



Oil Crops Outlook: December 2020

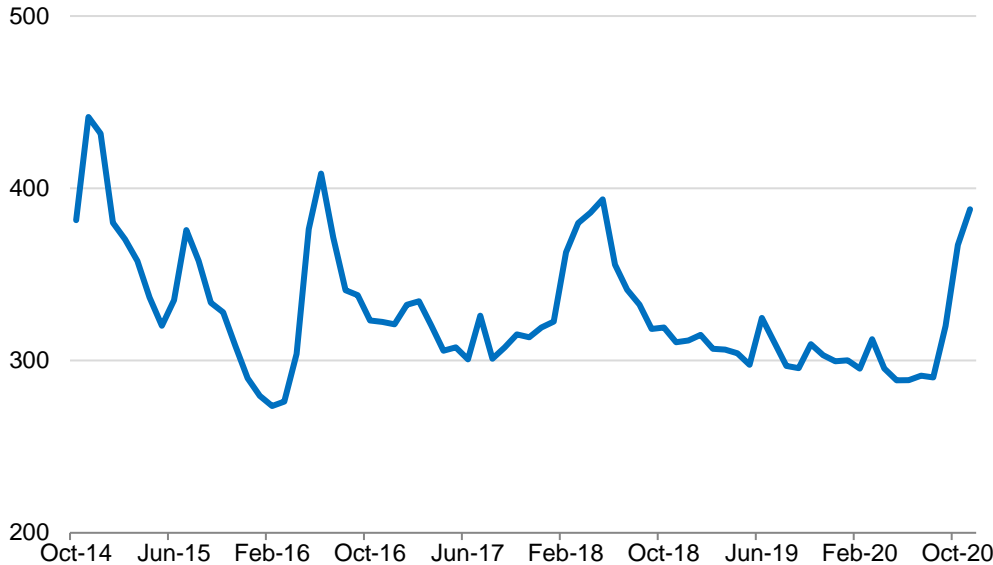
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Soybean Sector Prices are Heating Up

Based on strong margins and a record early season crush, USDA boosts its forecast of the 2020/21 soybean crush this month by 15 million bushels to 2.195 billion. Given no change in the export forecast for soybeans, the expected U.S. stocks carryout for 2020/21 is trimmed to 175 million bushels from 190 million last month. A tighter inventory outlook is seen strengthening the U.S. season-average farm price for soybeans by 15 cents to \$10.55 per bushel. USDA also increases its forecast of the 2020/21 average soybean meal price by \$15 per ton this month to \$370 while the average soybean oil price is seen 1.5 cents higher to 36 cents per pound.

Figure 1
Spike in soybean meal prices to a 3-year high boosts crush margins

Dollars per short ton
500



Source: USDA, Agricultural Marketing Service, *Central Illinois Soybean Processor Report*.

Domestic Outlook

Domestic and Export Soybean Demand on a Record Pace

Domestic soybean crushing in October totaled 196.6 million bushels—the highest ever rate for any month. In fact, U.S. soybean crushing has established monthly peaks for each of the last 10 months (excluding August). Subsequent gains also appear likely, prompting USDA to boost its forecast of the 2020/21 soybean crush by 15 million bushels this month to 2.195 billion.

The robustness of the domestic crushing market is primarily the culmination of strong demand for soybean products. A dimmer outlook for foreign competition—particularly by top exporter Argentina—is buoying demand and prices for U.S. products. Export sales of U.S. soybean meal are therefore holding up better in 2020/21 than first anticipated. USDA reflects these circumstances this month by raising its forecast of new-crop soybean meal exports by 500,000 short tons to 14 million. With a higher demand, November soybean meal prices in central Illinois extended a rally to an average of \$388 per short ton—well above the October average of \$367 and \$303 in November 2019. Such market strength warrants USDA's increase of the 2020/21 average price forecast for soybean meal by \$15 per ton this month to \$370.

Export demand for soybeans this fall is similarly strong. Cumulative export inspections of soybeans for September–November 2020 totaled 1.044 billion bushels, eclipsing the next fastest seasonal pace (2016/17) by a considerable margin. The rush in exports even includes a rare cargo of soybeans to Brazil. But virtually all the year-to-year gain can be attributed to much higher soybean shipments to China. Export sales commitments of soybeans to China have already topped 30.4 million metric tons (1.115 billion bushels), representing a 78-percent gain over total commitments for the entirety of 2019/20.

