



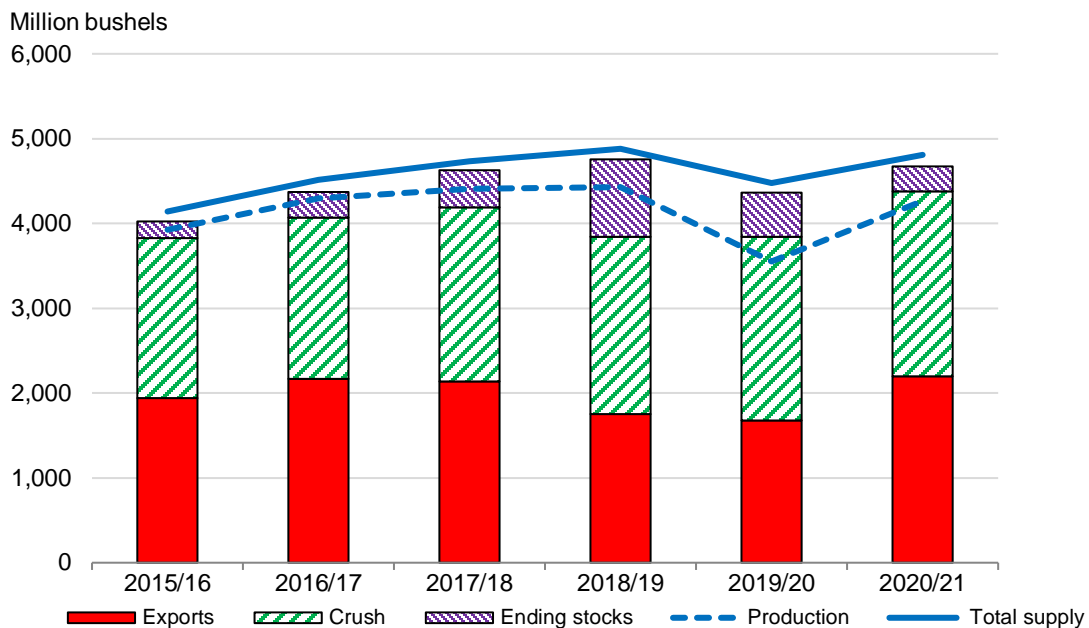
Oil Crops Outlook: October 2020

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Record U.S. Soybean Exports Seen for 2020/21

Despite an unchanged yield, USDA pegs the 2020/21 U.S. soybean crop down by 45 million bushels this month to 4.268 billion as the sown acreage is revised down by 731,000 acres to 83.1 million. With strong sales to China, USDA raises its forecast of 2020/21 soybean exports by 75 million bushels this month to a record 2.2 billion. The lower supply and higher export demand are forecast to reduce season-ending soybean stocks for 2020/21 by 170 million bushels to 290 million. The tighter outlook prompts USDA to boost its forecast of the 2020/21 U.S. average farm price to \$9.80 per bushel from \$9.25 last month.

Figure 1
Surge in 2020/21 U.S. soybean exports to extend a decline in stocks



Source: USDA, World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates*.

Domestic Outlook

Losses of U.S. Soybean Supply Accumulate

In its *Crop Production* report this month, the National Agricultural Statistics Service (NASS) forecast the national average soybean yield unchanged at 51.9 bushels. Despite this, USDA pegs the 2020/21 U.S. soybean crop down by 45 million bushels this month to 4.268 billion as the sown acreage is revised down by 731,000 acres to 83.1 million. Largely based on reduced harvested area estimates, lower soybean crops are anticipated primarily for Kansas, North Dakota, South Dakota, and Illinois. Smaller harvests for these States more than offset higher forecast production from a higher yield in Iowa and higher acreage for Missouri, Nebraska, and Ohio. As of October 4, 38 percent of U.S. soybeans were harvested. Progress is ahead of the 5-year average of 28 percent as this year's crop development is more advanced than usual and harvest weather has been generally favorable.

Also, beginning stocks for 2020/21 came in smaller than previously expected. In 2019/20, fourth-quarter soybean use was nearly equal to its best quarter ever (2018/19). USDA indicated in its latest *Grain Stocks* report that the September 1 soybean inventory totaled 523.5 million bushels. Although this is the fourth largest carryover ever, stocks are down sharply (42 percent) from a year earlier. The combination of a smaller soybean crop and lower beginning stocks shrinks the 2020/21 total supply from last month by 96 million bushels. While this supply no longer represents a historic peak, it remains a considerable gain over last year.

