2005 Crop Projections and Outlook

Better Soybean Yields Compensating for Lower Acreage

AUSTRALIAN GOVERNMENT DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

U.S. Outlook

According to the USDA's October *Oil Crops Outlook*, at 72.2 million acres, there were 0.9 million fewer soybean acres planted in 2005 than indicated by the previous estimate. Acreage data collected by USDA to administer farm program payments contributed toward a conclusion that soybean acreage this year had been overestimated in some states.

Despite the lower sown area, soybean conditions had improved across the country by early October to where 57 percent were rated good-to-excellent, down moderately from 66 percent a year ago. New harvest results are showing that soybean pods generally filled out with beans very well between August and September. Higher state yield forecasts (mainly for Iowa, Illinois, Nebraska, and Minnesota) helped to raise the national average to 41.6 bushels per acre. The better yields more than compensated for a lower acreage, and U.S. soybean production was forecast up by 111 million bushels to 2,967 million. Only last year's crop would be bigger than the current one.

USDA's latest *Grain Stocks* report found that September 1 national soybean stocks in all positions totaled 255.5 million bushels. The amount was lower than the previous forecast of 295 million bushels and (when coupled with the total soybean use) indicated that the 2004 crop had been overestimated. The 2004 national average soybean yield was trimmed from 42.5 bushels to 42.2 bushels per acre, revising down the final production estimate by 17 million bushels to 3,124 million. The change offset part of the increase for the current crop, leaving the total 2005-06 soybean supply only slightly below (by 15 million bushels) the 2004-05 record.

U.S. export inspections of soybean shipments were slowed in September by logistics problems at Louisiana Gulf port elevators. September exports were down to 28 million bushels compared to 48 million the prior year and only minimally higher than the previous month's seasonal low. By the end of September, capacity at these export elevators was recovering to a more normal level. A potentially more enduring concern, however, is the slow start for export sales. As of September 29th, 2005-06 sales commitments totaled just 240 million bushels, down from 345 million sold a year earlier. Sales to China and the European Union (EU-25), in particular, have lagged well behind last year's record pace. Soybean buyers in both markets are still well supplied with trade from South America and can wait for prices to drop a bit lower before accelerating U.S. purchases again. The U.S. export forecast was unchanged in the October report at 1,115 million bushels.

A minimal gain in domestic soybean crushing is also seen likely in 2005-06. While current processors' margins are quite solid, a strong resurgence of South American output next year is eventually expected to add more pressure onto U.S. export sales of soybean meal and soybean oil. So, despite the additional supply from a bigger harvest, the 2005-06 domestic crush is seen only 10 million bushels higher to 1,695 million bushels. A steady pace of soybean use in 2005-06 may keep ending stocks up around 260 million bushels.

USDA lowered its forecast of the season average farm price to $5.00-$5.80 per bushel from the September forecast of $5.15-$6.05 per bushel. Throughout September, soybean prices continued to fall as the harvest accelerated and expectations of its size grew. By October 9, 60 percent of U.S. soybeans had been gathered, moderately ahead of the five-year average of 51 percent. Current values are down approximately $1.00 per bushel from early August.

Supplying a Robust Soybean Oil Market May Be Hampered by Weak Soybean Meal Demand

There appears to be greater momentum for soybean oil use and its price next year. Domestic consumption of soybean oil increased sharply in August, cutting end-of-month stocks to 1,729 million pounds from 1,989 million in July. The sudden tightening of supply prompted USDA to raise its forecast of 2004-05 domestic disappearance for soybean oil by 200 million pounds to 17,500 million. An equal increase of the 2005-06 disappearance forecast to 17,850 million pounds was directly correlated to the prior year's change.

The market's anticipation that more soybean oil could be used for biodiesel production next year is placing a floor under current values. Optimism about biodiesel is being encouraged by its improved production incentives and competitiveness with petrodiesel prices. Biodiesel producers can now claim an exemption off the federal excise tax of one-cent-per-gallon for each percentage point of its inclusion in fuel. There are also new quantity standards for the annual use of all biofuels nationally and specifically for biodiesel in Minnesota. The season average price for soybean oil is forecast up to 22.0-25.0 cents per pound in October against 21.5-24.5 cents previously. Soybean oil generally accounts for around 35 percent of the total processor returns, but higher values could raise that share toward 40 percent this year.

