

Oil Crops Outlook

Better U.S. Soybean Yield Enhances Demand Potential

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World Overview

The U.S. soybean harvest is now forecast at 3,093 million bushels, up 165 million from last month. Given timely precipitation and moderate temperatures in August, the national average soybean yield increased to 41.8 bushels per acre from 39.6 bushels previously. The September projection of 2006–07 trade in U.S. soybeans increased 35 million bushels to 1,125 million, while domestic use by processors is anticipated to increase 15 million bushels to 1,765 million. Season-ending soybean stocks are forecast to rise to 530 million bushels from a carryover of 485 million.

With the primary focus on domestic crushing, Argentine soybean exports are seen declining to 7.0 million metric tons for 2006–07. Brazil's 2006–07 soybean exports could slip to 26.0 million tons due to a tightening outlook for domestic supply. USDA projects that China's processors will import a record 32.0 million tons of soybeans in 2006–07, up 0.5 million from the prior forecast and a revised 2005–06 forecast of 27.7 million tons.

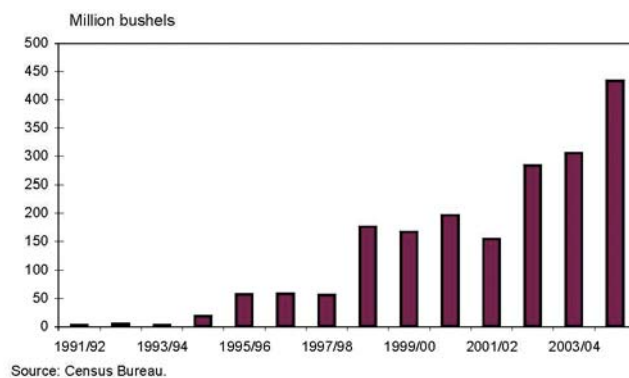
U.S. Outlook

Favorable Late Summer Weather Vastly Improves Outlook for U.S. Soybean Yield

In August, timely precipitation and moderate temperatures enabled soybean crops throughout the country to better fulfill their potential. Although fields in the Western Plains and the South show some irreparable damage from earlier drought, last month's rains likely salvaged a much better outcome for farmers. This year's U.S. soybean harvest is now forecast at 3,093 million bushels, up 165 million from last month. With no change in the number of harvested acres (73.9 million acres), the national average soybean yield increased to 41.8 bushels per acre from 39.6 bushels previously. The largest increases in USDA's September production forecasts were for Iowa, Illinois, Nebraska, Minnesota, and Missouri—collectively accounting for 83 percent of this month's national gain in output. Throughout the country, active harvesting should commence by the end of the month.

Another big harvest (second in size only to the 2004 crop) will lay a foundation for strong 2006–07 domestic use and exports. Largely owing to prospects for heavier imports by China, USDA this month raised its forecast of U.S. soybean exports. The September projection of 2006–07 trade in U.S. soybeans increased 35 million bushels to 1,125 million, a strong rebound from the revised 2005–06 estimate of 945

Growth in U.S. Soybean Exports to China Continues



million bushels. Another contributing factor to the U.S. export outlook is a bit less competition this fall from South American exporters, as a tighter carryover of soybean stocks is likely for both Brazil and Argentina.

U.S. soybean crushers are also benefiting from an ample supply of soybeans, which raised the old-crop crush estimate by 15 million bushels to 1,740 million. Over 11 months through July, the 2005–06 cumulative crush was 1,597 million bushels, a 31-million-bushel gain over the previous year. For 2006–07, processors are anticipated to use 1,765 million bushels (up 15 million from the prior forecast). The major strength of U.S. processors lies in their export market for soybean meal, where attractively low prices will promote consumption worldwide. Expected to range about \$147.50–\$177.50 per short ton, the average cost for U.S. soybean meal could fall to a 7-year low. USDA forecasts of soybean meal exports were raised for both 2005–06 and 2006–07, to 7.65 million and 8.1 million short tons, respectively. Realization of the exports for the new marketing year would pave the way for the largest annual total since the record 1997–98 shipments. Indications for rising imports of soybean meal by Mexico (almost exclusively a North American market) contributed to the higher forecasts of U.S. exports.

Conversely, domestic consumption of soybean meal is down 0.4 percent for the season to date against last year, keeping it on track to make the previous USDA forecast of 33.4 million tons. In 2006–07, a moderate 2-percent increase in domestic use (to 34.1 million tons) is expected to resume.

Also, U.S. soybean oil exports for 2006–07 were projected to increase a modest 50 million pounds to 1,250 million. International trade in soybean oil should be buoyed next

year by robust imports by India, China, and the European Union. For the immediate future, domestic supplies of soybean oil are quite abundant for satisfying both domestic and foreign demand. Actually, the end-of-July stocks of soybean oil, at 3,130 million pounds, were the largest volume ever recorded for any month. By the end of this year, however, expansion of biodiesel production capacity is expected to start chipping away at that inventory, pulling it down by the end of September 2007 to 2,644 million pounds. Acceleration of new plant introductions could soon have a moderately supportive effect on soybean oil prices. The 2006–07 average is forecast at 23.0–27.0 cents per pound, unchanged from last month. A similar trend in the international vegetable oil market should also rally prices, where global ending stocks in 2006–07 are projected to tighten to the lowest ratio relative to use in three decades.

