



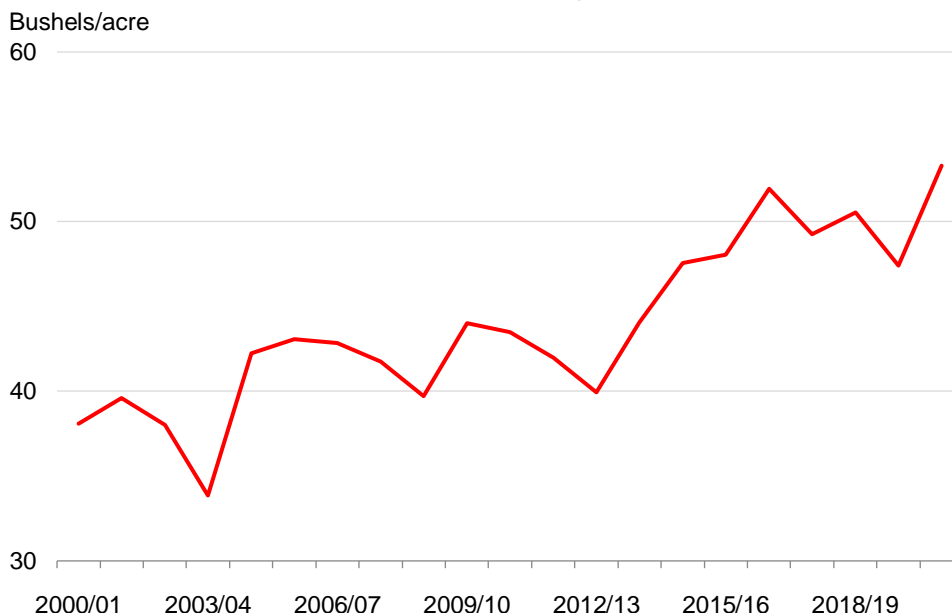
# Oil Crops Outlook: August 2020

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## Outstanding Soybean Yields Counter a Brighter Export Outlook

USDA's *Crop Production* report this month published a 2020/21 U.S. soybean yield forecast at a record 53.3 bushels per acre that boosts the crop to 4.425 billion bushels. Coupled with large beginning stocks, expected total supplies for 2020/21 are the highest ever at 5.055 billion bushels. Supply gains could further strengthen U.S. soybean exports for 2020/21 by 75 million bushels to 2.125 billion. Even so, a bigger surplus may accumulate in season-ending stocks to 610 million bushels. The U.S. season-average farm price is seen 15 cents lower this month to \$8.35 per bushel.

Figure 1  
**Soybean yields poised to mark a record high**



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

# Domestic Outlook

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## 2020/21 Soybean Supply Surges to a Historic Peak

Current soil moisture conditions in the Midwest can hardly be described as ideal for soybeans, yet a broad segment of the crop is encountering minimal stress. With a few exceptions, lengthy periods of extreme heat or low rainfall this summer have been absent throughout the region. As of August 9, 74 percent of the U.S. soybean crop is rated in good-to-excellent condition—a 5-year high. USDA's first field surveys of 2020/21 soybean yields, conducted early this month, confirm the more subjective evaluations. Based on this information, the *Crop Production* report published a U.S. soybean yield forecast of 53.3 bushels per acre. The indicated yield shatters the 2016/17 record (51.9 bushels) and reflects a major recovery from a disappointing 2019/20 yield (47.4 bushels). States expected to have both yield and production records this year include Indiana, Michigan, Missouri, and South Dakota.

Aside from Tennessee, crop development for soybeans this season is well ahead of a year ago, when extreme wetness led to a historically late-sown crop. By August 9, 92 percent of the U.S. soybean crop had reached the blooming stage with 75 percent starting to set pods. While the current situation is promising, incomplete development means that weather conditions over the next 4 weeks could still be pivotal in determining final yield outcomes.

A combination of the expected 2020/21 soybean yield with a harvested area estimate of just over 83 million acres boosts this year's crop production to 4.425 billion bushels. USDA forecasts the 2020/21 production to fall just 3 million bushels shy of the 2018/19 record as there are 5.3 million acres fewer sown than two years ago. Even so, when the crop is coupled with large beginning stocks, total supplies for 2020/21—at 5.055 billion bushels—are 174 million bushels larger than the next highest year.

