



Oil Crops Outlook

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Soybean Prices Supported by Strengthening Soybean Oil Market

In its *Crop Production—2019 Summary* report, USDA published an estimate of the 2019/20 U.S. soybean crop at 3.558 billion bushels, up 8 million from the previous forecast. The small production gain for soybeans is based on an increase for the U.S. average yield by 0.5 bushel to 47.4 bushels per acre. USDA’s forecast of U.S. soybean exports for 2019/20 is unchanged at 1.775 billion bushels. With the forecast of domestic crush also unchanged, season-ending soybean stocks are still seen at 475 million bushels.

Central Illinois soybean oil prices climb to a 3-year high



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

Domestic Outlook

Soybean Price Gains Reflect Better Trade Climate with China

This month, USDA's National Agricultural Statistics Service published its *Crop Production—2019 Summary* report. The publication included an estimate of the 2019/20 U.S. soybean crop at 3.558 billion bushels, up 8 million from the previous forecast. The small production gain is based on an increase for the U.S. average soybean yield by 0.5 bushel to 47.4 bushels per acre. Improved yields for Illinois, Iowa, and Indiana more than offset reductions in Kansas, Minnesota, and North Dakota. In contrast, U.S. harvested acreage of soybeans declined by 605,000 acres from the previous estimate (to 75 million acres) mainly on account of reductions for South Dakota, North Dakota, and Nebraska.

By December 1, 4 percent of the soybean acreage was still unharvested because of unfavorable weather last fall. This spring, USDA will conduct a resurvey of production in States where there was an unusually high level of unharvested soybean acreage, particularly Michigan, North Dakota, and Wisconsin.

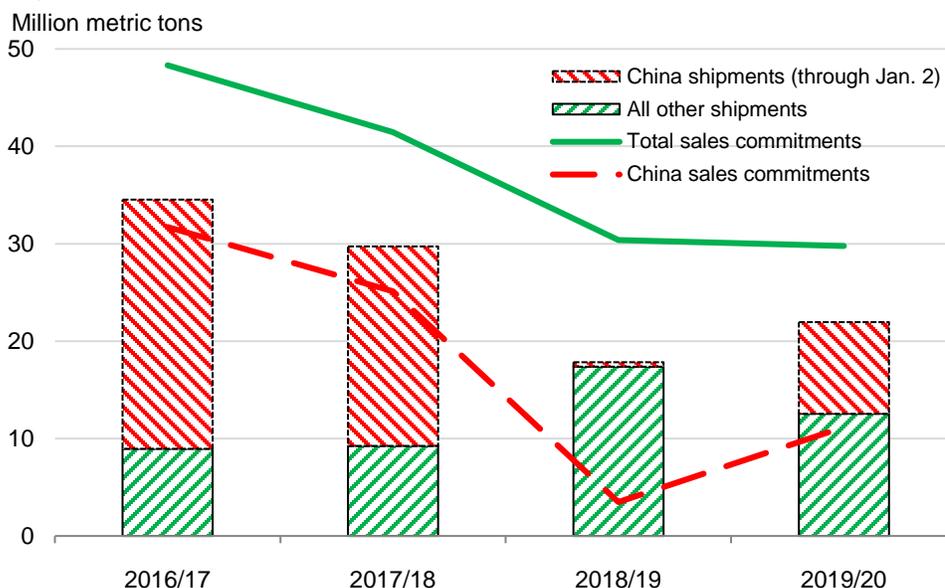
USDA's *Grain Stocks* reported U.S. soybean stocks on December 1 at 3.252 billion bushels, compared to the 3.746 billion bushels on hand a year earlier. Total stocks declined by 13 percent from last year while on-farm stocks are down 21 percent. The inventory decline for soybeans is due to a much smaller harvest and gains for the first-quarter use.

Almost all of the improvement in first-quarter soybean use stems from higher export demand. Compared to a year earlier, U.S. export shipments of soybeans for September–December 2019 were considerably faster—up 26 percent to 792 million bushels. Nearly all of the year-to-year improvement can be attributed to higher exports for China, which have gained by 326 million bushels from the year earlier pace.

