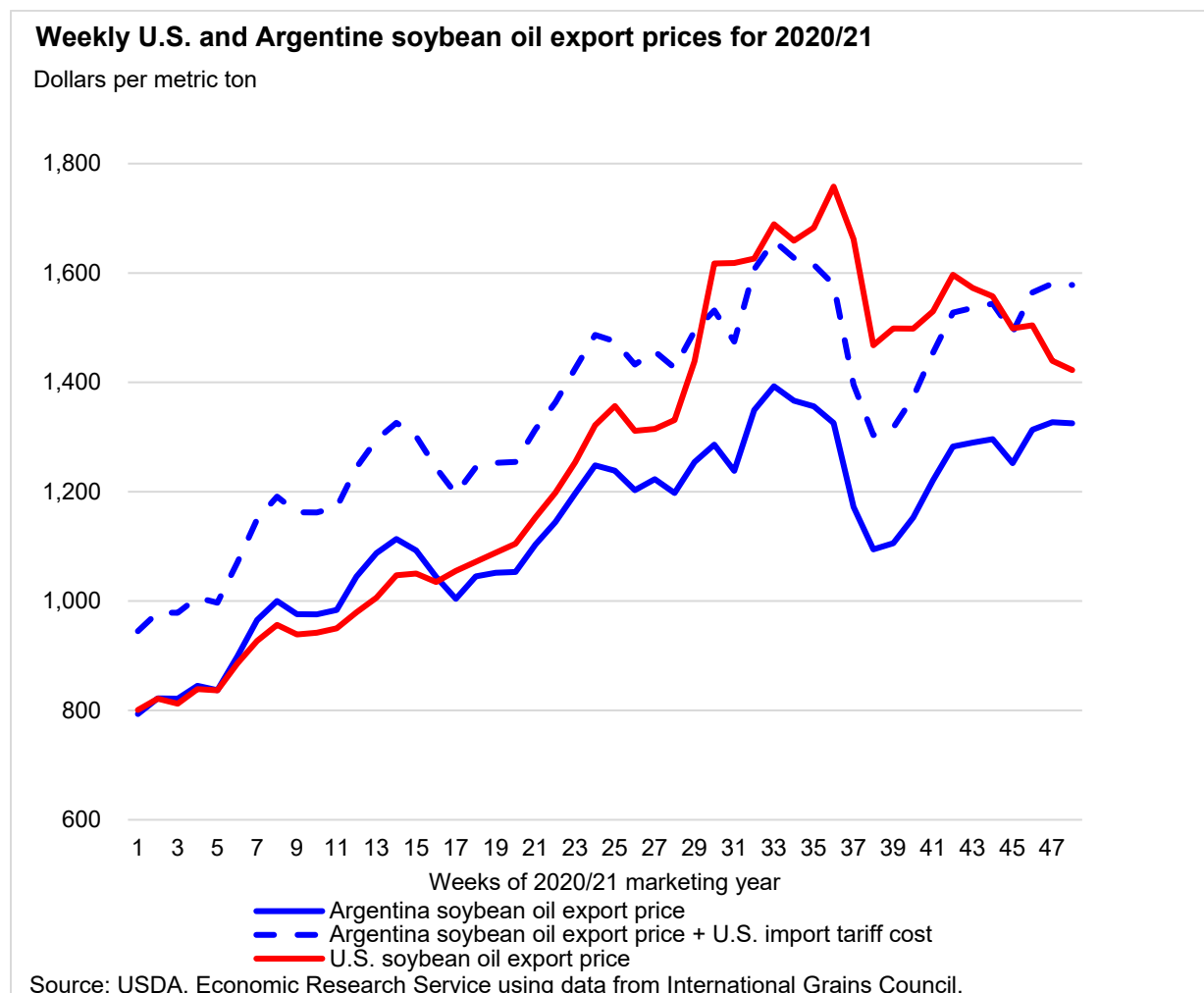
As less soybean meal is needed to produce a thinning livestock herd, domestic soybean meal consumption has faded over the last half of the 2020/21 marketing year. Domestic soybean meal use forecasts are anticipated down by 375,000 tons this month to 37.3 million tons. As a result, soybean meal prices have slipped from \$365 per short ton in July 2021 (and from its peak at \$439 in January 2021) to \$358 per short ton in August. The weakening prices look to impact crusher profitability and lead to lower soybean meal production estimates. Hence, production forecasts are lowered 0.4 million short tons to 50.66 million tons in response to lower expected meal consumption. A dimmer outlook for new-crop domestic demand of soybean meal is also seen with a reduction of 650,000 tons from last month's forecast to 37.6 million.

