



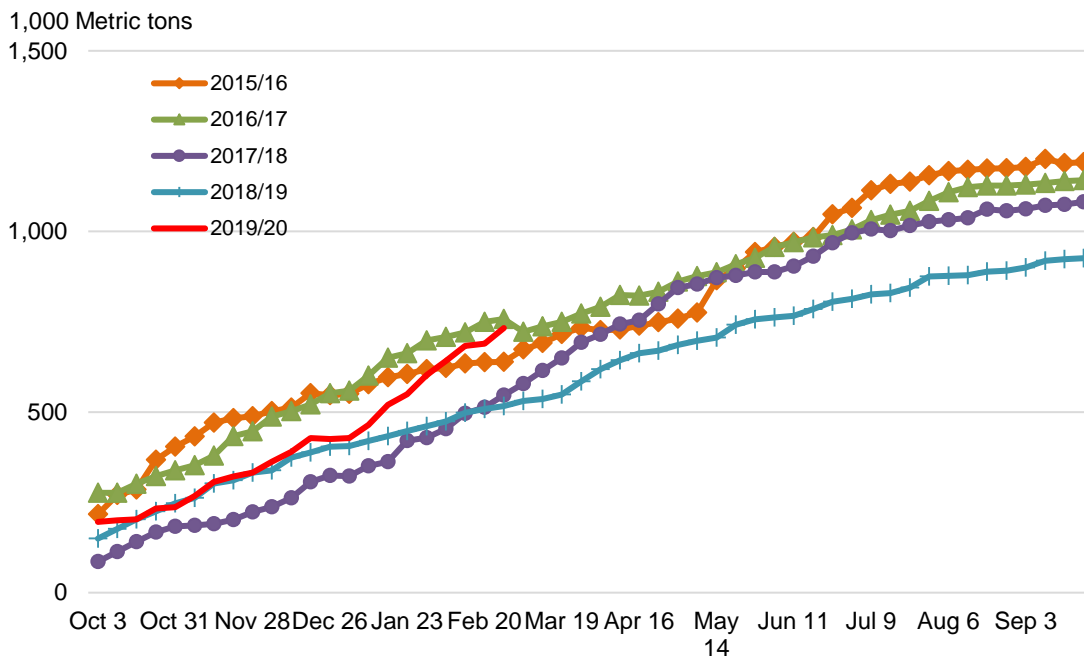
# Oil Crops Outlook

Mark Ash

## Larger South American Crops Subdue U.S. Prices

Even with no forecast changes this month for U.S. soybean supply and demand, there is sustained pressure on domestic prices. Ever larger crops and exchange rate weakness in South America led USDA to shave the forecast of the U.S. 2019/20-average price this month by 5 cents per bushel to \$8.70. Better expected yields led to higher 2019/20 soybean crop forecasts for Argentina and Brazil this month—both by 1 million metric tons to 54 million and 126 million tons, respectively.

Figure 1  
**Lower prices spur gains for U.S. export sales commitments of soybean oil**



Source: USDA, Foreign Agricultural Service, *Export Sales*.

# Domestic Outlook

---

## Bigger Foreign Supplies Suppress U.S. Soybean Prices

Even with no forecast changes this month for U.S. soybean supply and demand, there is sustained pressure on domestic prices. Ever larger crops and exchange rate weakness in South America are tempering the impact of this year's U.S. soybean stocks reduction. This month, USDA shaves the forecast of the U.S. 2019/20-average price by 5 cents per bushel to \$8.70. For soybean meal, a comparatively steady price level leaves USDA's forecast of the 2019/20 average unchanged at \$305 per short ton.

Support has also eroded for domestic soybean oil prices with inventory accumulation and a slide in global palm oil prices. The sudden collapse of crude oil prices—with the benchmark West Texas intermediate price down 23 percent since January—also undermines what the biodiesel market may bid for soybean oil. So, the February monthly average price for soybean oil in central Illinois fell to 30.3 cents per pound from the January average of 33 cents. USDA reduces its forecast of the 2019/20 average soybean oil price by 2 cents per pound this month to 31.5 cents to reflect this trend.