Despite a recovery in the rate of U.S. export shipments, total sales of soybeans for 2019/20 are still lagging. As of January 2, export sales commitments for 2019/20 are down 2 percent from a year earlier. On January 15, a pending U.S. trade agreement with China is expected to be finalized to help calm a long-running conflict. No terms of the agreement have yet been made public regarding targets for China's volume of agricultural imports. So far, few new U.S. soybean sales can be attributed to the accord. However, market optimism that major sales could soon materialize has rallied prices for soybean futures contracts near their highest level since mid-2018. Farmers could exploit this opportunity by accelerating crop marketing at the

higher price level. These circumstances are reflected by USDA's forecast increase for the 2019/20 U.S. average farm price this month by 15 cents to \$9.00 per bushel.

Figure 2
China leads recovery in U.S. soybean export shipments but total sales lag



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

Stronger U.S. prices, though, may also discourage soybean sales into other foreign markets, tempering any impact of better trade relations with China. Foreign competition will stay formidable, as well, as USDA anticipates that exports from a record-high South American new-crop soybean harvest will soon come onto the global market. USDA's forecast of U.S. soybean exports for 2019/20 is unchanged at 1.775 billion bushels. With the forecast of domestic crush also unchanged, season-ending soybean stocks are still seen at 475 million bushels. Nevertheless, this inventory would be well below the 2018/19 carryout of 909 million.

Robust Demand Outlook Rallies Soybean Oil Prices

Last month, Congress passed a bill to fund 2020 Government spending. The new funding legislation included extensions for several federal tax credits, including one for blending biodiesel. The \$1-per-gallon biodiesel credit had expired at the end of 2017, but is now extended through 2022 and retroactively for 2018 and 2019. Also, the Environmental Protection Agency (EPA) used its authority under the Renewable Fuels Standard to set 2020 biofuel volume requirements. Near the end of last year, EPA finalized the 2020 volume requirement for biomass-based diesel at 2.43 billion gallons (up from 2.1 billion for 2019). In addition, the 2020

advanced biofuel requirement (which is expanded to 5.09 billion gallons from 4.92 billion for 2019) may support production well beyond 2.43 billion gallons.

Soybean oil prices have been buoyed by tighter soybean supplies and a bright demand outlook for soybean oil. Also providing support are rising international prices for palm oil, which is the world's top source of vegetable oil. In December, central Illinois soybean oil prices surged to an average of 32.3 cents per pound from the November average of 30.6 cents. USDA acknowledges the market's newfound strength this month by raising its forecast of the 2019/20 average price by 3 cents per pound to 34 cents.

In contrast, the joint nature of soybean oil and soybean meal production makes processors more willing to accept lower meal prices whenever they can command a higher price for the oil. As oil prices surged in December 2019, soybean meal prices again dipped below \$300 per short ton. Thus, USDA shaved its forecast of the 2019/20 average soybean meal price this month by \$5 per short ton to \$305.

Harvest Losses Curb Supplies of Canola and Sunflowerseed

In 2019/20, canola acreage (at 2.04 million acres) was the second highest ever and the yield was the fourth highest on record at 1,781 pounds per acre. The combination resulted in a U.S. production estimate of 3.4 billion pounds—down 6 percent from the 2018/19 record. Last summer, warm and moist weather throughout the Northern Plains generally benefited crop yields. However, the latest estimate is 307 million pounds below the previous forecast as harvest losses curtailed production. Long delays in fall fieldwork were caused by heavy precipitation and an early snowfall. A decline for the North Dakota harvest accounts for 93 percent of this season's total loss of production.

Weak crushing demand for canola in 2019/20 is limiting U.S. imports of canola. Despite ample domestic and Canadian supplies and a moderate price level, the cumulative canola crush for June–November 2019 is down 7 percent from a year earlier. USDA forecasts the marketing year total crush down 2 percent from the 2018/19 total to 3.73 billion pounds. Aligned with this lower demand, U.S. canola imports may drop to a 4-year low in 2019/20 to 902 million pounds.