Lower Supplies, Fast Export Pace Unleash a Surge in Prices

U.S. export inspections of soybeans in September—at 242 million bushels—represent an all-time high for the month. The brisk pace of early shipments reflects unimpeded harvesting and a record volume of new-crop sales. The latter is due largely to a sharp increase for export sales to China that now account for 54 percent of total sales commitments. Sales to unknown destinations are also up sharply, although many could also be for China. Sales gains to other markets where the destination is known are modest. At the same time, U.S. exports could stay competitive longer as circumstances could defer next spring's usual upturn in competition from South America. USDA raises its forecast of 2020/21 soybean exports by 75 million bushels this month to a record 2.2 billion. Domestic use of soybeans for 2020/21 is expected unchanged.

The lower supply and higher export demand are forecast to reduce season-ending soybean stocks for 2020/21 by 170 million bushels to 290 million. The tighter outlook prompts USDA to boost its forecast of the 2020/21 U.S. average farm price to \$9.80 per bushel from \$9.25 last month. Also, 2020/21 prices for soybean meal are starting at an elevated level. Early October values range from \$350 to \$360 per short ton. USDA hiked its forecast of the 2020/21 average price by \$20 this month to \$335 per short ton.

Similarly, the upward march of soybean oil prices extended into September with its monthly average climbing to 34.2 cents per pound versus the August average of 32.1 cents. Stocks of soybean oil have tightened progressively with the combination of steady use and a 5-month low for production in August. Market demand for soybean oil has stayed robust, particularly in its consumption for biodiesel. For both the 2019/20 and 2020/21 marketing years, higher use of soybean oil for biodiesel is forecast—to 7.85 billion and 8.1 billion pounds, respectively. Thus, USDA raised its forecast of the 2020/21 average price for soybean oil from 32 cents per pound to 32.5 cents.

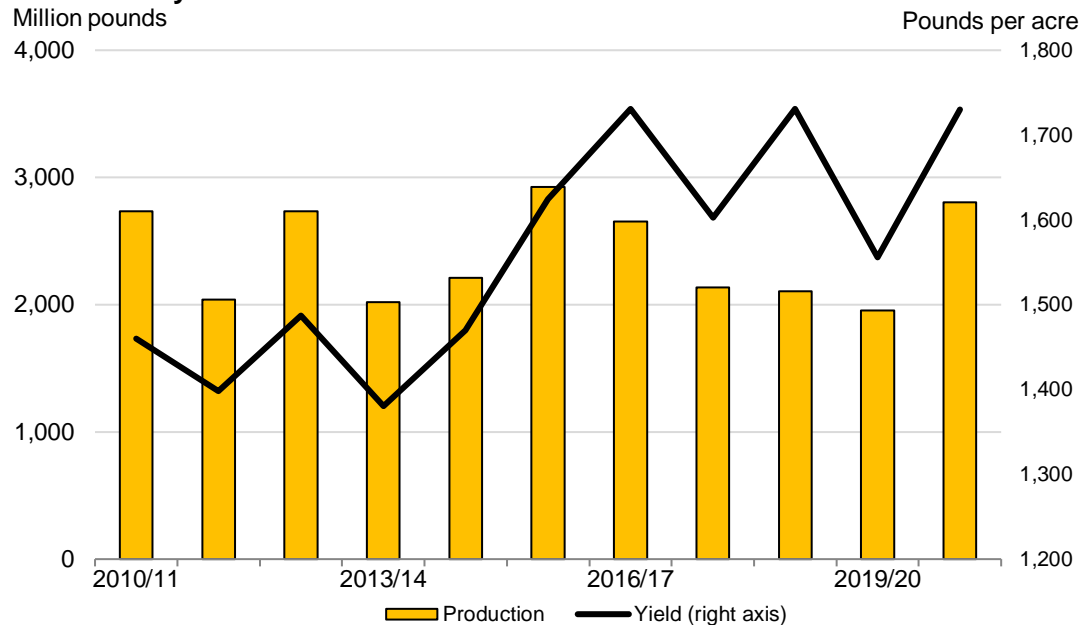
Supplies Recover for Sunflowerseed, Steady for Canola

NASS reports sunflowerseed production in 2020/21 of 2.807 billion pounds, a 44-percent increase from 2019/20 and the highest production since 2015/16. The largest increases come in North Dakota and South Dakota. Sown acreage for the top two producing States expanded this year by 35 percent and 17 percent, respectively. Good growing conditions are seen boosting the expected U.S. average yield to 1,730 pounds per acre—fractionally shy of the all-time high. Most sunflowerseed crops had not yet been harvested as of early October but progress is accelerating. The latest *Grain Stocks* report indicates that September 1 sunflowerseed stocks totaled 213 million pounds, down by 26 percent from a year earlier. Even so, overall supplies are considerably larger with a sharply higher crop. The increase in supply facilitates a forecast decrease for the season-average price to \$18.85 per hundredweight from \$19.40 in 2019/20.