In contrast, soybean exports in the second half of 2020/21 may not be nearly as dynamic as its performance initially. The eventual market shift is heralded by recent slowing in new export sales of soybeans. While conditioned on normal development of South American soybean crops, new sales are cooling following the spike in U.S. prices. Outstanding sales of soybeans are now rapidly shrinking with the combination of a slowdown in new sales and brisk shipments pace. USDA's current export forecast for 2020/21 already reflects that outlook for record shipments and is unchanged at 2.2 billion bushels.

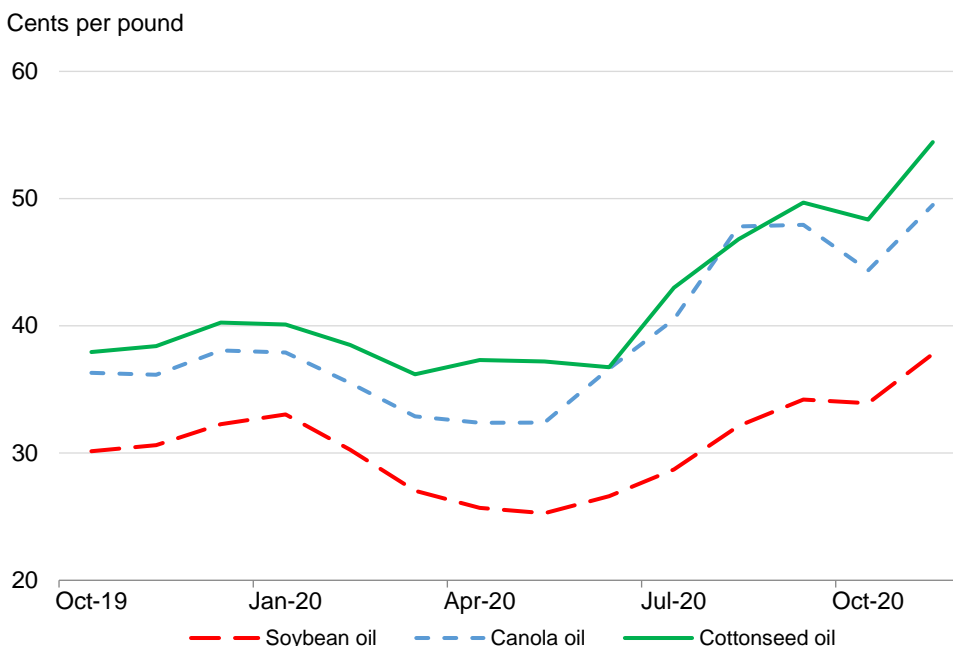
Thus, the U.S. soybean stocks carryout is trimmed to 175 million bushels from 190 million last month entirely due to higher expected domestic use. The tighter inventory outlook for soybeans

is seen strengthening the U.S. season-average farm price by 15 cents to \$10.55 per bushel. The expected season-average price is considerably lower than current cash bids because of the many forward sales made prior to last summer's rally. While subsequent prices received by farmers are likely to be higher, the U.S. average in October was \$9.63 per bushel.

Demand Pulls Soybean Oil Prices Higher

Although the surge in crushing for October boosted the domestic level of soybean oil stocks for the month, the excess may be fleeting. Demand for U.S. soybean oil supplies in 2020/21 is being accentuated by shortfalls in foreign oilseeds and vegetable oil production. So, despite surging U.S. soybean oil prices, exports are still at a competitive advantage versus other origins. Seldom is U.S. soybean oil competitive in India with other sources, but sales are already booked there this year. This month, U.S. soybean oil exports are forecast strengthening by 150 million pounds to 2.75 billion and down only marginally from 2.84 billion in 2019/20.

Figure 2
After bottoming out in the spring, U.S. vegetable oils prices are rallying



Sources: USDA, Agricultural Marketing Service, *Monthly Feedstuff Prices and Milling and Baking News*.

The outlook for tighter soybean supplies and solid oil demand is pulling up the value of soybean oil. The November average price for soybean oil swelled to 37.8 cents per pound from 33.9 cents in October. Soybean oil has now reached its highest value since June 2014. For the 2020/21 marketing year, USDA raised its forecast of the average price this month by 1.5 cents

to 36 cents per pound. A stronger soybean oil market has been closely followed by a rise in other U.S. vegetable oil prices.

