



Oil Crops Outlook: March 2021

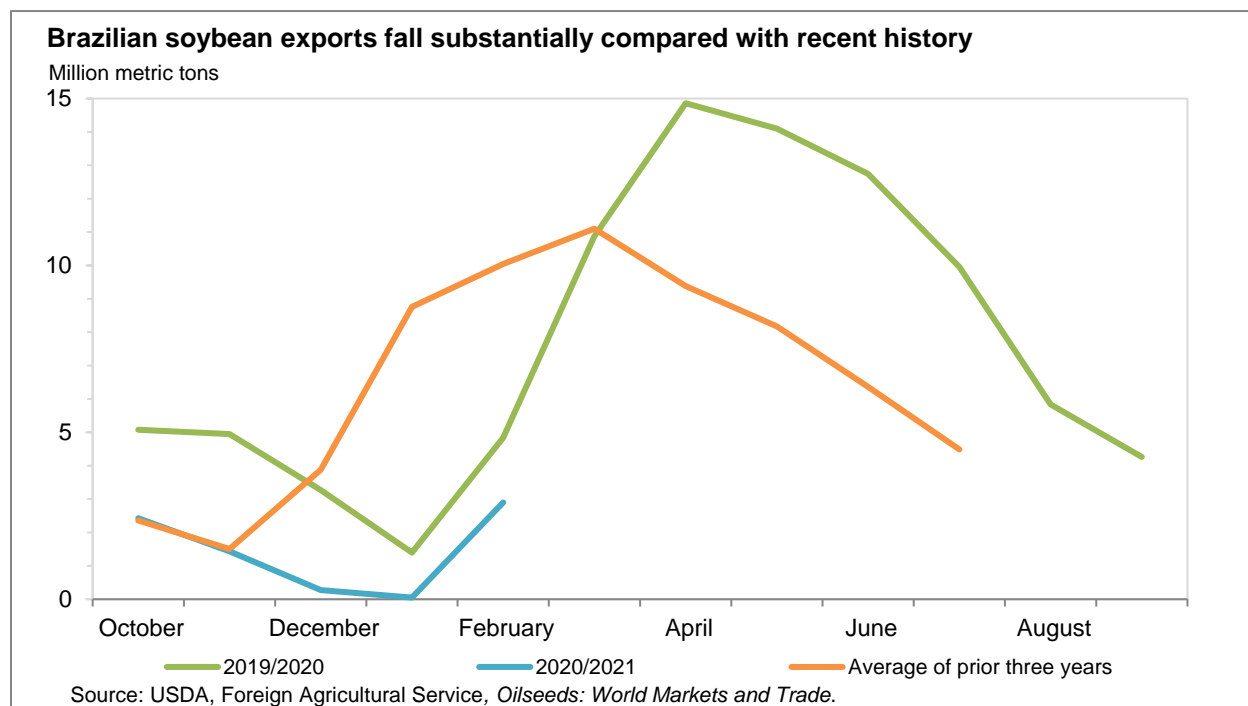
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Tight Domestic Stocks Shifts Market Focus to South American Soybean Crop