Driven by high soybean oil prices and lower refiner profitability, soybean oil for biofuel use slowed over the past several months compared to the previous year. Additionally, plant closures in June as indicated in the U.S. Energy Information Administration (EIA) Petroleum Administration for Defense District (PADD) IV Renewable Plant and Oxygenate Plant Net Production data and capacity data from EIA's Monthly Biofuels Capacity and Feedstocks Update significantly lowered soybean oil used in the production of biofuel, from 788 million pounds of soybean oil in May 2021 to 663 million pounds in June 2021. As a result, the 2020/21 soybean oil for biofuel use estimate was lowered 300 million pounds to 8.8 billion pounds. A slower start to the ramp up in renewable diesel production combined with sluggish biodiesel production use leads to soybean oil use dropping 500 million pounds to 11 billion pounds in 2021/22.

Food, feed, and other industrial uses for soybean oil is expected to remain unchanged from last month's estimate of 14.725 billion pounds for 2020/21, resulting in a reduction of domestic soybean oil use of 300 million pounds to 23.525 billion pounds. New crop food, feed and industrial use increased by 300 million pounds to 14 billion pounds as exports are expected to wane with persistent high prices relative to the competition. Additionally, soybean oil prices decreased \$0.03 from July, settling at \$0.70 per pound in August. While prices have stabilized in recent months, they are still much higher (\$0.36 per pound) than the beginning of the marketing year. Soybean oil is now nearly an equal partner to soybean meal in its contribution toward the total value of soybean crushing.

Moreover, U.S. soybean oil prices remain above world prices, causing soybean oil exports to remain sluggish. Throughout the 2020/21 marketing year, weekly U.S. soybean oil export prices

have been, on average, \$131 per metric ton higher (\$0.06 per pound) than in Argentina—the largest U.S. competitor in the soybean oil export market. It is worth noting, from the beginning of April 2021 through the first week of August, the average difference in export prices was much larger at near \$305 per metric ton (\$0.14 per pound). During this time, U.S. export prices eclipsed the Argentine export price plus the U.S. import tariff. In tandem with high prices, July soybean oil exports came in at a paltry 36 million pounds. The slow pace of U.S. soybean oil exports looks to continue as domestic prices stay above the world market. 2021/22 soybean oil exports are lowered 200 million pounds to 1.25 billion pounds, leaving ending stocks 25 million pounds heavier than last month’s estimate at 1.48 billion pounds. However, lingering difficulties faced by the Argentine crush industry may provide an opportunity for U.S. exports to improve the current poor performance this fall when soybean supplies rebound.



Old crop soybean exports appear set to meet current estimates of 2.26 billion bushels. The new marketing year export sales sit at 772 million bushels, down by 307 million bushels from this time last year. Hurricane Ida’s emergence in the Gulf of Mexico slowed the pace of exports near

the end of August which is expected to continue into early September. This natural disaster indicates U.S. soybean exports will get off to a slower pace in the new marketing year. Even so, 2021/22 U.S. soybean export projections increased by 35 million bushels to 2.09 billion bushels due to larger crop supplies.

International Outlook

Logistical Issues Slow Pace of Soybean Crush in Argentina

Low water levels in the Paraná River have hindered the ability to fully load vessels with soybean products for shipment from major crushing facilities located along this major Argentine waterway. This impediment has raised the marginal costs of crushing soybeans, and—ultimately—reduced profitability. For this reason, Argentina’s 2020/21 soybean crush forecast was lowered by 0.7 million metric tons from last month’s forecast to 40.8 million metric tons. Thus, despite favorable soybean oil export prices, the lower crush volumes lead to a reduction in the 2020/21 soybean oil export forecast for Argentina. Shipments are projected to decrease from 6.2 million metric tons to 6 million metric tons for 2020/21, decreasing by the same amount in 2021/22 to 6.3 million metric tons. Additionally, old-crop soybean meal exports are forecast down by 0.3 million metric tons to 28.2 million metric tons.