Lower yields and declining area lead to a moderate reduction in canola production from last year. U.S. canola production for 2020/21 is forecast down by 214 million pounds from last year to 3.187 billion pounds. Culpability for the decline in production rests primarily with poor weather conditions, particularly in the upper Midwest. Major decreases in production in North Dakota and Minnesota are more than offsetting higher output in Montana and Washington. Total supplies of canola for 2020/21 are expected to change minimally, however, as higher beginning stocks and imports counter the smaller harvest.

Figure 2

U.S. sunflowerseed crop swells to 5-year high on expanded acreage, near-record yield



Source: USDA, National Agricultural Statistics Service, *Crop Production*.

U.S. peanut production may swell in 2020/21 by 1.2 billion pounds (22 percent) to 6.7 billion pounds based on higher sown acreage and yields. The expected U.S. average peanut yield for 2020/21 of 4,125 pounds per acre ranks second only to the record 4,211 pounds in 2012/13. A higher forecast supply is related primarily to improved weather conditions in the Southeastern United States with the greatest gains in Georgia, Alabama, and Florida. These States saw good precipitation and cooler weather during the summer. Although forecast peanut demand is up 870 million pounds to 6.75 billion pounds from the previous marketing year, prices are forecast 1 percent lower in 2020/21 due to substantial increases in forecast production.

International Outlook

Tightening Global Soybean Stocks Feature Robust Use in China

A downsized U.S. crop and an increase for foreign use of soybeans in 2020/21 may continue to tighten global stocks to 88.7 million metric tons (versus 93.8 million in 2019/20). For China, 2020/21 soybean imports are forecast 1 million tons higher this month to 100 million on account of strengthening demand. USDA boosts its soybean crush forecasts for 2019/20 and 2020/21 each by 1 million tons this month. Additional crushing is being prompted by rising feed use of soybean meal in China. Gains in soybean use (and a lowering of 2019/20 imports by 600,000 tons) may trim the season-ending stocks in China by 1.6 million tons to 25.7 million.

In Brazil, soybean planting has begun for the 2020/21 soybean crop. Progress in the center-west region is slow, however, due to a lack of rainfall in September. Dryness is unlikely to affect the soybean area sown in Brazil for 2020/21, but could delay the arrival of new-crop deliveries next year. A likely extension of the country's tight old-crop supply has swelled Brazilian price quotes (relative to Chicago futures) for February 2021 shipments. This signals that U.S. exporters may shoulder the burden of supplying China with soybean imports well into next year.

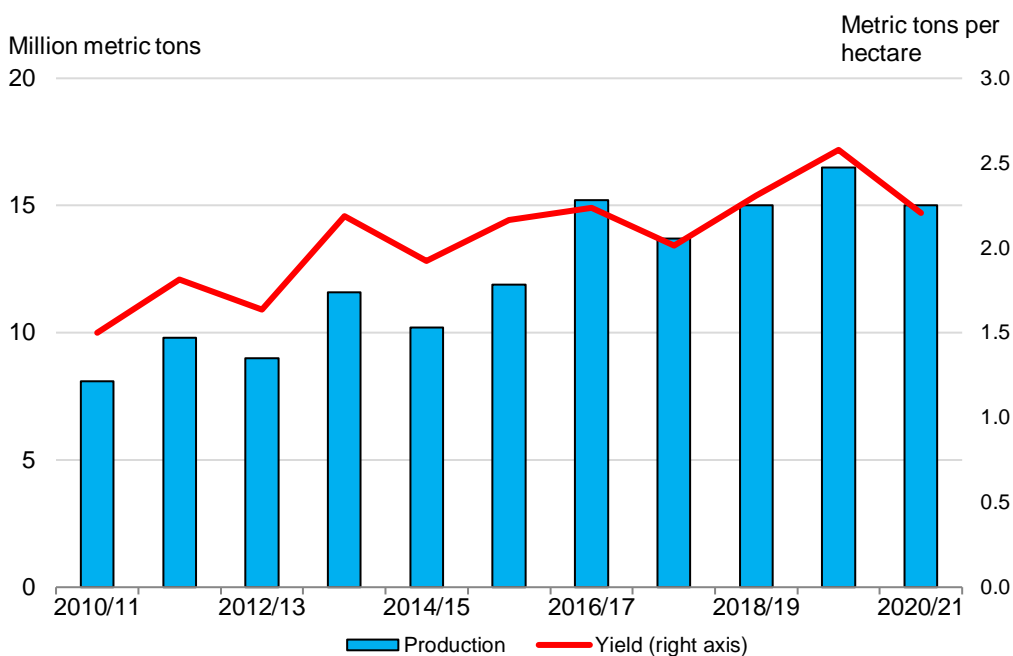
This month, the Argentine government announced a plan to reduce export taxes on soybeans in October from 33 percent to 30 percent while the rates on soybean meal and soybean oil are trimmed to 28 percent. The tax rates are then scheduled to rise incrementally each month through December and cumulatively by 3 percentage points. The October reduction is aimed at stimulating more soybean sales that would boost dollar reserves for the cash-strapped country. However, the impact of this temporary incentive could be marginal. Argentine farmers still see a major discrepancy between the official exchange rate (currently near 77 pesos per dollar) and the unofficial rate (165 pesos per dollar). A lower conversion rate greatly diminishes earnings on sales to the international market, where soybeans are priced in U.S. dollars. Soybean sales are still likely to be postponed until cash is needed to pay off current expenses. Farmers' attitudes are unlikely shift until the overvaluation of the exchange rate is lessened. So, in spite of the export tax changes, USDA lowers its forecast of Argentine soybean exports for 2020/21 this month by 500,000 tons to 7 million. Unlike other countries, Argentine soybean stocks could accumulate.