However, stronger domestic consumption and prices and the potential competition from Argentine processors may moderate commercial demand for U.S. soybean oil exports. The 2005-06 export forecast was trimmed from 1,500 million to 1,300 million pounds. Season ending stocks of soybean oil are forecast edging up to 1,641 million pounds from the expected 2004-05 carryout of 1,571 million.

In contrast, the price for soybean meal will be more affected by its own rising supply. The season average price is forecast to recede toward $155-$185 per short ton, down from the 2004-05 average of $183 per ton. The addition of record-large amounts of protein feed substitutes, like cottonseed and corn distiller's grains, will also sustain the price pressure on soybean meal. Yet, only modest growth is seen for feed demand. Domestic disappearance of soybean meal is expected to rise 1.8 percent in 2005-06 to 34.0 million tons.

Exports of soybean meal should also benefit from a lower price level, at least until a surge of new-crop supplies from South America become available. During the prime months for U.S. exports, reduced competition from India may also be supportive. USDA raised the 2005-06 forecast of U.S. soybean meal trade from 6.4 million to 6.55 million tons this month, although still well below expected 2004-05 shipments at 7.3 million.

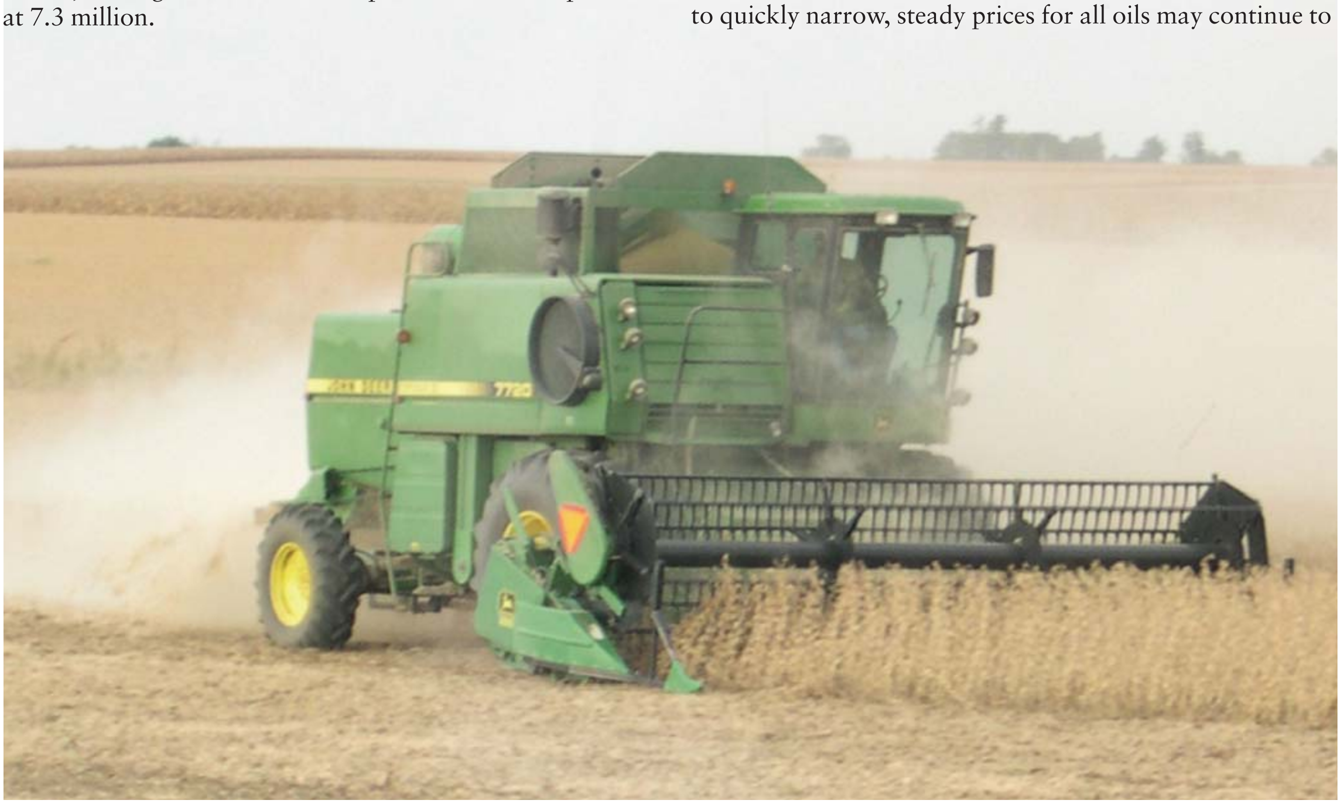
Other Domestic Oilseed Harvests Also Excel