Despite strong growth in soybean demand, it should be surpassed by the supply increase. Season-ending stocks are forecast to rise to 530 million bushels from a carryover of 485 million. The signs of improving crop conditions have raised expectations for a large carryout and weighed on soybean prices in recent weeks. In fact, local market prices have dropped below the loan repayment rate for many locations, providing farmers a harvest-time opportunity to collect a loan deficiency payment. The August average cash bid for soybeans in central Illinois was \$5.21 per bushel, down from \$5.59 the previous month and a dollar below a year earlier. The 2006–07 national average price is forecast down 10 cents to \$4.90–\$5.90 per bushel, compared with \$5.68 for the recently concluded crop year.

International Outlook

South American Exporters Stiffen Competition for U.S. Soybean Products; Relax It for Soybeans

Suppliers in Brazil and Argentina are carving out even more specialized roles within the global market for soybeans and soybean products. Argentine soybean processors are becoming

evermore dominant in the products trade. In 2005–06, Argentine exports of soybean meal are expected to total 24.7 million metric tons (MMT), a 21-percent surge over the previous year. For next year, Argentine exports could continue rising toward 26.0 MMT. Such an outcome would represent approximately half of the global trade in soybean meal, up from a 30-percent share just a decade ago. In contrast, when it comes to exporting soybean meal and soybean oil, crushers in Brazil do not have the formidable tax rate, exchange rate, and transportation cost advantages of their Argentine counterparts. Their comparative difficulty in bidding soybeans away from the export market led to lower crushing and a stagnation of soybean meal exports in 2005–06 to an estimated 12.7 MMT (versus 14.2 MMT the year before). For the coming season, the erosion in Brazil soybean meal trade could be repeated, with exports slipping toward 12.6 MMT. By comparison, the global market share for Brazil soybean meal exports has fallen from 40 percent in the mid-1990s to a projected 23 percent for 2006–07.

Except for shipments to China, comparatively few exports of unprocessed soybeans are departing Argentina. That pivotal foreign market is increasingly being serviced by the United States and Brazil. With the primary focus on domestic crushing, Argentine soybean exports for 2005–06 are seen declining to 7.3 MMT from 9.3 MMT last year, and continuing down to 7.0 MMT for 2006–07. Yet, Brazil's soybean exports are seen to have risen to 26.75 MMT in 2005–06 (compared with 20.1 MMT the year before). Brazil's 2006–07 soybean exports could slip to 26.0 MMT, however, due to a tightening outlook for domestic supply.

Strong Demand, Smaller Domestic Crop Promotes China's Soybean Imports

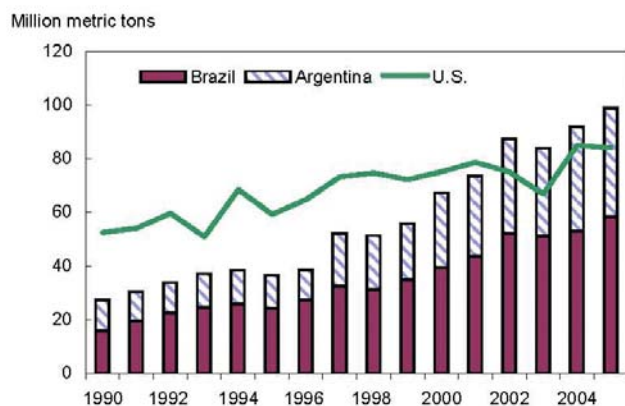
USDA projects that China's processors will import a record 32.0 MMT of soybeans in 2006–07, up 0.5 MMT from the prior forecast and a revised 2005–06 forecast of 27.7 MMT. If these imports are realized, China alone could account for more than 80 percent of the 2006–07 gain in world trade. A slight drop in China's domestic soybean production is expected for 2006 to 16.2 MMT from 16.35 MMT last year.

Consumption of soybean meal in China is forecast to grow 9 percent in 2006–07 to 30.4 MMT, which is a main reason for the robust pace of soybean imports. China's soybean oil consumption is projected to rise slightly faster (10 percent) next year to 8.5 MMT. Even with a brisk rate of domestic crushing, soybean oil imports are expected to constitute 1.8 MMT out of the country's total use. A slowing pace over the last few months prompted a reduction in the 2005–06 import forecast to 1.6 MMT.