For sunflowerseed, domestic production in 2019/20 totaled 1.94 billion pounds, which is down 309 million from the previous forecast and 164 million (or 8 percent) below the 2018/19 crop. Oil-type sunflowerseed production comprised 1.75 billion pounds of the total and is down 7 percent from the previous year. Despite a 2-percent increase in 2019/20 harvested sunflowerseed acreage (to 1.25 million acres), the crop was held down by lower yields. The

U.S. average sunflowerseed yield fell 10 percent from last year's record to 1,562 pounds per acre. The largest loss of production in 2019/20 was for South Dakota, which accounted for 82 percent of the overall reduction.

Additional production losses for sunflowerseed could possibly worsen. In 2019/20, crop development for sunflowerseed was slowed when a wet spring delayed planting. Progress for the fall harvest was also difficult due to a heavy snowfall in the Northern Plains. By December 8, only 73 percent of U.S. sunflowerseed acreage had been harvested. Many fields in the region are covered by a deep layer of snow and are unlikely to be harvested until spring. This season's lower supply of sunflowerseed may ration domestic use and tighten season-ending stocks. Current prices for sunflowerseed have strengthened toward a 5-year high as a consequence.

Flaxseed production surged in 2019/20 as the sown acreage swelled 80 percent to 374,000 acres. Although flaxseed yields slipped to 20 bushels per acre from 22.6 bushels in 2018/19, the higher acreage increased production by 43 percent to 6.4 million bushels. The larger domestic crop is expected to trim flaxseed imports in 2019/20 to 4.7 million bushels.

Abundant Crops to Aid Use of Peanuts and Cottonseed

USDA's *Crop Production—2019 Summary* places 2019/20 U.S. peanut production at 5.5 billion pounds—virtually identical to the 2018/19 crop. Sown acreage for peanuts was virtually unchanged from 2018/19, while the harvested acreage increased only 1 percent to 1.39 million acres. A downward revision from the December production forecast reflects lower yields in the Southeast, which were stressed by a hot and dry summer. The estimate of the U.S. average peanut yield for 2019/20 was lowered 131 pounds from the previous forecast to 3,949 pounds per acre and from 4,001 pounds in 2018/19. Despite a steady production level, the total supply of peanuts in 2019/20 is down 4 percent due to lower beginning stocks. A steady rate of use in 2019/20 would likely continue to shave season-ending stocks to 2.1 billion pounds from 2.4 billion in 2018/19.

U.S. cottonseed production for 2019/20 expanded 11 percent from 2018/19 to 6.2 million short tons. Most of this season's cottonseed production gains stem from improved yields in Georgia and other Southeastern States. The estimated harvested acreage for cotton rebounded to 11.8 million acres from 10.2 million in 2018/19 based on a lower rate of acreage abandonment in Texas. However, the Texas cottonseed crop slipped 5 percent in 2019/20 as its higher harvested acreage was more than offset by lower yields. A more plentiful U.S. cottonseed supply could boost the domestic crush to 1.8 million short tons and feed use to 4.2 million tons.

International Outlook

Global Abundance of Sunflowerseed to Buoy Demand

Global sunflowerseed production for 2019/20 is forecast at 54 million metric tons this month (up 560,000) as a higher Russian crop more than offsets lower harvests in the United States and Argentina. Based on complete official harvest data, Russian sunflowerseed production for 2019/20 is estimated 800,000 tons higher this month to a record 15.3 million.

In Argentina, a lower area harvested is anticipated for 2019/20, as the price level has been eroded by bumper crops in Russia and Ukraine. In addition, a re-imposition of a higher export tax on sunflowerseed has deterred sowing for the crop. This trims the forecast of 2019/20 Argentine sunflowerseed production by 100,000 tons this month to a 4-year low at 3.2 million. The crop reduction would likely shave farm inventories in Argentina.