## Improving Demand Outlook Lends Support to Soybean Prices

For the third consecutive month, the U.S. soybean crush declined in June to 177.3 million bushels (versus 179.6 million in May). That volume, however, still sets a record high for the month and well exceeds the June 2019 rate at 157.6 million. This month, USDA raised forecasts of soybean crush for the 2019/20 and 2020/21 crop years by 5 million bushels (to 2.16 billion) and 20 million (to 2.18 billion), respectively. Continuing strength for U.S. soybean meal exports contributes to the changes. U.S. soybean meal demand has benefited from subdued shipments

from the top exporting country—Argentina. In 2019/20, U.S. soybean meal trade abroad is seen rising by 200,000 short tons this month to 13.65 million. Only a modest decline is expected for 2020/21 export demand to 13.5 million tons.

Despite the looming pressure of a massive soybean supply, new-crop prices have been bolstered by more robust export sales commitments. As of July 30, U.S. export sales of soybeans reached their highest level in 6 years (and more than fourfold above a year ago). Leading the way are dramatically improved sales to China. One advantage is that U.S. export prices for soybeans are now the most competitive against Brazilian supplies in almost 2 years. Additional supplies could further strengthen U.S. soybean exports for 2020/21 by 75 million bushels to 2.125 billion.

Notwithstanding a stronger demand outlook, a considerable portion of the production increase may still accumulate in season-ending soybean stocks. Ending stocks for 2020/21, at 610 million bushels, are seen 185 million bushels higher than last month's forecast. A major decline in year-end inventories may then be precluded compared with the expected 2019/20 level at 615 million bushels. Pressure on soybean prices will be sustained as a consequence. The U.S. season-average farm price for 2020/21 is forecast down by 15 cents per bushel this month to \$8.35 and from \$8.55 in 2019/20.

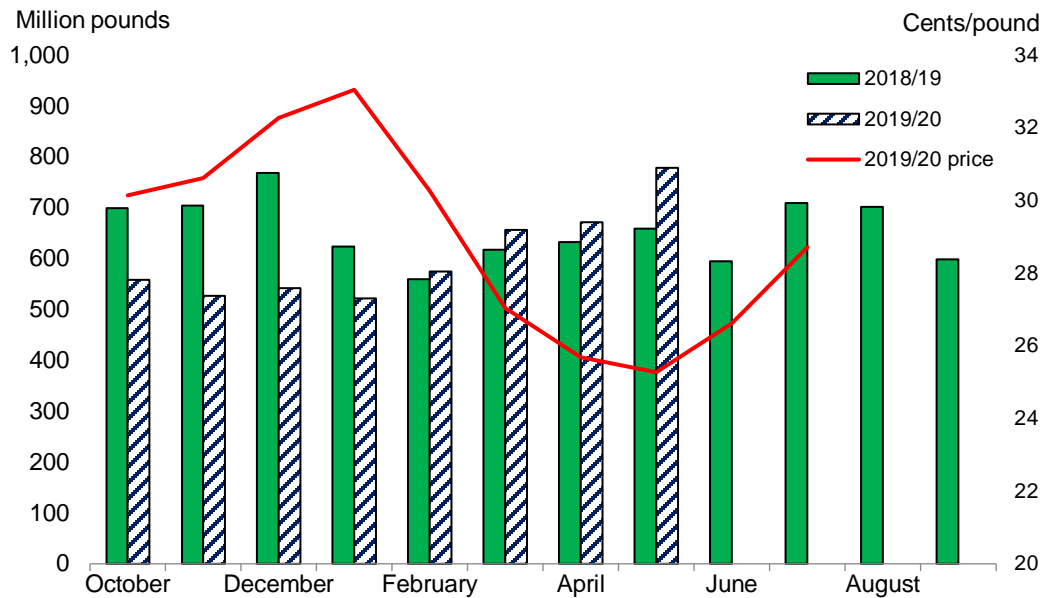
## Soybean Oil Values Lifted by Higher Use

Prices for soybean oil rallied in July, with the monthly average in central Illinois climbing by 2.1 cents per pound from June to 28.7 cents. Shifting trends are also propping up futures contract prices. Contributing to the price strength is a recent revival in biodiesel output (compared with the first half of 2019/20). At the same time, use of soybean oil to produce biodiesel recovered in May as its share of total feedstock consumption gained at the expense of other feedstocks. Specifically, comparative costs for corn oil and used cooking oil have spiked as their supplies tightened. In response, USDA edged up its forecast of 2019/20 soybean oil use for biodiesel by 200 million pounds this month to 7.6 billion.