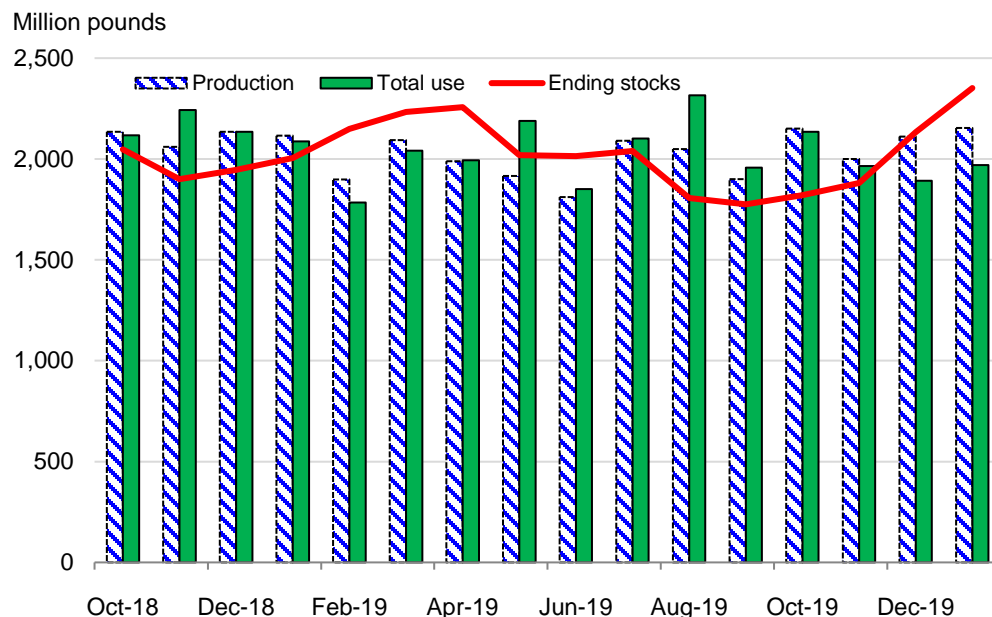
## Lower Domestic Use of Soybean Oil Pushes Stocks Higher

The January 2020 soybean crush is the highest monthly rate ever but it represents only a small increase from December. And only now has the cumulative crush for September-January 2020 (at 897.7 million bushels) caught up with the year ago pace. January ending stocks of soybean oil surged to 2.352 billion pounds from the December inventory of 2.134 billion. The marginal expansion for January soybean oil output means that the recent stocks accumulation is mostly related to lagging demand.

Total use of soybean oil for the 2019/20 marketing year to date is down by 7 percent (621 million pounds) from a year earlier. Lower consumption of soybean oil for the production of biodiesel is primarily responsible. Compared to a year earlier, cumulative production of biodiesel for October-December 2019 slumped by 19 percent. This period was prior to the January 1 restoration of the biodiesel blending tax credit. At the same time, soybean oil has also lost about 5 percent of its share in the total use of biodiesel feedstock as the use of other feedstocks held steady. The depth of the year-on-year deficit in soybean oil use for biodiesel prompted USDA to scale back its 2019/20 forecast this month by 200 million pounds to 8 billion. Consequently, this

change pares the forecast of total domestic use by the same amount to 22.9 billion pounds. Soybean oil demand is likely to strengthen for the remainder of 2019/20, though, which should gradually tighten the season-ending stock carryout to a little more than 1.5 billion pounds.

Figure 2  
**Soybean oil stocks climb as production outpaces use**



Source: USDA, National Agricultural Statistics Service, *Fats & Oils: Oilseed Crushing, Production, Consumption and Stocks*.

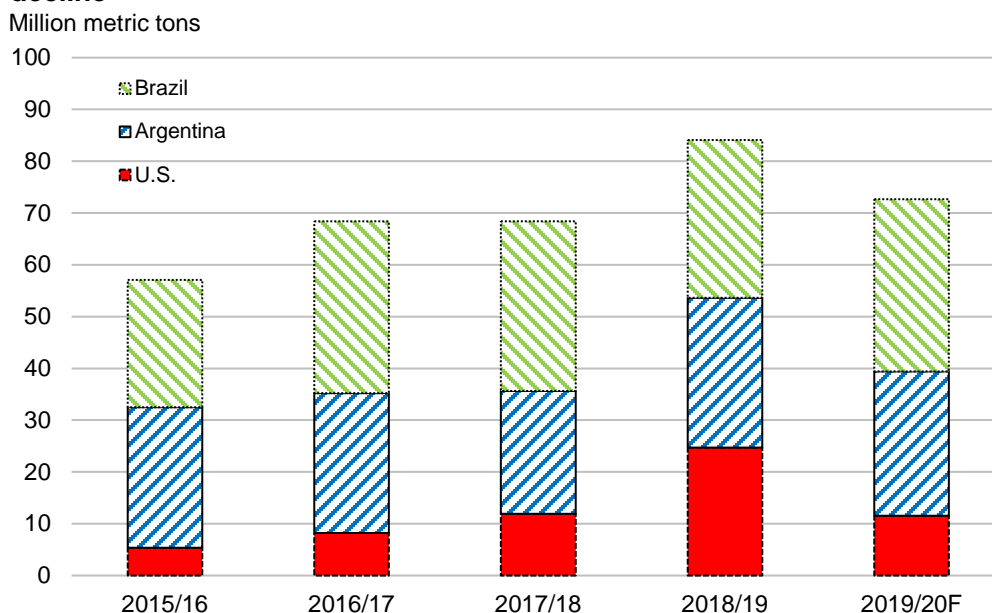
The upside of lower domestic demand and falling prices of soybean oil is that now U.S. exports are more competitive. Foreign demand for U.S. soybean oil will benefit from a curtailment of Argentine exports as well as a lower than usual price premium relative to palm oil. The outlook for U.S. soybean oil exports is already brighter with expanded sales commitments to price-sensitive import markets in North Africa and Latin America. Soybean oil exports for 2019/20 are forecast 200 million pounds higher this month to 2.1 billion.

