Lower Yields May Limit U.S. Soybean Demand in 2008–09

Fernando Weberich

According to the September 15 *Oil Crops Outlook* released by the US Department of Agriculture (USDA), the US average soybean yield in 2008 is estimated at 40 bushels per acre, cutting the production forecast by 39 million bushels to 2.934 billion. The US soybean crush is forecast slipping to 1.785 billion bushels in 2008/09, down 30 million bushels from the prior year and the August forecast. Tight ending stocks of soybeans (135 million bushels after 140 million in 2007/08) are again projected.

On the international scene, the 2008/09 projection of Argentine soybean production is raised by 1 million metric tons to 50.5 million due to higher soybean area. China will produce 16.5 million tons of soybeans this year, up from the previous forecast of 16 million tons and 3 million tons larger than last year's crop. China's 2008/09 soybean imports are forecast dipping to 36 million tons from 36.5 million in 2007/08.

Domestic Outlook

Dry August Stresses Soybean Crops

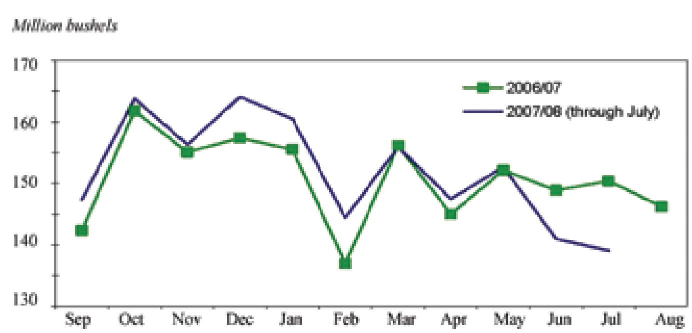
Soybean crops deteriorated throughout the main US production region in August due to lack of rain. For most of the Midwest, August precipitation was 50-65 percent of normal and the lowest level since 2003. Missouri, Illinois, and Michigan got some relief from late August and early September rains, but the eastern Corn Belt maintained moisture deficits.

This month's lower projected soybean yield cut the 2008 production forecast to 2.934 billion bushels, 39 million bushels below the August forecast. The expected total supply dropped 32 million bushels as a slightly larger carryover was offset by a smaller crop.

Lower New-Crop Soybean Supply Dims Demand Outlook

Although US soybean exports are expected to finish off the 2007/08 crop year at a record 1.155 billion bushels, prospects

Figure 1 • Domestic soybean crush tails off in summer quarter with low stocks



Source: Oilseed Crushings , Census Bureau, U.S. Department of Commerce.

for 2008/09 are not as bright. Total supply is projected down 85 million bushels from last year and stocks are unlikely to tighten any further, so soybean use will have to be rationed. In 2007/08, China was the top U.S. market, taking nearly 500 million bushels. China's total imports for 2008/09 could retreat and force U.S. exports lower as market share is lost to suppliers from South America. US soybean exports to all countries are projected to drop to 1 billion bushels.

As the U.S. supply of soybeans was dwindling in July, domestic use slowed to 139.1 million bushels (compared to 150.4 million in July 2007). Also, a resumption of normal activity by Argentine processors renewed competition in export markets for soybean meal and soybean oil. Consequently, USDA lowered its forecast of the 2007/08 soybean crush from 1.83 billion bushels to 1.815 billion. With a delayed harvest, the slackening rate of crush could last through September, lowering 2007/08 production estimates for soybean meal and soybean oil. Without a larger soybean supply for 2008/09, there may be little chance for an expansion of crushing. By next summer, processing plants may start to slow even sooner. The US soybean crush is forecast slipping to 1.785 billion bushels in 2008/09, down 30 million from the August forecast. Tight ending stocks of soybeans (135 million bushels after 140 million in 2007/08) are again projected. The U.S. average farm price of $11.60-$13.10 per bushel for 2008/09 is forecast up 10 cents from last month's range.

2008 Peanut Crop Surges with Improved Area and Record Yield Prospects

Improved prospects on an already strong yield and an upward revision on peanut acres combined to lift the September projection of the 2008 peanut crop 269 million pounds (6 percent) to a near-record 4.76 billion pounds. This would be the third largest crop on record, and more than a 1-billion-pound (27 percent) gain on the 2007 crop. Planted area was revised upward from the August report by 71,000 acres (to (1.533 million) and harvested area by 68,000 acres (to 1.494 million). The expected US peanut yield was raised 37 pounds per acre to a record 3,188 pounds per acre.

