

World Oil Crops Outlook

Mark Ash and Erik Dohlman
USDA Economic Research Service

For the U.S., USDA estimated that the 2007 U.S. average soybean yield will slip to 41.4 bushels per acre from 41.5 bushels estimated in August. U.S. soybean production for 2007 is forecast down 6 million bushels from last month to 2.619 billion bushels. When the 2007 crop is combined with a lower estimate of beginning stocks (555 million bushels), the estimate of 2007/08 total supply declined 25 million bushels this month to 3.18 billion bushels.

Biodiesel Demand Drives Domestic Soybean Use Higher

The 2006/07 soybean crush through July 2007 was a record-large 1.66 billion bushels. Even a moderate crush pace for August should raise crop-year use by domestic processors to a minimum of 1.805 billion bushels (up 10 million from the previous forecast). For 2007/08, soybean crushing is expected to rise to 1.825 billion bushels. Brisk consumption for both soybean oil and soybean meal is fueling the growth in crushing.

Despite very high domestic output of soybean oil in July, month-ending stocks fell abruptly by 139 million pounds to 3.221 billion pounds. In July, demand for soybean oil eclipsed all previous monthly totals, as both domestic use and exports were robust. Domestic disappearance of soybean oil for 2006/07 was forecast 450 million pounds higher this month to 19.05 billion pounds. The biodiesel industry has been responsible for all the growth this year in domestic use of soybean oil. Demand for soybean oil accelerated this summer when new biodiesel plants escalated operations. Use of soybean oil for biodiesel is forecast up to 2.85 billion pounds in 2006/07—compared with 1.555 billion in 2005/06.

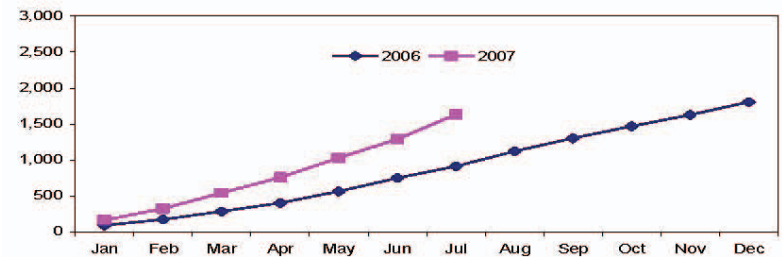
The pace of U.S. soybean oil exports has also quickened this summer, particularly to North Africa and Latin America. North African imports are attributable to declining availability of sunflowerseed oil there. USDA raised the September forecast of 2006/07 exports of soybean oil from 1.65 billion to 1.85 billion pounds. For now, the large U.S. oil stocks can accommodate the demand.

Although biodiesel demand is likely to slow in 2007/08, that sector is still projected to expand soybean oil use by 40 percent to 4 billion pounds. If realized, biodiesel would account for 20 percent of all the soybean oil consumed. However, most of the biodiesel fuel is being shipped to foreign markets (particularly Europe). U.S. food demand for soybean oil should exhibit a modest increase in 2007/08, aided by a contraction in domestic supplies of sunflowerseed oil and cottonseed oil. A healthy 6.6-percent increase for all uses of soybean oil (to 20.3 billion pounds) is forecast for 2007/08.

In contrast, tightening supplies, rising prices, and Argentine competition should eventually slow U.S. soybean oil exports, with 2007/08 exports expected to drop by 30 percent to 1.3 billion pounds. Even with a rationing of exports, 2007/08 ending stocks of soybean oil may plunge by one-

third to 1.735 billion pounds due to a reduction in supply and considerably stronger domestic use. Intensifying competition for the shrinking supplies of soybean oil will spur further price gains, which are already at a historic peak. The average price for 2007/08 is forecast at 33-37 cents per pound, up from 31 cents in 2006/07 and 1 cent higher than last month's forecast range.

Cumulative consumption of soybean oil for biodiesel is growing rapidly
Million pounds



Source: *Fats and Oils: Consumption, Production, and Stocks*, Census Bureau

Current demand for soybean meal is also proving to be surprisingly firm. The swine industry is contributing much of the market support for protein feed. Strong pork demand this year has supported a high price for hogs, allowing hog producers to bear the high feed costs and raise the animals to larger than expected weights. Another factor this summer has been the powerful rally in wheat prices. Based on a tightening global supply, wheat prices have surged toward all-time highs, discouraging its use as livestock feed. As a result, there is more demand for soybean meal to replace the protein lost when substituting other lower-protein grains for wheat.

For 2007/08, gains in hog feeding may be more modest, but domestic demand for soybean meal should be reinforced by a recovering poultry industry. Poultry output is expected to rebound 2 percent in 2008, after negligible growth this year. Soybean meal use is forecast rising by 2.8 percent in 2007/08 to 35.3 million short tons. Given strengthening foreign competition, the domestic growth may trim the amount available for soybean meal exports, which are forecast down to 8.25 million tons for 2007/08, compared with 8.6 million for 2006/07. A firming of soybean meal prices will continue, with the 2007/08 average at \$205-\$235 per short ton versus \$205 for the current marketing year.

