



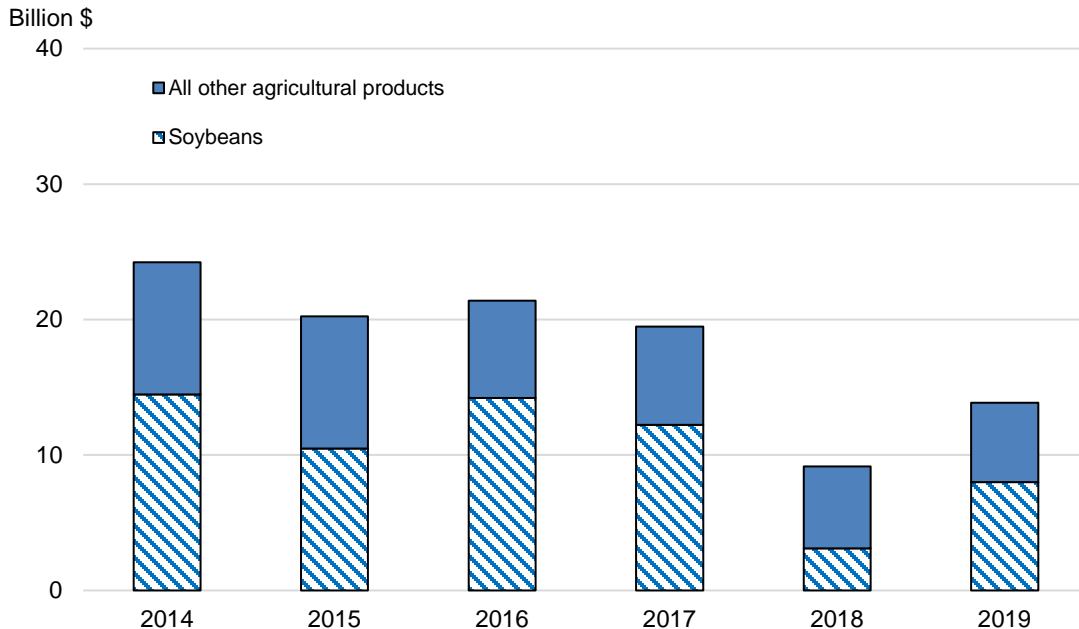
Oil Crops Outlook

Mark Ash

Higher Global Imports to Boost U.S. Soybean Export Prospects

USDA raises its forecast of 2019/20 soybean exports this month by 50 million bushels to 1.825 billion. With no other changes for U.S. soybean supply or domestic use, season-ending stocks for 2019/20 are forecast declining to 425 million bushels from 475 million last month. Even so, the rising level of global soybean supplies led USDA to trim its forecast of the 2019/20 average price by 25 cents this month to \$8.75 per bushel.

\$40 Billion trade deal may swell U.S. soybean sales to China in 2020 and 2021



Source: USDA, Foreign Agricultural Service, *Global Agricultural Trade System*.

Domestic Outlook

A Summer Revival Could Benefit U.S. Soybean Shipments

Last month, China and the United States concluded a major trade agreement, which becomes effective February 14. The deal does not formally eliminate China's tariffs on U.S. soybeans, though. China's Finance Ministry will halve a 5-percent tariff hike imposed on U.S. soybeans last September, although a previous increase is still in place, which only trims the duty from 33 percent to 30.5 percent. However, among the most meaningful terms of the agreement is China's commitment to average an additional \$40 billion of food and agricultural commodities purchases from the United States for both 2020 and 2021. Purchase levels for these years are expected to exceed the 2017 level by \$12.5 billion and \$19.5 billion, respectively. An exact distribution for the commodity purchases is unknown. But soybeans are typically the top U.S. agricultural export to China and could account for a major portion of the increase in overall trade. A commitment to meet this overall target suggests that China's Government would eventually grant more tariff exemptions to U.S. soybeans sometime this year.