Peanut production in the Southeast (Alabama, Florida, Georgia, Mississippi, and South Carolina) is expected to total 3.44 billion pounds, up 8 percent from August and 32 percent from last year's level. Yields in the five-state area are expected to average 3,136 pounds per acre, 147 pounds above 2007. Expected area for harvest, at 1.1 million acres, is up 26 percent from 2007. Virginia-North Carolina production is forecast at 351 million pounds, up 14 percent from 2007, and up 7 percent from the August projection. This region's yield is forecast at 2,900 pounds per acre, 119 pounds greater than the previous year. Area for harvest is expected to total 121,000 acres, up 9 percent from 2007. Southwest peanut production (New Mexico, Oklahoma, and Texas) is expected to total 971 million pounds, a 17 percent gain from 2007, but down slightly from USDA's August report. Yields are expected to average 3,520 pounds per acre for the region, down 365 pounds from the previous year and a drop of 197 pounds from the August projection. The region's acreage for harvest, at 276,000 acres, represents a 29-percent gain from 2007.

continued on page 4

Fernando Weberich

US Cotton Production Down, World Production Up

The most recent *World Agricultural Supply and Demand Estimates* (WASDE) report projects slightly lower 2008/09 US cotton production and sharply lower exports relative to the previous month, resulting in a 27 percent increase in forecast ending stocks. US production is reduced mainly in Louisiana and Mississippi. Domestic mill use is unchanged.

The export forecast is lowered 1.5 million bales, due to a combination of higher foreign production and lower foreign consumption, which is shrinking world import demand. The forecast for the marketing year average farm price is lowered 7 cents per pound on the upper end and 6 cents on the lower end of the range, due to both weaker demand and to recent sharp declines in futures and cash prices.

The 2008/09 international estimates show a 1.4 percent increase in world production and a 1.1 percent decrease in world consumption relative to last month. Production is raised in China, based on recent reports from official sources; production also is raised in India and Brazil. Forecasts of world consumption are reduced in several countries, as the crisis in world financial markets is projected to cut consumer spending and purchases of textiles. Consumption is lowered in China, Turkey, Bangladesh, India, Pakistan, Russia, and others. Higher production and lower consumption reduce the world trade forecast by 2.4 million bales, including 1.0 million bales in imports by China. World ending stocks are raised 6 percent from last month to 55.5 million bales, but still are reduced nearly 10 percent from the beginning level.

International Outlook

Argentine Soybean Area Expected To Be Buoyed by Reduced Corn Sowing

The projection for Argentina's 2008/09 soybean area was raised to 18 million hectares this month from 17.7 million previously. The change partly offsets USDA's reductions in Argentine corn area by 250,000 hectares and 200,000 hectares for wheat. Drought conditions, which had already limited the area sown to wheat, are now inhibiting the planting of corn. Similarly, planting of sunflowers is lagging because of the dryness. As a result, more area is shifting into soybeans, which can be sown later. Much higher fertilizer costs to produce corn also favor the growing of soybeans. Thus, projected Argentine soybean production for 2008/09 is raised by 1 million metric tons to 50.5 million.

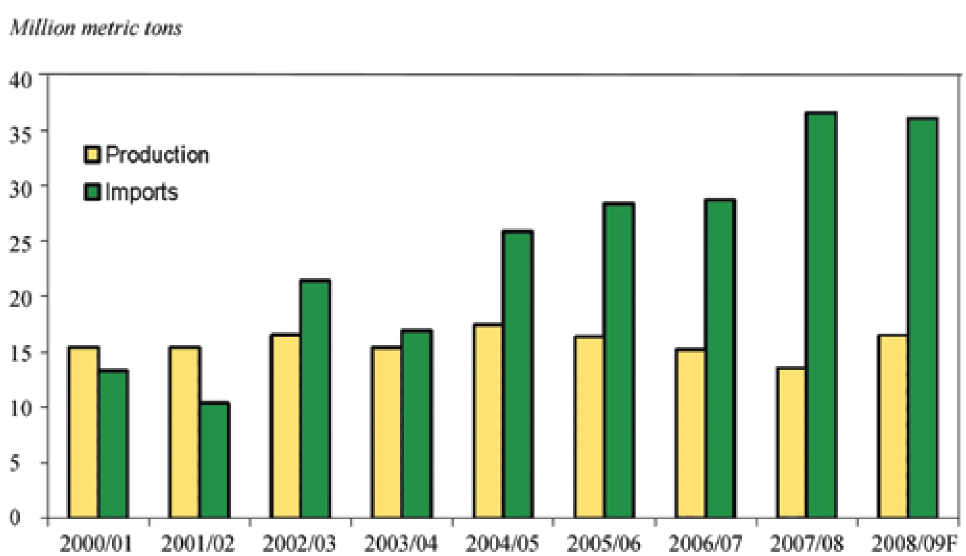
A robust recovery for Argentine soybean shipments in July and August is seen boosting 2007/08 exports to 13.5 million tons. A larger supply will support soybean exports again in 2008/09, to 13.9 million tons. A substantial accumulation of soybean meal stocks in recent months will support Argentine exports in 2008/09 to 28.8 million tons from 26.9 million in 2007/08.