Throughout the country, the sunflower crop is dramatically improved over last year's disappointing harvest. Planted acreage is up 45 percent in 2005 to 2.7 million acres and harvested acreage is expected up 51 percent. In early October, 80 percent of the North Dakota sunflower crop was rated in good-to-excellent condition compared with just 46 percent last October. The positive signals from the crop condition reports were subsequently confirmed by the October *Crop Production* report, which forecast overall yields at a near-record 1,500 pounds per acre. At a forecast 3,871 million pounds, the 2005 sunflowerseed harvest would be the biggest since 1999, and 89 percent larger than last year's crop. Harvesting of sunflowerseed has recently begun, with 13 percent of the national crop collected as of October 9.

The comparative abundance of supply should spark a strong recovery in sunflowerseed crushing. For the coming season, processors are now forecast to use 1,860 million pounds, well above the 609 million that were crushed in 2004-05. Demand for mid-oleic sunflowerseed oil is likely to be quite brisk as domestic food processors seek out all sources of *trans* fat-free vegetable oil.

Although the sunflowerseed oil industry has an increasingly domestic orientation, there should be enough additional supplies with which to expand exports again. If the demand outlook is validated, ending stocks of sunflowerseed could become less tight, but not burdensome.

Despite an excellent crop, tight carryover stocks and strong demand prospects should continue to support the price outlook for sunflowerseed. Many producers were able to make forward price contracts at attractive levels last spring. While premiums for sunflowerseed oil this fall are expected to quickly narrow, steady prices for all oils may continue to



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support oil-type sunflowerseed prices near current values of $12 per hundredweight.

U.S. production of cottonseed for 2005 was forecast 163,000 short tons higher this month to 8.1 million. Total supplies would be 0.1 million tons larger than in 2004, which could allow for a small increase in domestic uses. Steady demand for cottonseed oil will maintain support for cottonseed processors.

Cottonseed crushing is forecast at 2.95 million tons, compared with 2.92 million in 2004-05. Feed and seed consumption surged last season to an all-time high of 4.8 million tons and 2005-06 use could continue a modest increase from that level.

According to the *World Agricultural Supply and Demand Estimates*, the October outlook for 2005-06 U.S. corn is for increased production, higher domestic consumption, larger stocks, and lower prices. Forecasted 2005 corn production is up 218 million bushels from last month to 10.857 billion bushels (the second largest crop on record). Beginning stocks of 2005-06 corn drop 13 million bushels, based on the September *Grain Stocks* report. Projected 2005-06 feed and residual rises 50 million bushels and food, seed, and industrial use is up 15 million bushels. Corn ending stocks are up 141 million bushels from last month and are 108 million higher than the previous year. The projected 2005-06 price range for corn is $1.65 to $2.05 per bushel, down five cents on each end from last month, compared with $2.06 for 2004-05.

International Outlook

Global oilseed production for 2005-06 is projected at 384.9 million metric tons (MMT), up 5.5 MMT from

World and U.S. Supply and Use for Oilseeds[1]
(Million Metric Tons)

Commodity	Total Output	Supply	Total Trade	Ending Use[2]	Stocks
World					
Oilseeds					
2003/04	334.46	379.41	67.11	278.62	40.22
2004/05 (Est.)	379.17	419.39	74.98	301.24	50.61
2005/06 (Proj.)					
September	379.34	431.33	78.99	310.75	52.31
October	384.86	435.47	79.57	313.00	54.77
Oilmeals					
2003/04	189.96	195.45	58.33	189.97	4.92
2004/05 (Est.)	204.95	209.87	59.56	204.51	4.85
2005/06 (Proj.)					
September	211.91	216.99	61.01	211.11	5.28
October	213.64	218.49	61.47	212.37	5.13
Vegetable Oils					
2003/04	101.66	108.95	38.16	100.21	7.13
2004/05 (Est.)	110.00	117.12	41.42	108.44	7.46
2005/06 (Proj.)					
September	113.52	121.11	43.47	112.90	7.31
October	114.34	121.80	43.85	114.15	7.20
United States					
Oilseeds					
2003/04	76.60	82.94	25.16	45.52	4.15
2004/05 (Est.)	95.97	100.81	30.64	50.17	8.28
2005/06 (Proj.)					
September	89.45	99.37	31.31	50.33	7.10
October	92.81	101.65	31.28	50.82	8.65
Oilmeals					
2003/04	35.21	37.30	4.94	32.08	0.27
2004/05 (Est.)	39.15	40.89	6.90	33.68	0.31
2005/06 (Proj.)					
September	38.79	40.61	6.07	34.25	0.30
October	39.18	41.07	6.20	34.57	0.30