Also, international demand continues to drive strong U.S. exports of soybean oil. Market support also stems from a recent rally in global palm oil prices. The aforementioned factors prompted USDA to raise its forecast of the 2020/21 average soybean oil price this month by 1 cent to 30 cents per pound.

Figure 2

**Improved use of soybean oil for biodiesel aids 2019/20 price recovery**



Sources: USDA, Agricultural Marketing Service, *Central Illinois Soybean Processor report*, and Department of Energy, Energy Information Administration, *Biodiesel Bulletin*.

## Record Yield Swells U.S. Peanut Production

The 2020/21 estimate of U.S. yield per acre for peanuts increases to a record 4,218 pounds from 3,949 pounds in the 2019/20 marketing year. All-time high yields are forecast for Alabama, Georgia, and Florida, where the weather was slightly wetter and cooler than usual. Yield increases are not uniform, however, as dry and hot weather trimmed yields in North Carolina, Virginia, and Oklahoma. Combined with increased planted acreage, the USDA’s National Agricultural Statistics Service estimates a higher yield to raise U.S. peanut production to 6.2 billion pounds. The 2020/21 crop would be the third highest ever, with the year-to-year increase from the 2019/20 marketing year totaling 717 million pounds (up 13 percent).

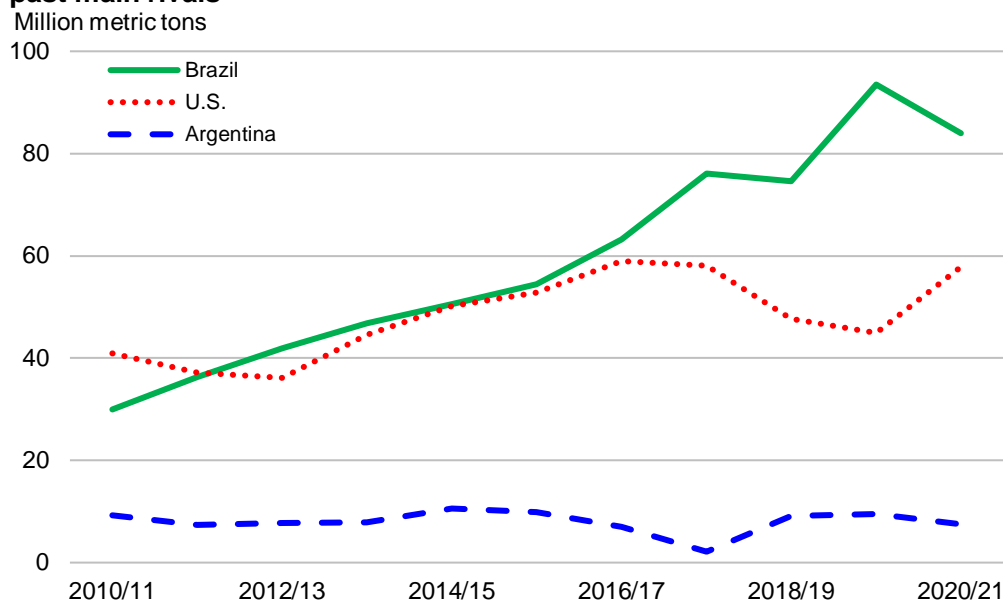
A larger crop prompts a modest increase for USDA’s forecast of 2020/21 peanut demand by 79 million pounds to 6.273 billion. The supply increase, however, is much larger at 323 million pounds. Consequently, higher season-ending stocks in the 2020/21 marketing year are anticipated (to 2.02 billion versus 1.964 billion in 2019/20). This increase in new-crop supply relative to demand shaves the expected season-average price to 20.25 cents per pound, down slightly from the previous marketing year.