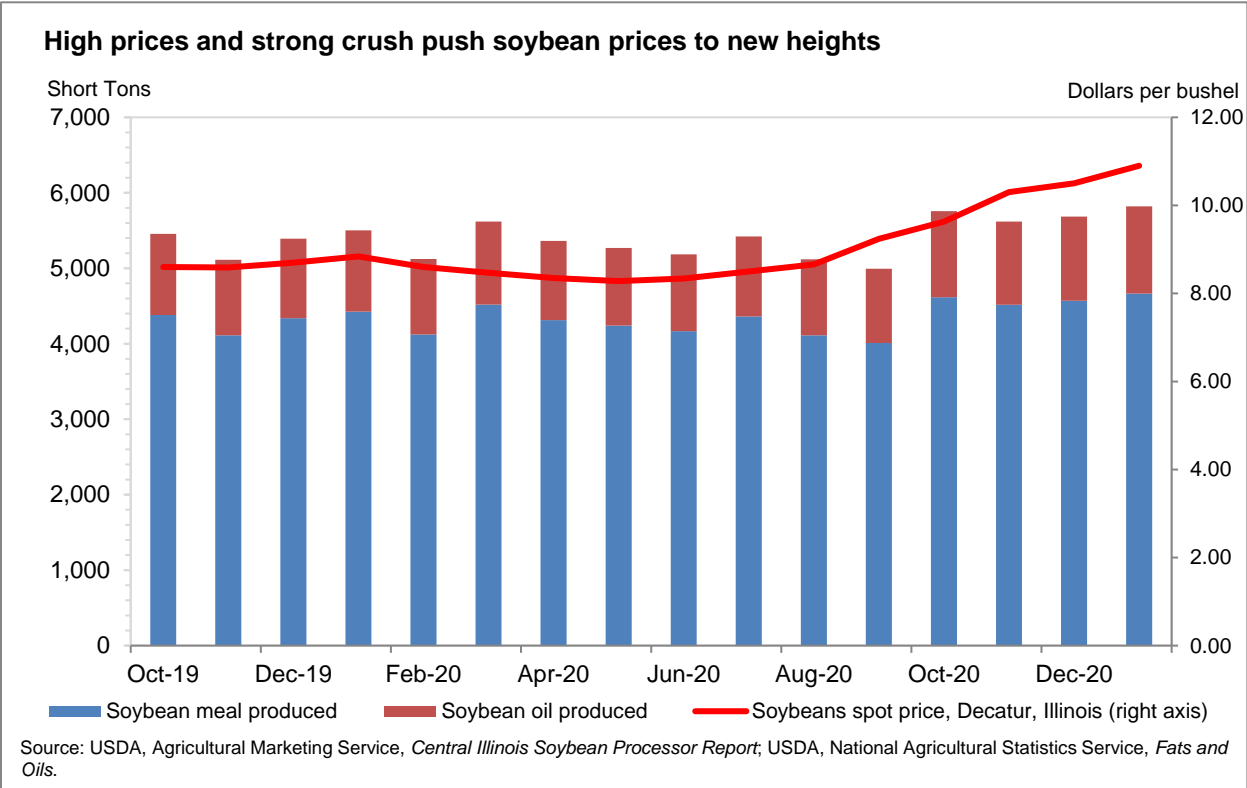
With U.S. soybean crush and exports at record levels through the first five months of the 2020/21 marketing year, USDA maintains tight season-ending soybean stocks of 120 million bushels. As U.S. supplies decline seasonally, the progress of the South American harvest comes into greater focus. USDA forecasts a record Brazilian soybean crop at 134 million tons, up 1 million from the previous forecast. However, with a slow start to the planting season and harvest delays due to excessive rainfall, soybean exports from Brazil are off to a slow start.



Domestic Outlook

Soybean Prices Rally on Tight Stocks and High Crush While Export Pace Begins to Cool

The March 2021 Futures price for soybeans averaged near \$14.15 per bushel the first week of March. This price represents about a \$0.30 per bushel increase relative the contract’s average price a month prior. Strong U.S. January exports of 324 million bushels on limited Brazilian supplies have further reduced the available domestic soybean supply and has supported prices. Through the first five months of the marketing year (September 2020-January 2021), U.S. soybean exports have totaled 1.82 billion bushels and already exceeded last year’s total exports of 1.68 billion bushels. January’s volume represents a nearly 66 percent increase from last January, largely spurred by increased exports to China. However, export sales data indicates that weekly U.S. soybean exports are declining as anticipated with a seasonal shift to demand for Brazil’s soybean crop. As such, USDA has maintained its 2020/21 soybean export forecast at 2.25 billion bushels. The forecasted season average price for soybeans also remains unchanged at \$11.15 per bushel. Although current cash prices are significantly higher, prices received through January have averaged just over \$10.00 per bushel, reflecting forward pricing at lower prices.