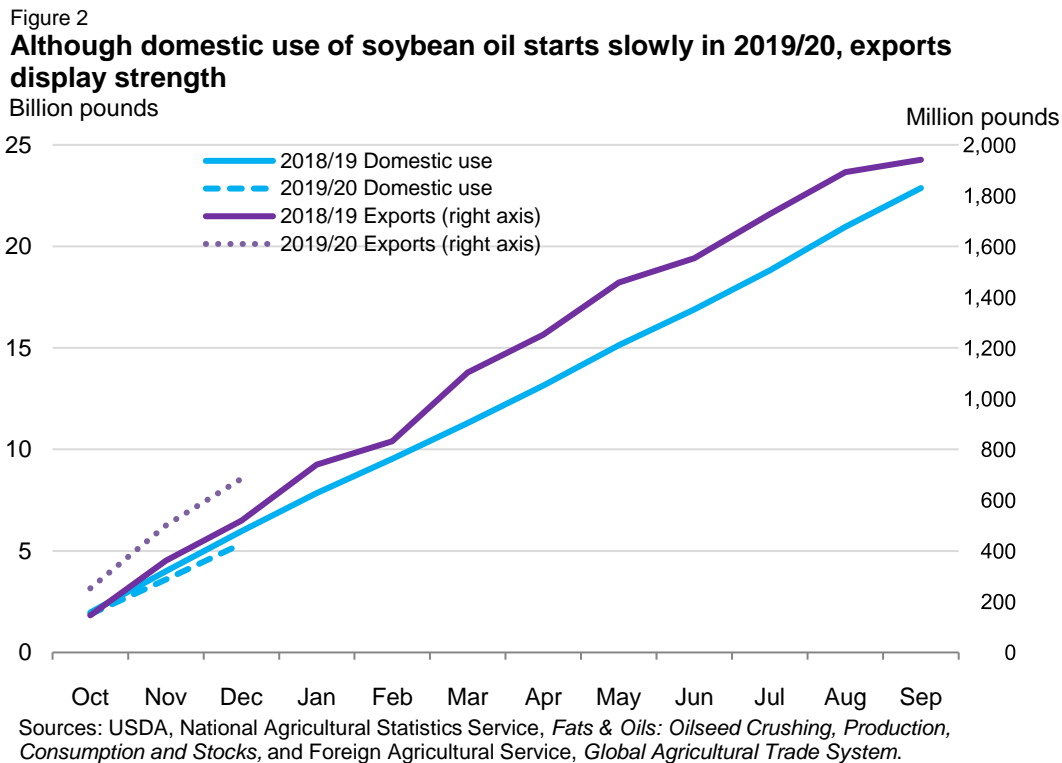
While China has agreed to buy more agricultural products from the United States, the sales are still conditional on market circumstances. This means that any export gains for soybeans might not be immediately apparent. Moreover, in the next few months, Brazil is set to harvest and export a record volume of competitively priced soybeans. Substantial U.S. sales to China then could be deferred until late in the 2019/20 marketing year. By that time, the disposal of Brazil's crop and the advance of U.S. new-crop development should start to make U.S. supplies more price-competitive again. So, despite the current lack of outstanding sales, more U.S. soybean shipments might be forthcoming by the end of the summer. Under these circumstances, USDA raises its forecast of 2019/20 soybean exports this month by 50 million bushels to 1.825 billion.

With no other changes for U.S. soybean supply or domestic use, season-ending stocks for 2019/20 are forecast declining to 425 million bushels from 475 million last month. Despite the moderately tighter outlook for U.S. stocks, current prices are being held back by enhanced prospects for Brazil's soybean crop. The rising level of global supplies led USDA to trim its forecast of the 2019/20 average price by 25 cents this month to \$8.75 per bushel.

Domestic Use of Soybean Oil Starts Slowly for 2019/20

USDA lowered its forecast for domestic disappearance of soybean oil by 400 million pounds this month to 23.1 billion. A January 1 reinstatement of a \$1-per-gallon blending credit for biomass-based diesel may significantly improve demand for soybean oil as a feedstock this year. Prior to reinstatement of the tax credit, however, biodiesel production margins were poor and underutilization of capacity was substantial. Domestic use of soybean oil during the October–December 2019 period fell by 11 percent from a year earlier. This early deficit in soybean oil use for biodiesel likely precludes achievement of the prior forecast, prompting USDA to scale back its 2019/20 consumption forecast this month by 300 million pounds to 8.2 billion. Similar conditions apply to the use of soybean oil for renewable diesel, which is another biofuel.