# International Outlook

## Brazil Dominates Global Soybean Trade with a Record-setting Pace

USDA forecasts that 2019/20 soybean exports from Brazil may swell to 93.5 million metric tons. The revised forecast is up 4.5 million tons from last month and from 74.6 million a year earlier. Although July 2020 soybean shipments from Brazil dropped 21 percent to 10.4 million tons from June, gains are still accumulating against a year ago (with a 39-percent increase over the July 2019 trade). Incredibly, over a 3-year span, Brazilian shipments have grown to more than double the volume of 2019/20 U.S. exports (44.9 million). In 2020/21, diminished beginning stocks in Brazil and a big U.S. harvest will only narrow the gap somewhat.

Figure 3  
**Swelling crops, currency depreciation spur Brazilian soybean exports past main rivals**



Source: USDA, Foreign Agricultural Service, *Oilseeds: World Markets and Trade*.

On the other side of global soybean trade, 2019/20 imports for China may bulge to 98 million tons versus 82.5 million for 2018/19. Cumulative soybean imports for October 2019–June 2020 total 69.05 million tons. That is an extraordinary 23-percent year-to-year increase for the world's largest importing country. A higher 2019/20 soybean crush in China accounts for all of the 2-million-ton increase for imports this month. Imports for China in 2020/21 could also edge up to

99 million tons. A recovery in soybean meal consumption by the country's hog production industry is largely responsible for the greater soybean demand.

## Monsoon Advance Aids Swift Pace of Indian Oilseed Sowing

India had an early onset of the summer monsoon season in June that favored a brisk pace of soybean planting in the country. July rainfall subsided somewhat, but conditions are still conducive for sowing. Once farmers finish planting the last of those areas this month, the final data on Indian soybean area may expand to 11.7 million hectares. Assuming normal yields, a soybean crop of 10.75 million tons (up 250,000 tons from last month) is anticipated.

The prompt arrival of monsoon rains encouraged sowing of other oilseeds, as well. Indian peanut area for 2020/21 is up 600,000 hectares from the previous estimate to 5.4 million. Favorable prices for peanuts compared to cotton have also promoted planting. Additional sown area raises this year's forecast of peanut production by 700,000 tons to 6.2 million. Since Indian peanut yields may not duplicate the above-average 2019/20 level, production is likely to slip below last year's harvest of 6.3 million.

## Heat and Drought May Curb Russian Sunflowerseed Yields

Global sunflowerseed production for 2020/21 is forecast down nearly 1 million tons this month to 55.8 million. Lower output in Russia, Kazakhstan, and Moldova is only partly offset by larger crops for Ukraine and the EU.

In early July, temperatures soared in parts of southern Russia and the lower Volga Valley. Effects of the extreme heat on soil moisture conditions were compounded when less than half of the usual precipitation fell throughout the month. Such weather was untimely for sunflowerseed as the crop was advancing through its peak flowering period. In contrast, conditions farther north are more favorable, minimizing odds for a nationwide crop failure. Consequently, dimmer outlooks for Russian harvested area and yields this month cut USDA's forecast of 2020/21 sunflowerseed production by 1.5 million tons to 14 million tons.

Russian processors may now crush no more than 13.1 million tons in 2020/21 compared to last month's forecast of 14.05 million and 13.7 million in 2019/20. A lower crush could disrupt a formerly steady rise in the country's share of global sunflowerseed oil trade by reducing Russian 2020/21 exports to 3.15 million tons from 3.5 million in 2019/20.

Right across Russia's southern border, Kazakhstan is affected by similarly dry conditions. Reduced area and yield prospects trim the forecast of Kazakhstan's 2020/21 sunflowerseed production from 1 million to 750,000 tons. Lost production potential would diminish the country's domestic use and exports of sunflowerseed.

In contrast, USDA estimates Ukraine's 2020/21 sunflowerseed production 500,000 tons higher this month to a record 17.5 million. The increase is based on higher official area data. At 6.8 million hectares, Ukraine sunflowerseed area is 200,000 hectares higher than the previous estimate. A larger crop in Ukraine would benefit both the production and exports of sunflowerseed oil, which could replace lower shipments from Russia.

This year's EU sunflowerseed crop is forecast 300,000 tons higher this month to 9.9 million. Better yields are expected for Spain, France, Hungary, and Bulgaria following favorable July rainfall and moderate temperatures. Yield increases for these countries would counter a lower area estimate for Romania. Higher domestic supplies will limit EU import demand for sunflowerseed, which is seen declining to 420,000 tons in 2020/21 from 875,000 in 2019/20.

## Suggested Citation

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