Low Cottonseed Production Dims Demand Outlook

Harvesting of the U.S. cotton crop for 2020/21 is now winding down, with 84 percent complete as of November 29. By December 1, ginning (which involves the separation of the cottonseed from the lint) was also complete for 60 percent of the seed cotton. U.S. production of cottonseed for 2020/21 is estimated by USDA's National Agricultural Statistics Service at a 5-year low of 4.89 million short tons. This year, lower harvested acreage is more than offsetting modest yield gains. This month's 343,000-ton reduction for new-crop cottonseed output, however, is primarily based on a moderately lower yield for Texas.

Although the cumulative cottonseed crush for August–October 2020 is still on par with a year ago, an 18-percent decline in this year's harvest could ultimately erode that pace. Cottonseed prices—in alignment with a market rally for soybean meal—have swelled well above the year ago level. Higher processor costs are likely to pare the total crush for 2020/21 to 1.65 million tons from 1.71 million in 2019/20. U.S. cottonseed exports are also seen declining to a 5-year low of 325,000 tons. However, the biggest loss in cottonseed demand could be encountered by its feed use for cattle, which is forecast down 23 percent to 3 million tons.

International Outlook

Dryness Further Discourages Argentine Soybean Sowing

Global soybean production for 2020/21 is forecast down this month by 586,000 metric tons to 362.1 million. Expected crop reductions in Argentina, Mexico, and the EU are only partly offset by increases for Canada and Uruguay. The coupling of production changes with higher use is anticipated to trim 2020/21 global soybean stocks by another 880,000 tons to 85.6 million.

Soybean planting is now well advanced in Argentina. The country's Ministry of Agriculture reports that 54 percent of the 2020/21 crop was sown as of December 3. Dimmer prospects for sown soybean area are seen, partly due to dry soil conditions. Despite some recent improvement, September–November rainfall for the country's core soybean-producing region was no better than 40-50 percent of normal. USDA lowers its estimate of 2020/21 Argentine soybean area this month by 200,000 hectares to 16.7 million, which may now only equal last year's level. The lower area estimate leads to a reduction for the 2020/21 Argentine crop this month by 1 million metric tons to 50 million.

In October, an inability to obtain old-crop soybean supplies caused the Argentine crush to slump to an 8-year low for the month. An influx of soybean imports from Paraguay has been insufficient to counter the lack of domestic deliveries. Another contributor to the lagging processing pace are recent walkouts of unionized workers at the country's crushing plants, who are demanding bonuses for working through the pandemic. The dismal rate for the Argentine soybean crush motivated USDA to lower its forecast of 2020/21 use by 1 million tons this month to 39 million. Argentine production of soybean meal is then expected down by 800,000 tons for the year. In October 2020, a lower supply slashed Argentine soybean meal exports by 30 percent versus a year earlier. Full-season shipments are expected 800,000 tons lower this month to 26.7 million. If realized, it would be a 3-year low for Argentine trade in soybean meal.

An accompanying loss of soybean oil supplies for the Argentine market may exacerbate the plight of domestic biodiesel producers. Demand for Argentine biodiesel has been sharply curtailed by losses of export markets in Europe and the United States. The domestic market for biodiesel has been unable to absorb the excess. But those supplies might be easily taken off by eager foreign markets, which may sustain a modest increase for Argentine soybean oil exports to 5.65 million tons.