In contrast, U.S. exports of soybean oil this year are doing better than first anticipated. USDA raised the forecast of 2019/20 exports by 200 million pounds to 1.9 billion. In particular, sales commitments to South Korea, Colombia, Dominican Republic, and Mexico are doing well. The additional export shipments—coupled with reduced production from a lower oil extraction rate—would partly offset the reduction in domestic use. Thus, season-ending stocks of soybean oil are not seen tightening quite as much in 2019/20 as first thought.



International Outlook

Beneficial Conditions Boost Brazil Soybean Crop

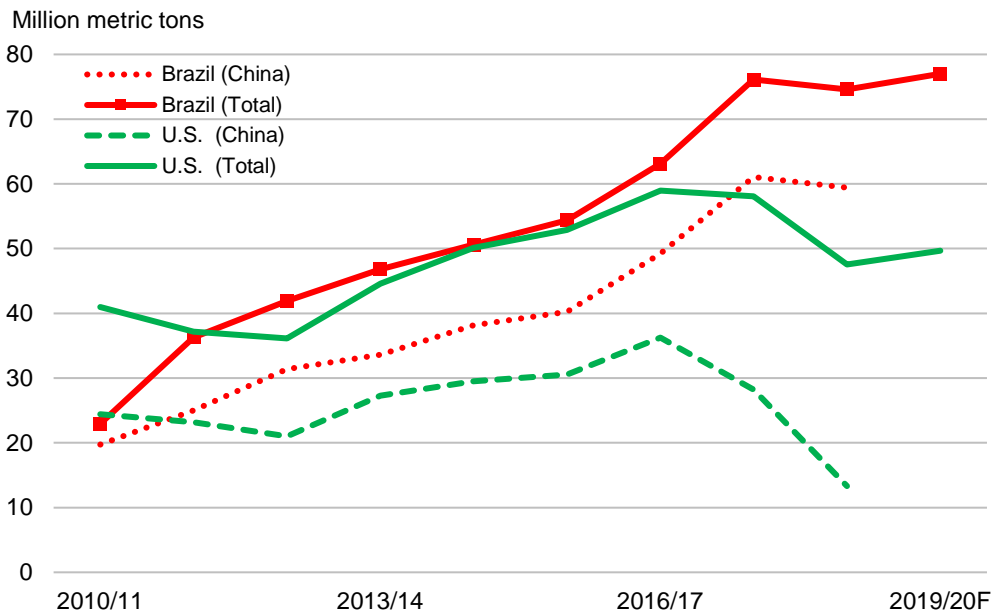
This month, USDA raised its forecast of Brazil's 2019/20 soybean crop by 2 million metric tons to a record 125 million and from 117 million in 2018/19. With Brazilian soybean area unchanged at 36.9 million hectares, the production change is entirely based on a higher overall expected yield of 3.39 metric tons per hectare. If realized, this season's yield would be only modestly below the 2017/18 record of 3.47 tons per hectare. Since November, most of the country has been covered by abundant rainfall. Exceptions include the southernmost State of Rio Grande do Sul and in several other northeastern States. But even in these regions, the soil moisture dramatically improved with January rains, stabilizing prospects for the last of the country's soybean crop. A September–October dry spell delayed the start of planting in Brazil, so soybean harvesting in the country is progressing a bit later than a year ago. Nevertheless, harvesting is now picking up momentum, particularly in Mato Grosso, where nearly half of the State's harvest was complete by mid-February.

Brazilian soybean exports could surge to new heights this year with a record supply and a weak exchange rate. Valuation of Brazil's currency with the U.S. dollar has now sunk to at an all-time low (at approximately 4.3 real per dollar). Also, as of November, soybean transportation costs from Brazil have fallen. This development stems from completion of paving for a major highway, which is expediting new-crop shipments by truck and Amazon River barges to the country's northern ports.

In 2019/20, USDA forecasts soybean shipments from Brazil to rise to a record 77 million tons—up 1 million from last month. Exports are forecast to exceed the 74.6 million tons shipped last year and would far surpass U.S. soybean trade at 49.7 million tons. While Brazil's soybean exports to China may not possess the same advantages they did in early 2018/19, in other import markets they could gain at the expense of U.S. exports. Even so, Brazil's bigger harvest and a better outlook for U.S. exports may accumulate a higher level of soybean stocks by October—to 32.2 million tons (versus 30.4 million for 2018/19).