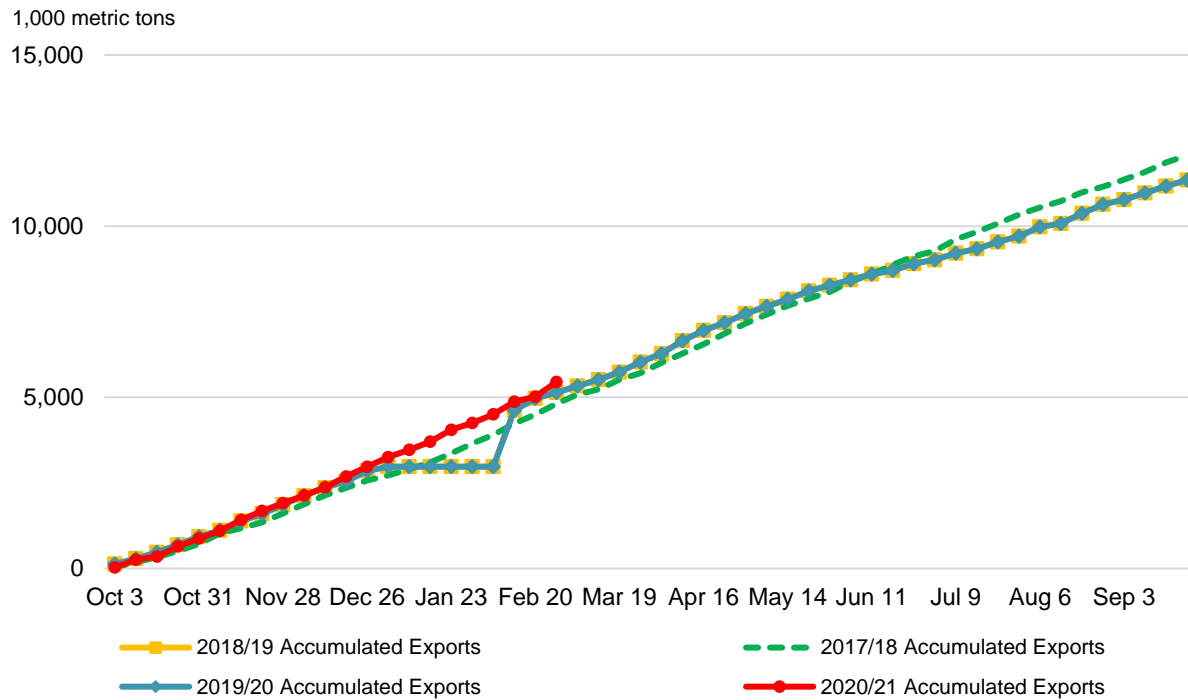


In addition to strong exports, January crush volumes were the second highest on record at nearly 197 million bushels, up 4 percent year-over-year. Through the first five months of the marketing year, 2020/21 crush volumes total 949 million bushels, a nearly 6 percent increase over the same period last year. The increase in crush demand derives from strong margins for soybean meal and soybean oil. Due to the limited supply of soybeans, the ability of the domestic crush sector to continue at its record pace is limited. As such, USDA has maintained its forecast of 2020/21 crush at 2.2 million bushels. Overall, forecasted soybean ending-stock levels also remain unchanged at 120 million bushels.

Increased production of soybean oil domestically contributed to an increase in soybean oil exports for the month of January. The nearly 328 million pounds of exports was the largest monthly export volume since May 2020 and a significant increase from the 125 million pounds of soybean oil exports in January 2020. Monthly reporting from the Energy Information Administration indicates that production of biodiesel increased over the last several months, hitting 159 million gallons in December 2020. Soybean oil used in biodiesel production continues to see strong levels for feedstock into the biodiesel production process with December seeing total soybean oil used at 744 million pounds. Soybean oil used for biodiesel production during the first quarter of the marketing year totaled 2,150 million pounds, up 32 percent from the 2019/20 marketing year. Soybean oil stocks for January 2021 were 1.88 billion pounds, a 5.5 percent decline from January 2020 stock levels. Soybean oil use has been buoyed by strong domestic demand for biodiesel and a recovery in crude oil prices. The soybean oil price received by central Illinois processors in the first week of March exceeded 53 cents per pound. Given strong extraction rates to date, USDA lifted the soybean oil extraction rate from 11.62 to 11.65 pounds per bushel, leading to a 65-million-pound increase in soybean oil production. Strong domestic demand for soybean oil and increased competition with Argentinian soybean oil exports has led USDA to reduce its forecast of soybean oil exports down 150 million pounds to 2.6 million pounds. Soybean oil ending stocks were left relatively unchanged at 1.7 billion pounds.