Larger Stocks and Domestic Harvest Will Curb China's 2008/09 Soybean Imports

USDA forecast that China will produce 16.5 million tons of soybeans this year, up from the previous forecast of 16 million tons and 3 million tons larger than last year's crop. Soybean yields are expected to be slightly better than average.

Based on a record month for soybean imports (3.83 million tons) in August, China's 2007/08 imports are forecast higher to 36.5 million tons from 35.4 million last month. These supplies, however, are rising faster than their use, which could boost China's season-ending stocks to 3.4 million tons. The combination of a larger carryover and domestic crop provides little basis for an expansion of China's 2008/09 soybean imports, which are forecast dipping to 36 million tons. Soybean ending stocks for 2008/09 may also rise to a more secure 3.9 million tons.

Figure 2 • Improvement in China's soybean production to limit 2008/09 imports



Source: PS&D Online, Foreign Agricultural Service, USDA.

Rising Surplus of Palm Oil Enhances Its Price Competitiveness Versus Soybean Oil

Based on a strong year-to-date performance, expected 2007/08 output of Malaysia palm oil was raised 300,000 tons this month to 17.7 million. The production forecast for 2008/09 was also increased to 17.7 million tons, but may be no higher than this year's output due to a downward biological cycle in tree productivity.

In Malaysia, the price for refined palm oil fell to an August average of $879 per metric ton. This was down 30 percent from its May peak and the lowest in nearly a year. The drop in palm oil price surpassed a simultaneous decline for soybean oil and is now attractively valued against its main alternative. As of mid-September, crude palm oil imports for Mumbai, India are about $715 per ton—one-third cheaper than the cost of crude soybean oil. In July and August, Malaysian palm oil stocks began lessening as exports picked up again. Lower costs may also restore profitable margins to the biodiesel industry in southeast Asia. Malaysian exports of palm oil for 2007/08 are now expected to reach 14.1 million tons. Next year's lack of growth in Malaysian palm oil production, however, may limit the country's 2008/09 exports to 14.4 million tons.

A moderation in the pace of China's soybean oil imports from earlier this year prompted USDA to cut the 2007/08 forecast to 2.75 million from 2.9 million tons. For 2008/09, a favorable price difference should let palm oil imports continue a more robust growth. China's palm oil imports are expected to rise to 6.2 million tons next year, while its soybean oil imports drop to 2.6 million tons.

From the September 15, 2008 USDA Oil Crops Outlook*, by Mark Ash and Erik Dohlman.*

US Sunflower Crop: Most Rated at Good to Excellent

As of early October, the northern US region continued to wait for a killing freeze so that sunflower harvest could begin in earnest. Sporadic frost has occurred but a killing freeze may have occurred only in localized areas. Warm and dry weather over the past two weeks in much of the entire production region should have been helpful for natural dry down. Only a small amount of acres have been harvested and most of that has taken place in Kansas, Colorado, and Texas. Some harvesting has begun in the northern region in fields that were previously desiccated. The national good to excellent crop rating increased slightly from 64% to 65%.

USDA Sunflower Crop Rating as of October 5, 2008
Based on weekly state reports from USDA's NASS

STATE	EXCELLENT	GOOD	FAIR	POOR	VERY POOR
North Dakota	12%	50%	33%	4%	1%
South Dakota	13%	59%	17%	10%	1%
Minnesota	15%	63%	17%	4%	1%
Colorado	23%	26%	33%	14%	4%
Kansas	8%	59%	28%	5%	0%