Incentives in Argentina are shifting from crushing soybeans to an expansion of soybean exports by 1.5 million metric tons to 5.2 million metric tons with China as the likely trade partner. These trade and domestic use changes result in lower ending stock forecasts. Specifically, 2020/21 Argentine soybean ending stocks are forecast down from last month’s estimate of 25.3 million metric tons to 24.6 million metric tons.

Canadian Canola and Soybean Production Update

The end of August brought with it much needed rainfall in the major canola producing regions of Saskatchewan, Alberta, and Manitoba. Although the late arrival of rain slightly alleviated drought conditions, much of August was plagued with the same poor weather conditions experienced in July. Many crops were too far advanced to benefit from the moisture. Moreover, the slight reprieve from extreme dryness is seen as untimely for canola producers since harvest is well underway. The *Manitoba Crop Report* suggests 38 percent of canola crops were harvested by month’s end, however, the pace of harvest established at the beginning of August was slowed after the province received 25 percent of growing-season rainfall over a 1-week period. Saskatchewan and Alberta have reported that 6 percent and 1.5 percent of canola crops have been harvested.

USDA forecasts the 2021/22 Canadian canola yield will decline to 1.6 metric tons per hectare from last month’s estimate of 1.84 metric tons per hectare, based on observed weather

conditions and Canadian crop harvest reports. Consequently, the 2021/22 Canadian canola production estimate is lowered by 2 million metric tons to 14 million metric tons. Decreased canola supply keeps the export price for Canadian canola high at \$778 per ton this month with export forecasts lowered by 1.1 million metric tons from last month's forecast to 5.8 million metric tons, a 15-year low. Soybean production was also lowered for Canada, down 200 thousand metric tons to 5.9 million metric tons.

High Vegetable Oil Prices Impact India

Higher vegetable oil prices and tight supplies have begun to impact India, the world's largest vegetable oil consumer and importer. Domestic palm oil consumption is forecast 363 thousand metric tons lower for the 2020/21 marketing year at 8.5 million metric tons while imports are forecast down by 1 million metric tons to 7.5 million metric tons. Additionally, domestic soybean oil consumption is projected to decrease by 50 thousand metric tons this marketing year to 5.28 million metric tons with soybean oil imports falling by 100 thousand metric tons to 3.6 million metric tons. Subsequently, these drawbacks are expected to be offset by a 100 thousand metric ton increase in sunflower oil consumption (to 2.55 million metric tons) and imports (to 2.35 million metric tons).

In conjunction, India's domestic soybean meal prices began increasing in January 2021 and have reached unprecedented highs in recent months. The historical price surge peaked in July, more than double the Indian government's minimum support price of \$531 per metric ton. After nearly 5 months of poultry producers petitioning the Indian government for relief from high domestic soybean meal prices, the Ministry of Commerce and Industry's agency, the Directorate General of Foreign Trade, published a directive in *The Gazette of India* officially permitting India to import 1.2 million metric tons of genetically modified soybean meal. This directive will be in effect from its August 24 announcement until October 31, 2021.

Regional suppliers are expected to temporarily benefit from this directive, namely Bangladesh, Vietnam, Malaysia, the United Arab Emirates, and Singapore. In fact, the day after this directive was issued, many soybean meal traders entered advanced soybean meal contracts with Bangladesh for an estimated 150,000 metric tons of soybeans. Correspondingly, domestic soybean meal prices declined by 4 percent to \$1,112 per metric ton by the end of August.

Suggested Citation

Aaron M. Ates, Todd Hubbs, and Mark Ash, *Oil Crops Outlook: September 2021*, OCS-21i, U.S. Department of Agriculture, Economic Research Service, September 14, 2021.

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