# International Outlook

## Despite Good Prospects for Argentine Soybean Crop, Export Tax Hike May Slow Farm Sales

A higher expected Argentine soybean crop, coupled with bigger harvest estimates for Brazil and India, is forecast raising global production for 2019/20 by 2.4 million metric tons this month to 341.8 million. However, global ending stocks in 2019/20 are seen 3.6 million tons higher to 102.4 million as global soybean use is seen slowing a bit.

Figure 3  
**Expected rise in South American soybean stocks partly offsets U.S. decline**



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

USDA's forecast of the 2019/20 Argentine soybean crop is up 1 million tons this month to 54 million. Based on official data for sown area, this year's estimate of Argentine harvested soybean area is estimated 500,000 hectares lower to 17 million. Yet, a larger crop is anticipated based on better yields (provided that normal harvest conditions develop). First-crop soybeans are flourishing throughout central Argentina, where most of the country's crop is grown. Despite intermittent dry spells in the region, Argentine soils never got critically dried out in February due to moderate temperatures and ample mid-month rainfall. That moisture is timely for most soybeans as they are now forming pods and filling seed. Exceptions to the fortunate weather include a persistent pocket of dryness for the southwestern part of the country that has stressed

later-sown, second-crop soybeans. The opposite situation prevails in northern Argentina, where rainfall sometimes has been excessive. Nonetheless, both areas are minor soybean-growing regions that will not fully offset a favorable outcome for the core production region.

Despite a brighter supply outlook, demand conditions for Argentine soybeans are shifting. In December, Argentina's newly elected Government re-instituted a fixed 30-percent tax rate for exports of soybeans. Tax rates on soybean meal and soybean oil would be raised to the same level, as well. The Fernandez Administration abandoned the former variable tax of 4 pesos per dollar (equivalent to a 25-percent tax at the then current exchange rate). Furthermore, as of March, these export taxes are again raised to 33 percent, although lower rates are applied to farms that produce below a 1,000-ton threshold. The action is designed to boost urgently needed government revenues that would help fund social spending and service the country's massive foreign debt obligations. These currently total nearly \$100 billion, including an outstanding debt with the International Monetary Fund (IMF) of \$44 billion (stemming from a May 2018 loan commitment for 3 years and \$57 billion). Although Argentina is currently in negotiations with the IMF to consider a rescheduling of debt repayment, extracting concessions from other creditors may be more difficult.

Higher export taxes shrink the returns that Argentine farmers can earn from selling soybeans. Soybean producers may now hold back on sales of the new-crop harvest until funds are needed for operating expenses or the financial crisis eases. At the same time, another incentive to postpone soybean sales is a continuing depreciation of the Argentine exchange rate. Since August 2019, the peso has plummeted nearly 30 percent against the U.S. dollar. Any further decline in the peso's value could then help to offset the higher export tax. Another related sign of the dimmer Argentine market outlook is the recent bankruptcy of Vicentin, one the country's largest soybean processors. Last year, the company was the top Argentine exporter of soybean meal and oil—accounting for nearly one-sixth of the country's exports. The company has not only suspended its crushing, but has stopped payments to many Argentine farmers for crops sold prior to the export tax increases. Even so, excess capacity by other soybean processors could moderate the overall impact of the insolvent crusher.

A potentially greater difficulty of Argentine processors in procuring soybeans led USDA to lower its forecast of the country's 2019/20 crush by 1 million tons this month to 43.6 million. The combination of a larger crop estimate and a reduced crush boosts the forecast of September 30 Argentine soybean stocks by 2 million tons to 28 million.