While U.S. exports of soybeans in 2006/07 have likely reached a record high 1.115 billion bushels, trade prospects for 2007/08 do not look as bright. A decline in soybean supply and solid growth in domestic demand will curtail exports, which could plummet to 975 million bushels. Yet, by the end of the crop year, soybean stocks could fall to a small cushion of 215 million bushels. The climb in soybean prices reflects this rebalancing between supply and demand. For now, this year's comfortably large corn crop is exerting a stabilizing influence on soybean values. USDA projects the 2007/08 average farm price at \$7.35-\$8.35 per bushel, up from last month's forecast at \$7.25-\$8.25 per bushel.

U.S. Vegetable Oil and Fats Prices

Marketing year	Soybean oil ²	Cottonseed oil ³	Sunflower oil ⁴	Canola oil ⁴	Peanut oil ⁵	Corn oil ⁶	Lard ⁶	Edible tallow ⁶
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Cents/lb.

1997/98	25.80	28.85	27.00	28.83	49.21	28.94	19.46	20.69
1998/99	19.90	27.32	20.10	22.48	40.72	25.30	14.66	15.14
1999/00	15.60	21.52	16.68	17.11	35.96	17.81	13.64	13.21
2000/01	14.15	15.98	15.89	17.56	34.97	13.54	14.61	13.43
2001/02	16.46	17.98	23.25	23.45	32.23	19.14	13.55	13.87
2002/03	22.04	37.75	33.11	29.75	46.70	28.17	18.13	17.80
2003/04	29.97	31.21	33.41	33.76	60.84	28.43	26.13	22.37
2004/05	23.01	28.01	43.71	30.78	53.63	27.86	21.80	18.48
2005/06	23.41	29.47	40.64	31.00	44.48	25.18	21.74	18.16
2006/07 ¹	31.00	35.50	57.25	40.50	52.99	31.50	28.50	27.50
2007/08 ¹	33.0-37.0	38.0-42.0	58.0-62.0	40.5-44.5	56.0-60.0	35.0-39.0	30.0-34.0	29.0-33.0

2005/06

October	24.26	34.44	37.75	31.50	45.50	27.50	27.38	18.95
November	22.52	34.38	39.07	30.88	45.50	27.08	27.76	19.98
December	21.00	30.50	37.61	28.81	45.00	26.08	18.60	18.94
January	21.63	29.63	36.24	28.63	42.50	25.22	17.16	18.60
February	22.21	29.50	37.02	29.06	42.50	23.65	16.44	18.07
March	23.21	29.75	36.24	30.19	42.50	22.61	16.82	17.54
April	22.98	27.05	37.50	29.70	42.50	23.19	18.00	15.86
May	24.76	28.06	40.31	31.56	42.50	25.25	17.13	16.19
June	24.20	27.25	46.44	31.69	43.75	25.70	17.63	17.33
July	25.86	29.20	40.05	33.95	45.00	25.75	22.21	18.17
August	24.80	26.69	49.50	33.06	47.30	25.42	29.91	18.93
September	23.54	27.13	50.00	32.94	49.25	24.71	31.86	19.33

2006/07

October	24.80	27.44	52.94	34.50	52.67	24.70	23.55	19.86
November	27.64	30.25	56.00	37.63	52.50	26.47	20.78	21.78
December	27.63	30.75	56.33	38.42	50.00	28.05	22.58	23.23
January	28.00	31.00	55.56	38.56	49.25	28.05	23.00	23.91
February	28.94	32.69	54.50	40.06	46.25	28.66	23.82	23.25
March	29.74	33.00	53.25	38.95	48.20	29.08	30.75	24.34
April	31.06	34.38	52.69	38.44	52.63	29.93	27.71	26.22
May	32.90	37.75	53.44	40.44	55.63	31.56	28.60	30.19
June	34.01	40.00	57.31	42.56	62.56	34.71	32.64	34.50
July	35.74	42.44	65.00	45.00	69.63	37.25	36.00	35.00
August ¹	34.87	42.15	68.80	44.25	70.00	39.61	35.77	32.85

¹ Preliminary. ² Decatur, IL. ³ PBSY Greenwood, MS. ⁴ Midwest. ⁵ Southeast mills. ⁶ Chicago.

NA= Not available.

Sources: Monthly Feedstuff Prices and Peanut Report, Agricultural Marketing Service, U.S. Department of Agriculture.

Despite Falling Domestic Supply, China's Import Demand for Soybeans Slows

Much of northeastern China, where the majority of the country's soybean crop is grown, is suffering through the worst drought in many years. The likely impact on soybean yields cut the 2007 domestic production forecast this month to 15.2 million tons from 15.6 million previously. China's soybean production this year was already anticipated to fall below the 2006 crop because of a 5 percent decline in sown area.