Rising Prices, Revised Duties to Shift Global Palm Oil Trade

Three months into 2019/20, the production of palm oil in Malaysia has been sluggish. Compared to a year earlier, the cumulative October–December 2019 output (4.67 million tons) is down 17 percent. After February, it is typical for Malaysian palm oil production to have a seasonal rise. But the early deficit prompted USDA to lower its 2019/20 production forecast for Malaysia by 500,000 tons to 20.5 million, which would be below the 2018/19 total at 20.8 million tons. So, lower productivity has allowed the country's stocks to slip to a 3-year low in December.

To date, Malaysian palm oil exports for 2019/20 have been steady. But further tightening of supplies this season could slow Malaysian export demand. And for the first time in a year, the Malaysian Government levied a higher export tax on crude palm oil (from zero to 5 percent). By tempering export demand, the tax is intended to help moderate prices for domestic users of palm oil. In December, the Malaysian price for crude palm oil was 43 percent above the year earlier level. Thus, USDA trims its forecast of 2019/20 Malaysian palm oil exports this month by 350,000 tons to 18 million.

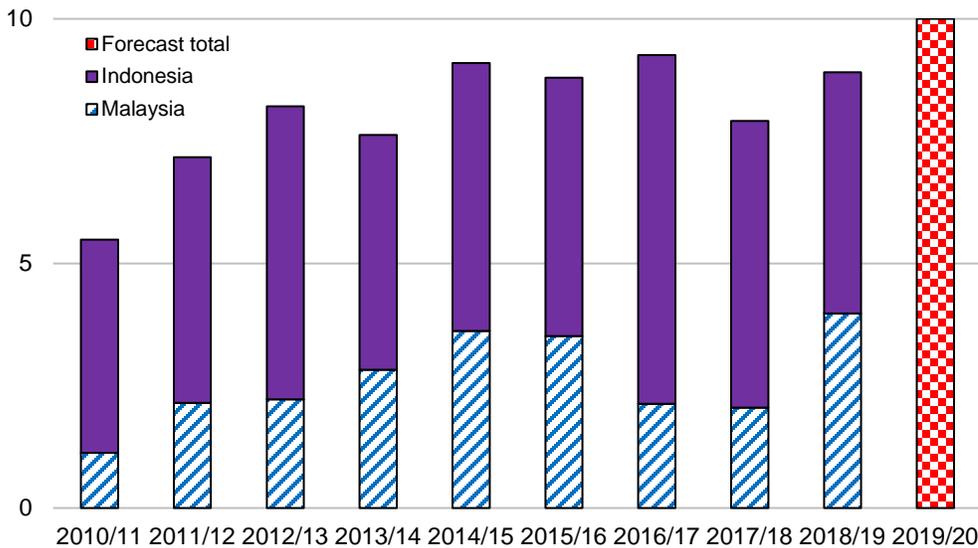
India imports nearly 70 percent of the vegetable oils that it consumes annually, with palm oil accounting for more than 60 percent of the imports. Recently, the Government of India (GOI) lowered its import duty on crude palm oil from 40 percent to 37.5 percent, while the duty for refined palm oil was lowered 5 percentage points to 45 percent. Considering the upward trend for palm oil prices, the duty reductions would help manage its price difference relative to

soybean oil and sunflowerseed oil, whose tax rates were unchanged. Subsequent to this action, the GOI also imposed a new restriction on imports of refined palm oil. Formerly, India has primarily sourced its refined palm oil imports from Malaysia, which now would likely lose market share there. Indian importers are then likely to substitute with crude palm oil, which predominantly comes from Indonesia. Given India's dominant position in global palm oil trade, other countries also would be affected. Refining margins for crude palm oil in other countries would be narrowed and encourage a substitution of refined palm oil for crude oil imports.

Figure 3

Indian import demand for palm oil remains keen

Million metric tons



Sources: India customs data and USDA, Foreign Agricultural Service, *PS&D Online*.

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