last month and up 5.7 MMT from 2004-05. Foreign oilseed production is raised 2.2 MMT as higher soybean, rapeseed, and sunflowerseed more than offset reduced cottonseed and peanut production. Argentina soybean production is projected at 40.5 MMT, up 1.5 MMT from the previous estimate based on increased area. Higher first crop soybean seedings are expected as Argentine producers switch from wheat and corn. Soybean production for India is projected lower due to reduced yield prospects related to dry weather. Sunflowerseed production is increased for Argentina, Bolivia, EU-25, Russia, Ukraine, and South Africa. Rapeseed production is projected higher for EU-25 and for Canada, where the crop is expected to be the largest since 1999-2000. Other changes include lower cottonseed production for China and Pakistan, partly offset by an increase for India. Lower peanut production projected for China is partly offset by an increase for India. Global oilseed stocks for 2005-06 are raised this month as production increases more than offset lower beginning stocks and increased use.

Unlike the situation in Brazil, Argentine producers are finding numerous incentives this year to expand soybean area. Dry Argentine weather sharply reduced the area sown to wheat, and recent frost damage may force some replanting. The country's corn area is also expected to drop about six percent this year because of its rising production costs and less favorable price signals compared with soybeans. This month, USDA raised the 2005-06 projection of Argentine soybean area from 14.7 million to 15.2 million hectares. Assuming average soybean yields, that additional area raises the 2005-06 production forecast from 39.0 MMT to 40.5 MMT. Combining the Argentine forecast with new crop estimates for the United States and India results in a 2005-06 global soybean production of 220.9 MMT, which is up two percent from last month and 3.5 percent from the previous year.

Soybean exports from Argentina just concluded a record-setting pace for 2004-05 and a bigger new crop will only further enhance trade prospects. This does not mean that Argentine exports can dominate the export market,

Commodity	Total Output	Supply	Total Trade	Ending Use[2]	Stocks
Vegetable Oils					
2003/04	8.77	11.60	0.74	10.06	0.80
2004/05 (Est.)	9.71	12.40	0.85	10.55	1.01
2005/06 (Proj.)					
September	9.72	12.61	1.02	10.55	1.04
October	9.88	12.93	0.93	10.94	1.06
Foreign[3]					
Oilseeds					
2003/04	257.86	296.48	41.95	233.10	36.07
2004/05 (Est.)	283.20	318.58	44.33	251.07	42.33
2005/06 (Proj.)					
September	289.89	331.96	47.69	260.43	45.21
October	292.05	333.82	48.28	262.17	46.12
Oilmeals					
2003/04	154.74	158.16	53.38	157.89	4.64
2004/05 (Est.)	165.80	168.98	52.66	170.83	4.54
2005/06 (Proj.)					
September	173.12	176.38	54.94	176.86	4.99
October	174.46	177.41	55.27	177.80	4.83
Vegetable Oils					
2003/04	92.90	97.35	37.42	90.16	6.33
2004/05 (Est.)	100.29	104.72	40.57	97.89	6.45
2005/06 (Proj.)					
September	103.80	108.50	42.45	102.35	6.28
October	104.46	108.87	42.92	103.21	6.14

[1]Aggregate of local marketing years with Brazil and Argentina on an Oct.-Sept. year. [2]Crush only for oilseeds.
[3]Total foreign is equal to world minus United States.

as bumper crops are expected as well for both the United States and Brazil. USDA edged its 2005-06 forecast of Argentine soybean exports up 200,000 tons to 9.6 MMT, a slight improvement over the 2004-05 volume of 9.0 MMT. Thus, a large majority of this month's production increase for Argentina is viewed raising the country's end-of- September stocks toward 16.8 MMT.

Excellent Sunflowerseed Crops To Ease Vegetable Oil Deficits in Europe

It is shaping up to be an excellent year worldwide for sunflowerseed production. Not only is global sunflower area close to an all-time high, but excellent yields are contributing toward a record expected output in 2005-06 of 28.7 MMT.