An associated output reduction for soybean meal and soybean oil may then trim Argentine exports of both commodities. This month, Argentine soybean meal exports for 2019/20 are seen down by 850,000 tons (to 30 million) while soybean oil trade could retreat by 200,000 tons (to 5.8 million). Constrained supplies of Argentine soybean meal and oil would likely curtail imports throughout the world. This month, soybean meal imports are forecast lower for the European Union (down 300,000 to 18.7 million), Malaysia (down 300,000 to 1.4 million), and Philippines (down 250,000 to 2.85 million). Similarly, soybean oil imports by Bangladesh may contract to 700,000 tons versus more than 1 million in 2018/19.

## Beneficial Conditions Boost the Brazil Soybean Crop

Brazilian soybean yields in 2019/20 may be only marginally below the all-time high set two years ago. Above-average yields have already been observed for many key production areas, where harvesting is well advanced. The heightened productivity boosts the country's soybean production for 2019/20 by 1 million tons this month to a record 126 million. In contrast, dryness has stressed parts of the southern State of Rio Grande do Sul—Brazil's last area to harvest. About half of Brazil's 2019/20 soybean crop was harvested by early March but only 4 percent of the harvest in Rio Grande do Sul is complete.

Soybean exports from Brazil accelerated sharply in February. Soon thereafter, Brazilian soybean shipments will swell to become the predominant source of global supplies. Record high soybean prices in the country are steadily drawing new-crop supplies toward ports for overseas shipment. Despite a record harvest, Brazilian soybean farmers are earning more for their crops. The reason is a sharp depreciation in Brazil's exchange rate—down 13 percent against the U.S. dollar since the start of planting last September. Still, the rate of Brazilian shipments lagged the year-earlier level as the harvest pace is not quite as advanced as in 2018/19. For many countries, though, projections of economic growth this year are being scaled back. Import demand for soybeans is generally subdued. Weaker income growth may prompt consumers to ration their meat consumption, curtailing the demand for protein meal as a consequence. A slower growing foreign market, coupled with Brazil's crop production gains, is seen buoying its season-ending soybean stocks by 1.1 million tons to 33.2 million.

## Output Decline for Malaysian Palm Oil Persists

Malaysian palm oil production for 2019/20 is forecast down by 800,000 tons this month to 19 million based on continuing effects of prolonged 2018 dryness on yields. At 7.1 million tons, the

cumulative output for October 2019-February 2020 is down 20 percent from a year earlier and a 9-year low.

Despite a tightening of global palm oil supplies, a months-long price rally for the commodity has stalled recently. Between January and February, Malaysian prices for crude palm oil receded by 10 percent. The more bearish market sentiment was precipitated by concerns over potentially weaker palm oil demand in China—the world’s fourth-ranked consuming country. Palm oil is commonly used by restaurants in China for the preparation of noodle dishes. But widespread fears of the coronavirus is discouraging Chinese consumers from eating out in public for now. China palm oil imports for 2019/20 are forecast down this month by 300,000 tons to 6.9 million.

Malaysian palm oil exports in 2019/20 are lagging last year’s pace by 8 percent. In particular, shipments to India have already plummeted after that country restricted imports of refined palm olein. Dimmer import prospects by China could exacerbate the trade shortfall. USDA lowered its forecast of Malaysian palm oil exports by 650,000 tons this month to 17.35 million, compared to 18.4 million in 2018/19. Even with an expected reduction in foreign trade, Malaysian production losses have pulled down February stocks to a 3-year low of 1.68 million tons. By September 30, season-ending stocks are seen continuing down to 1.2 million tons. If realized, this would be the smallest Malaysian year-ending palm oil inventory since 2002/03.

## Suggested Citation

---

Mark Ash, *Oil Crops Outlook*, OCS-20c, U.S. Department of Agriculture, Economic Research Service, March 12, 2020.

Use of commercial and trade names does not imply approval or constitute endorsement by USDA.

To ensure the quality of its research reports and satisfy government-wide standards, ERS requires that all research reports with substantively new material be reviewed by qualified technical research peers. This technical peer review process, coordinated by ERS' Peer Review Coordinating Council, allows experts who possess the technical background, perspective, and expertise to provide an objective and meaningful assessment of the output's substantive content and clarity of communication during the publication's review.

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotope, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720-2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877-8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at [How to File a Program Discrimination Complaint](#) and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: [program.intake@usda.gov](mailto:program.intake@usda.gov).

USDA is an equal opportunity provider, employer, and lender.