Although the domestic supply of soybeans in China is seen tightening, demand has been tempered by weaker feed

use in the hog sector. China's October 2006-June 2007 soybean imports have slightly trailed the previous year's pace. A lower projection for 2007/08 soybean imports reflects the time lag involved in restocking the country's inordinately low swine herd. Domestic consumption of soybean meal is now seen down slightly in 2006/07 to 27.7 million tons. For 2007/08, a recovery of soybean meal use in China is expected, gaining 9 percent to 30.2 million tons.

A lowering of the expected soybean crush in 2006/07 and 2007/08, along with a smaller rapeseed harvest this year, keeps a tight supply for vegetable oils in China. Imports of soybean oil were forecast higher (to 2 million tons in 2006/07 and 2.25

million for 2007/08) to help offset potentially weaker growth in domestic output. Even so, the growth in China's vegetable oil consumption is expected to slow to 3.5 percent in 2007/08, compared with 6.5 percent in 2006/07.

Weather Extremes Curtail Oilseed Production in Europe, Ukraine, and Russia

The forecast of 2007 global rapeseed production was reduced 1.4 million tons this month to 49.65 million metric tons due to lower prospects for the EU-27 and Canada. Throughout northern Europe, a record warm spring advanced the maturity of rapeseed crops. But excessive heat during the flowering period may cause serious yield losses for rapeseed. In addition, an early May episode of freezing temperatures (across Poland in particular) may have caused damage to rapeseed. Since July, harvest damage has escalated due to frequent and unusually heavy rains in Germany, France, Poland, and the United Kingdom. EU-27 rapeseed production for 2007/08 is still expected to be record high (because of a large area increase), but the lowest yield since 2003/04 reduces the crop estimate this month by 1.1 million tons to 17.2 million. The narrowing gap between supply and demand is pushing rapeseed prices toward an all-time high. Rapeseed prices in Hamburg, Germany surged 9 percent last month to a July average of \$405 per metric ton (more than one-fourth higher than a year earlier). A lower yield potential will constrain the increase in 2007/08 domestic rapeseed crushing to 17.3 million tons, while tightening EU-27 ending stocks to 1.3 million tons.

For the countries bordering the Black Sea, where sunflowerseed is the major oilseed crop, production changes this month cut the 2007 expected global sunflowerseed output by 2.4 million tons to 27.4 million. Summer in the region has brought extreme dryness and record-setting heat, leading to crop reductions for Romania and Bulgaria. In July, Bulgaria recorded its hottest month in a century. Thus, the forecast of EU-27 sunflowerseed output is down by 1 million tons to 4.7 million—the smallest crop in a decade. As a result, EU-27 crushing and exports of sunflowerseed are expected to fall and stocks decline by half to a minimally acceptable carryout.

Similarly, Ukraine's sunflowerseed production this year is expected to decline to 4 million tons, down from the July estimate of 4.4 million and a record high 2006 harvest of 5.3 million tons. July extended a months-long drought, and a prolonged heat wave only exacerbated the crop stress. A cut in Ukraine's sunflowerseed production should result in an equivalent reduction in the domestic crush to 3.8 million tons—the country's lowest processing volume in 3 years.

Although the major sunflowerseed producing areas of southern Russia have also been exceptionally hot and dry, the reduced production forecast for Russia this month is related to a downward revision of government data on sown area. Russian producers are now expected to harvest only 5.1 million hectares of sunflowers (down from 5.8 million previously)—a 3-year low. Because a mild winter minimized the damage to winter grain crops, less farmland was available in spring for reseeding with sunflowers. And by early June, the dryness was already serious enough to discourage additional planting. The lower sunflower area cuts the 2007 production forecast for Russia from 6.7 million to 5.7 million tons. Domestic crushing would be directly affected by the loss of supply and is likely to decline to 5 million tons.

Lower production of sunflowerseed oil in both Ukraine and Russia will constrict international trade. The main loss of trade for these two exporting countries will be with the EU-27, where 2007/08 imports of sunflowerseed oil are seen dropping to 1.1 million tons from 1.45 million forecast previously. Falling domestic production and imports of sunflowerseed oil are expected to cut EU-27 consumption by 400,000 tons to 3.1 million tons. A supply deficit for sunflowerseed oil may require greater use of rapeseed oil in food applications, and the amount of rapeseed oil available for biodiesel could shrink. Also, a supply shortfall of rapeseed meal and sunflowerseed meal in Europe should encourage more use of soybean meal in livestock feeds. EU-27 soybean meal consumption could expand nearly 4 percent in 2007/08 to 35.6 million tons and prompt an increase in imports to 24.2 million tons (from 23.3 million in 2006/07).

Excerpts from the USDA's Electronic Research Service's September 13 Oil Crops Outlook. ■