Prospects Dim for Global Sunflowerseed Production

Global sunflowerseed production of 2020/21 is forecast down 2.5 million tons from last month to 51.5 million and from 55 million in 2019/20. Drought-related yield reductions in the Black Sea region and area reduction for Argentina are mostly responsible for the change. Given the location of the crop losses, international trade in sunflowerseed oil may bear much of the impact. A sharp increase since summer in export quotes for Ukrainian sunflowerseed oil already reflects the tighter global market situation.

In Ukraine, sunflowerseed output is seen 2 million tons lower this month to 15 million tons as yields suffered from the country's driest summer in 30 years. The worst conditions are in its southern Steppe zone—where most of the crop is concentrated. Since mid-July, cumulative rainfall in the region has been no better than 25–30 percent of average. Official sources report that 69 percent of the harvest is now complete. Likewise, the crop of neighboring Moldova is forecast down by 50,000 tons this month to 800,000 tons.

Figure 3
Drought cuts Ukraine sunflowerseed yields and production



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

USDA anticipates that yield losses in Ukraine will curtail the country's 2020/21 crush by 1.95 million tons to 14.85 million. The associated reductions in sunflowerseed oil and sunflowerseed meal production are seen slashing this season's exports for both commodities by 700,000 tons (to 5.9 million) and 375,000 tons (to 4.8 million), respectively.

EU sunflowerseed production for 2020/21 is forecast to contract by 250,000 tons this month to 9.5 million based on yield reductions for Romania and Bulgaria. Despite a favorable start for the crop last spring, eastern parts of both countries have been excessively hot and dry since July. Spring soil moisture was adequate for good crop pollination, but stress from summer dryness led to small sunflower heads and seeds that filled out poorly. Romanian sunflowerseed production is down 24 percent from 2019/20. A supply reduction is expected to decrease EU sunflowerseed crush and exports in 2020/21—to 8.75 million and 450,000 tons, respectively.

Despite a more favorable price situation, planting of Argentine sunflowerseed for 2020/21 is stalled by a lack of rainfall in the northern part of the country. Argentine new-crop production is scaled back by 400,000 tons this month to 3 million. The supply reduction may mostly tighten the level of season-ending stocks.

A Brighter Market Develops for Malaysian Palm Oil Producers

Following a 7-percent decline in 2019/20, Malaysian production of crude palm oil for 2020/21 is seen rebounding. Based on improving rainfall and labor market conditions, output is forecast up by 200,000 tons this month to 19.9 million (versus 19.25 million for 2019/20). As production of palm oil rises, the price discount with its main competition—soybean oil and sunflowerseed oil—may gradually widen. This month, Malaysian palm oil exports for 2020/21 are expected to expand by 200,000 tons to 17.2 million and up from 16.95 million in 2019/20.

In 2020/21, China will probably be one of the better markets for palm oil imports, with an increase to 6.9 million tons from 6.65 million in 2019/20. In contrast, Indian palm oil consumption in 2019/20 has fallen by 15 percent (to 8.3 million tons) due to consequences from the COVID-19 pandemic. Although Indian import demand in 2020/21 may recover to 8.7 million tons, its rate of growth is likely to be far more constrained than in recent years.

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