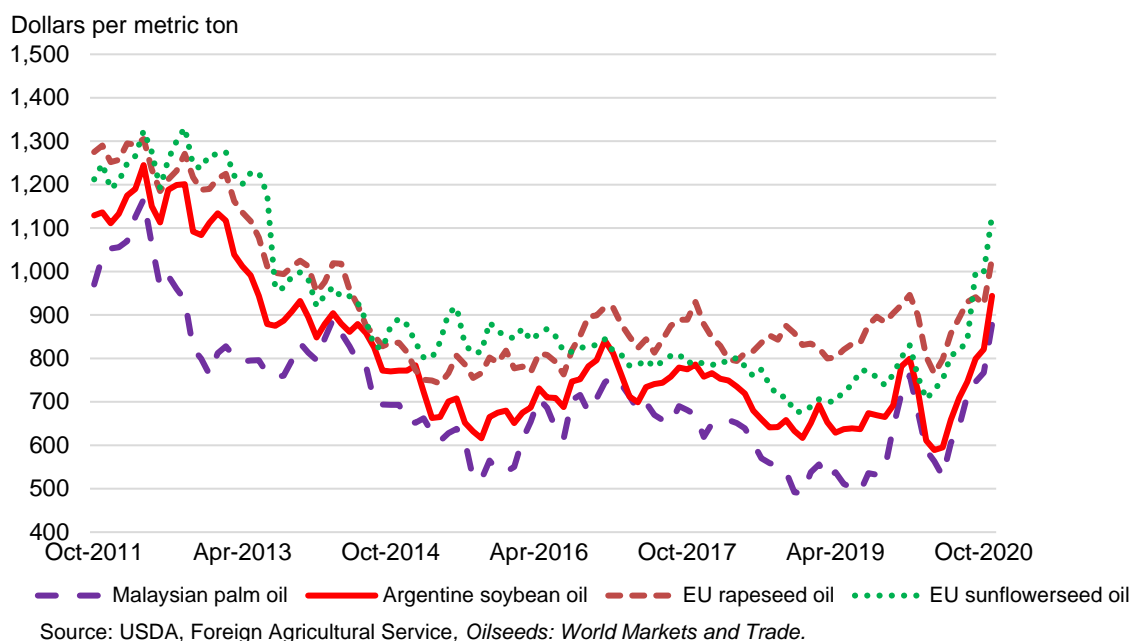
Rising Vegetable Oil Prices Spur Policy Changes

Soaring prices for palm oil are having an acute impact on global trade. Malaysian palm oil stocks have continued to tighten as production is heading toward a seasonal low. Despite sustained improvement in Malaysian rainfall throughout 2020, palm oil output is still encumbered there by past reductions in fertilizer use as well as pandemic-related labor shortages. Compared with a year ago, the benchmark price for crude palm oil in Malaysia has climbed by \$237 per metric ton and is approaching an 8-year high.

Growth in Indonesian palm oil production is sluggish, too. Development of a widening price spread between crude palm oil and diesel (approximately \$400 per ton) has made Indonesian mandatory targets for blending biodiesel less tenable. The Government's cost to subsidize the difference has swelled, making fulfillment of its 30-percent blending rate for biodiesel unrealistic. A recent step that the Government has taken to narrow the fund's deficit is to raise the export tax on crude palm oil. Its effect is to lower the cost of crude palm oil for domestic users, including those that produce biodiesel. Formerly, a flat \$55 per metric ton export tax was collected. The new tax is now a variable rate with a minimum of \$55 per ton and rising incrementally to \$255 depending on the domestic price.

Figure 3

International vegetable oil prices are climbing again



By itself, a sustaining of palm oil supplies for Indonesia's domestic market would deny exports to the international market. Yet, the overall impact on the competitive status of Indonesian

exporters may be minimal due to changes elsewhere. A recent reduction for the Indian import duty on crude palm oil—the top import market—is of major importance for Indonesian exports. At the same time, Malaysia is scheduled to remove its own tax exemption on crude palm oil by the end of December. Indonesian palm oil exports for 2020/21 are expected to edge 100,000 tons higher this month to 28.85 million.

India is highly dependent on imports of palm oil from Indonesia and Malaysia, soybean oil from Argentina and Brazil, and Ukrainian sunflowerseed oil. In 2020/21, these imports would comprise up to 65 percent of all Indian vegetable oil consumption. Yet, soaring import costs for each of these vegetable oils has forced the Indian Government into lowering import duties—at least for now. To ease the economic impact on domestic consumers for a basic food staple, India's import tariff for crude palm oil is lowered as of November 27 to 27.5 percent from 37.5 percent previously. The duty reduction for palm oil will also reverse incentives for importing the commodity relative to soybean oil. USDA forecasts Indian palm oil imports for 2020/21 up by 200,000 tons this month to 8.7 million. Nevertheless, India is committed to balancing the interests of consumers with oilseed farmers. Subsequent adjustments to duties are likely in order to encourage domestic oilseed production by the next growing season.

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