Figure 3

Bumper crop to keep Brazilian soybean exports highly competitive



Source: USDA, Foreign Agricultural Service, *Production, Supply, and Distribution Online*.

Trade Deal May Boost China Soybean Imports

USDA hiked its forecast of China’s 2019/20 soybean imports this month by 3 million tons to 88 million. A primary factor behind the altered outlook is an expectation for higher agricultural trade with the United States. Declining freight rates to China are also more favorable for trade overall. Yet, any obstacles to domestic feed use may force many more soybean imports into Government stocks as a consequence. By the end of the marketing year, China’s soybean inventories are forecast accumulating to 21.7 million tons compared to 19.5 million in 2018/19.

Soybean use in China may see only gradual gains this year. While the 2019/20 soybean crush is forecast up 1 million tons this month to 86 million, this still represents a modest 1-percent increase over the 2018/19 level. The country’s hog herd is in the early stages of a recovery from last year’s massive losses due to African swine fever. At the same time, some areas have recently seen an outbreak of avian influenza, which could affect the demand for poultry feed.

Recovery from both situations may be complicated by trade disruptions both within and outside China. Even more turmoil is threatened by a new outbreak of a coronavirus—a potentially deadly disease for humans. Until the current quarantines and travel restrictions are lifted, the situation could restrict the public movements of workers. The production and commerce of soybean meal in China could be inhibited.

High Yields Swell Ukraine's 2019/20 Sunflowerseed Harvest

Global sunflowerseed production for 2019/20 is forecast 406,000 tons higher this month to 54 million based primarily on crop gains in Ukraine. Further improvement in Ukraine for what is already a record sunflowerseed yield would boost the country's 2019/20 production this month by 500,000 tons to an all-time high 16 million. The windfall sunflowerseed crop is expected to boost the 2019/20 domestic crush to 15.75 million tons from last year's record of 14.8 million. That could then expand Ukraine's exports of sunflowerseed meal in 2019/20 by an additional 50,000 tons to 4.9 million. Major destinations would include import markets such as the EU and China.

Widening Palm Oil Deficit is Shrinking Global Vegetable Oil Stocks

Typically, palm oil inventories make up just over half of global vegetable oil stocks. For 2019/20, global season-ending palm oil stocks may plummet by 25 percent to a 10-year low of 7.9 million tons. For comparison, global stocks of soybean oil are seen at 3.4 million tons. A source of the market tightening is a decline in palm oil output by the two top global producers—Indonesia and Malaysia. Higher domestic use of palm oil within both countries is contributing to a contraction of available supplies for export, as well.

USDA lowered its 2019/20 forecast of Malaysian palm oil production by 700,000 tons this month to 19.8 million. Production losses for palm oil are a remnant from nearly a year ago, during a prolonged period of well-below average rainfall. This dryness harmed development of the oil-bearing fruit bunches that were then first forming on the palm trees. At 5.83 million tons, cumulative Malaysian production for October 2019–January 2020 lags the year-earlier pace by 21 percent. Consequently, Malaysian palm oil stocks in January fell for the fifth consecutive month (to 1.76 million tons) and are the lowest since June 2017. By January 2020, the supply shortfall had swelled Malaysian prices for crude palm oil by 48 percent above what they were a year earlier.

A similar period of dry weather has also led to disappointing Indonesian palm oil production this year. Indonesian oil output for 2019/20 is expected 500,000 tons lower this month to 42.5 million. This season's production forecast marks a significant slowing with respect to the robust gains that have been made over the last decade.

A meager supply expansion is likely to slow foreign trade in Indonesian palm oil this year. USDA forecasts Indonesian 2019/20 exports at 29.1 million tons versus 28.3 million for 2018/19. While trade could eventually accelerate, Indonesian exports for the season-to-date have slipped 6 percent from a year earlier. Aside from reduced supplies, another reason that Indonesian palm oil exports have weakened is that its use for biodiesel within the country is booming. The production losses, coupled with a higher domestic use of palm oil in 2019/20, is seen slashing Indonesian season-ending stocks to 1.7 million tons from 2.6 million in 2018/19.

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