By mid-October, Ukraine's sunflowerseed producers had finished about 90 percent of the 2005 harvest. A record-high 4.3 MMT is anticipated for Ukraine sunflowerseed output this year. Crushers in Ukraine should use most (3.8 MMT) of the country's sunflowerseed crop and export a large amount of the sunflowerseed oil generated to the EU-25 and Turkey. Even with Ukraine's government trimming a sunflowerseed export tax next January from 17 percent to 16 percent, only a minor increase in the country's 2005-06 unprocessed seed exports (to 260,000 MT) is expected. In Russia, too, very good weather is seen boosting its sunflowerseed harvest to 5.3 MMT, up 200,000 MT from the previous forecast. A small amount of Russia's output of sunflowerseed oil will find its way into exports as it primarily serves a rapidly growing domestic market.

Imports of sunflowerseed by EU-25 processors will be moderated, however, by good fortune with domestic harvests. Excellent crops in France and Hungary are expected to boost EU-25 sunflowerseed output to 3.8 MMT, up 0.3 MMT from the prior forecast. A modest increase in EU-25 sunflowerseed imports is anticipated, to 1.0 MMT versus 0.7 MMT in 2004-05. As rapeseed oil is being siphoned off by a booming domestic biodiesel market, users of food oil will be able to turn to sunflowerseed oil for a lower-cost substitute. EU-25 imports of sunflowerseed oil could surge by 27 percent to nearly 1 MMT in 2005-06.

Despite the supply abundance of Eastern Europe, there will still be a large share of the EU-25 market left over for Argentine exporters of sunflowerseed and sunflowerseed products. Of all the crops in Argentina, prices for sunflowerseed now are perhaps the strongest. Producers are responding with a robust expansion of planting. USDA raised the estimate of 2005-06 sunflower area to 2.3 million hectares, up 22 percent from last year. As a consequence, the sunflowerseed production forecast rose to 4.0 MMT versus 3.6 MMT in 2004-05. If the crop is realized, Argentine processors are expected to use 3.75 MMT and ship substantially more of the sunflowerseed meal and oil abroad.

Indian Monsoon Less Favorable to 2005 Soybeans than Anticipated

The overall precipitation from India's summer monsoon was close to normal this year, but a late start curtailed the area sown to soybeans, and the long intervals between rains were less than optimal for their yields. Heavy rains commenced by late June into July, which were followed by a dry August and a wet September. Prolonged stress in the central part of the country was responsible for a lower soybean yield forecast, dropping the 2005 harvest projection to 6.0 MMT from 6.5 MMT previously. Even so, the timing of the moisture was more beneficial than it was last year, when only 5.5 MMT were produced.

In contrast, the peanut crop estimate was raised to 7.2 MMT from 7.0 MMT based on a better yield outlook for its predominant growing region in western India. In addition, record-large Indian cotton area in 2005 will let cottonseed production (which was increased from 7.8 MMT to 8.1 MMT this month) match last year's supply peak. When adding in a projection for lower rapeseed area and output next year, total oilseed production for India in 2005-06 would be up merely 0.4 MMT to 29.5 MMT.

The deficit between domestic vegetable oil production and consumption is expected to widen this season. Imports of vegetable oil may also be facilitated by the government of India's reduction of their reference prices, which establish a basis for the collection of tariffs. In September, India's reference prices were reduced from $558 to $508 per ton for soybean oil and from $423 to $402 per ton for crude palm oil.

The global outlook for coarse grains in 2005-06 is for larger production, higher consumption, larger imports, but fractionally lower stocks relative to the previous month's report. Foreign production is down just over 1 MMT with the largest declines projected in India, EU-25, China, South Africa, and Argentina. These losses are partially offset by gains in crops in Nigeria, Russia, and Ukraine. Global 2005-06 coarse grain consumption is up nearly 3 MMT with foreign consumption up nearly 2 MMT. There are many month-to-month changes in foreign consumption but the largest changes are a nearly 3 MMT increase in Nigeria and a 1.5-million decline in India. Imports are up for Brazil, Morocco, and several other countries. Exports are up for Ukraine, Nigeria, and Turkey but are down for Argentina, Brazil, and South Africa. Global 2005-06 ending stocks drop less than 1 MMT from last month but foreign stocks are down over 4 MMT. The largest drop in foreign stocks occur in EU- 25, China, South Africa, and India. Stock increases are projected for Mexico, Morocco, the Philippines, and several other countries.

Article by Brian Moore. Compiled from the USDA/ERS October Oil Crops Outlook *and the* World Agriculture Supply and Demand Estimates. ■