Hot Weather Trims Prospects for Russian Sunflowerseed Production and Exports

A majority of Russia's sunflower output occurs in its southern region, between Ukraine and the Black Sea on the west and the Caspian Sea on the east. This year, an August heat wave during the main period for seed formation could be detrimental to sunflower yields there. Although Russia is still expected to produce a very good sunflowerseed crop (due to

South America Stays Ahead of U.S. Soybean Production



Source: *Oilseeds: World Markets and Trade*, Foreign Agricultural Service, USDA.

a 7-percent expansion in sown area), the 2006 production estimate was lowered by 300,000 MT this month to 6.2 MMT. Projected 2006–07 exports of Russian sunflowerseed were lowered to 400,000 MT.

Despite a lower crop for Russia, global sunflowerseed output for 2006–07 was forecast up to 29.0 MMT this month due to offsetting production increases for Bulgaria, Romania, and China. Based principally on the strength of record area totaling 0.7 million hectares, sunflowerseed production in Bulgaria is expected to rise to a record 900,000 MT. For Romania, a similar expansion of sunflower area could boost

2006 output to a record 1.45 MMT. Together, the two countries should be capable of completely replacing a loss of Russian sunflowerseed exports.

Indian Peanut Output to Drop Following Decline of Sown Area

Reports from India's Agriculture Ministry indicate that the area sown to peanuts this year will decline to an estimated 6.0 million hectares from 6.9 million last year. Early delays of rainfall for the main peanut-growing regions of

Oilseeds Prices Received by U.S. Farmers

Marketing year	Soybeans \$/bu.	Cottonseed \$/ton	Sunflower \$/cwt.	Peanuts Cents-/b.	Flaxseed \$/bu.
1996–97	7.35	126.00	11.70	28.10	6.37
1997–98	6.47	121.00	11.60	28.30	5.81
1998–99	4.93	129.00	10.60	28.40	5.05
1999–00	4.63	89.00	7.53	25.40	3.79
2000–01	4.54	105.00	6.89	27.40	3.30
2001–02	4.38	90.50	9.62	23.40	4.29
2002–03	5.53	101.00	12.10	18.20	5.77
2003–04	7.34	117.00	12.10	19.30	5.88
2004–05	5.74	107.00	13.70	18.90	8.07
2005–06 ¹	5.68	95.50	12.00	17.30	5.95
2006–07 ¹	4.90–5.90	88–118	10.90–12.50	17.8–19.4	5.65–6.65
2004–05					
September	5.83	89.30	12.80	19.20	7.19
October	5.56	107.00	12.60	20.10	7.36
November	5.36	104.00	12.80	20.30	8.62
December	5.45	111.00	13.40	18.30	8.42
January	5.57	114.00	13.70	18.90	8.89
February	5.42	111.00	15.00	18.60	10.90
March	5.95	NA	15.00	18.50	11.40
April	6.03	NA	15.10	18.00	12.30
May	6.21	NA	15.40	17.80	11.60
June	6.58	NA	15.20	17.60	11.20
July	6.65	NA	15.20	16.00	10.40
August	6.15	102.00	14.40	17.00	6.28
2005–06					
September	5.77	96.00	13.20	17.00	6.10
October	5.67	89.40	12.80	17.40	6.05
November	5.62	92.60	12.30	17.50	5.93
December	5.77	95.10	11.60	17.40	5.82
January	5.88	102.00	11.20	17.30	5.64
February	5.67	98.20	11.40	18.60	5.50
March	5.57	NA	11.40	16.90	5.35
April	5.52	NA	11.90	17.40	5.56
May	5.68	NA	11.80	17.30	5.58
June	5.61	NA	11.70	17.00	5.40
July	5.61	NA	11.90	17.00	5.47
August ¹	5.24	93.00	12.50	16.90	5.40

¹ Preliminary. NA = Not available.

Source: Agricultural Prices, National Agricultural Statistics Service, U. S. Department of Agriculture.

western and southern India initially caused a lower area for summer-sown peanuts. Later on, a sudden burst of rain in western India led to flooding that may also have prevented sowing. The reduction in peanut area cuts USDA's 2006 production forecast for India from 6.7 MMT to 5.9 MMT.

After rapeseed oil, peanut oil is India's second-largest source of domestically produced vegetable oil. Any domestic shortfall will necessitate additional imports of palm oil or soybean oil. Last year, good oilseed crops trimmed 2005-06 vegetable oil imports to 5.2 MMT versus 5.9 MMT the year before. But, smaller new-crop oilseed harvests will likely raise 2006-07 vegetable oil imports back to 5.9 MMT. Indian soybean oil imports for 2006-07 were forecast to rise 150,000 MT to 1.9 MMT.

International prices for palm oil have risen steadily since the beginning of the year. Indian Government authorities have sought to offset the rise of domestic consumer prices by lowering import tariffs. In August, import tariffs for crude palm oil and palm olein were each reduced by 10 percentage points to 70 percent and 80 percent, respectively. The latest changes have little bearing on the current season, which is nearly complete. Forecasts of 2005-06 Indian imports were up 250,000 MT this month for soybean oil (to 1.95 MMT) at the expense of palm oil imports, which were trimmed 200,000 MT to 3.1 MMT.

The USDA's Electronic Research Service's September 13 Oil Crops Outlook. ■