Soybean meal prices have also seen significant gains this year amid rising soybean prices. Central Illinois soybean meal prices were up 45 percent year-over-year in February at \$428.00 per short ton. Despite higher prices, marketing year-to-date exports (October 2020-January 2021) of soybean meal have increased 16 percent to nearly 5.3 million short tons. January exports of 1.5 million short tons are the largest monthly volume seen since January 2019. Additionally, it represents a 35 percent increase in exports compared to January 2020.

Quick start for U.S. soybean meal export sales as crush remains strong



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

U.S. Canola Price Rally Continues

Although U.S. exports of canola have declined relative to last marketing year, tight canola supplies have led to a rally in domestic prices. Prices have spiked in part due to depleted Canadian canola stocks and high demand for oilseed products in China. Ongoing political tensions between the two countries has done little to stymie Chinese demand for Canadian canola products. As a result of increased Canadian canola and products exports, a drop in production, and increasing crush levels, Canadian canola stocks are expected to fall 62 percent this year. Such a scenario has certainly had an effect on U.S. canola prices. March cash prices for North Dakota canola are \$26.20 per hundredweight. This represents a \$8.15 increase from the three-year average cash price of \$18.05.

Currently, USDA's 2020/21 forecast for canola production is nearly 3.46 billion pounds. This volume would represent an increase from the 3.40 billion pounds produced in marketing year 2019/20. High forecasted crush levels of 4.45 billion pounds for the year will contribute to significantly depleted stocks. In fact, the 200 million pounds of forecasted ending stocks for the 2020/21 marketing year would represent the second lowest stock level over the last 8 years.

International Outlook

Concern Over Brazilian Soybean Harvest Conditions Continues to Mount

Although the Brazilian soybean harvest began in late January, only 25 percent of the planted soybean crop has been harvested nationally by the first week of March. Compared to last year's harvest, this represents a 15 percent decline and the slowest pace over the last decade.

Unexpectedly wet weather has been to blame for most of the delay. With wet weather continuing through the first few days of March, particularly in Northern parts of the country, it is possible that the harvest could fall even further behind. Similarly, wet conditions in Parana have led to over a 30 percent reduction in harvest progress relative to last year.

Harvesting delays have also contributed to logistical issues for Brazil's soybean exports. Ships have lined up in Brazil's ports to receive delayed soybean shipments from the field. In the North of Brazil, long trucking lines are creating traffic jams that are further delaying the transport of soybeans to the port. Exports for the month of February totaled 2.9 million metric tons, down significantly from the 4.8 million metric tons exported in February of 2020. Additional delays in exports of Brazilian soybeans could provide U.S. exporters the opportunity to continue shipping soybeans which has the potential to further increase the price of soybeans in the United States. Based on final year crush and export levels, USDA has revised Brazil's 2019/20 soybean production up 2.5 million metric tons to 128.5 million metric tons based on higher yields. Given this increase, USDA has also increased its forecast for Brazil's 2020/21 production to 134 million metric tons and yield to 3.47 metric tons per hectare. Despite the increased production forecast, exports remain unchanged at 85 million metric tons.

Conditions in Argentina are drastically different from those seen in Brazil, with farmers facing sporadically dry conditions over the course of the growing season. As a result of this dry weather, USDA has slightly lowered its forecast of 2020/21 Argentine soybean production to 47.5 million metric tons. Additionally, concerns over a potential export tax increase for oilseed products has been alleviated in recent weeks. The Ministry of Agriculture announced on February 8 that an agreement had been reached with Argentinian soybean processors to hold down prices of edible oils in exchange for leaving the export tax on soybeans, meal, and oil unchanged. Due to political pressure depressing domestic soybean prices, Argentinian farmers have proven reluctant to sell large volumes of their soybean crop. This has led to an increase in USDA's forecasted imports for Argentina, up 200,000 metric tons to 4.7 million metric tons. This

uptick in imports will likely continue to fuel the Argentinian crush sector as exports of soybean oil and soybean meal have increased. As such, USDA has increased the forecasted exports of soybean meal and soybean oil to 27.4 million metric tons and 6 million metric tons, respectively.

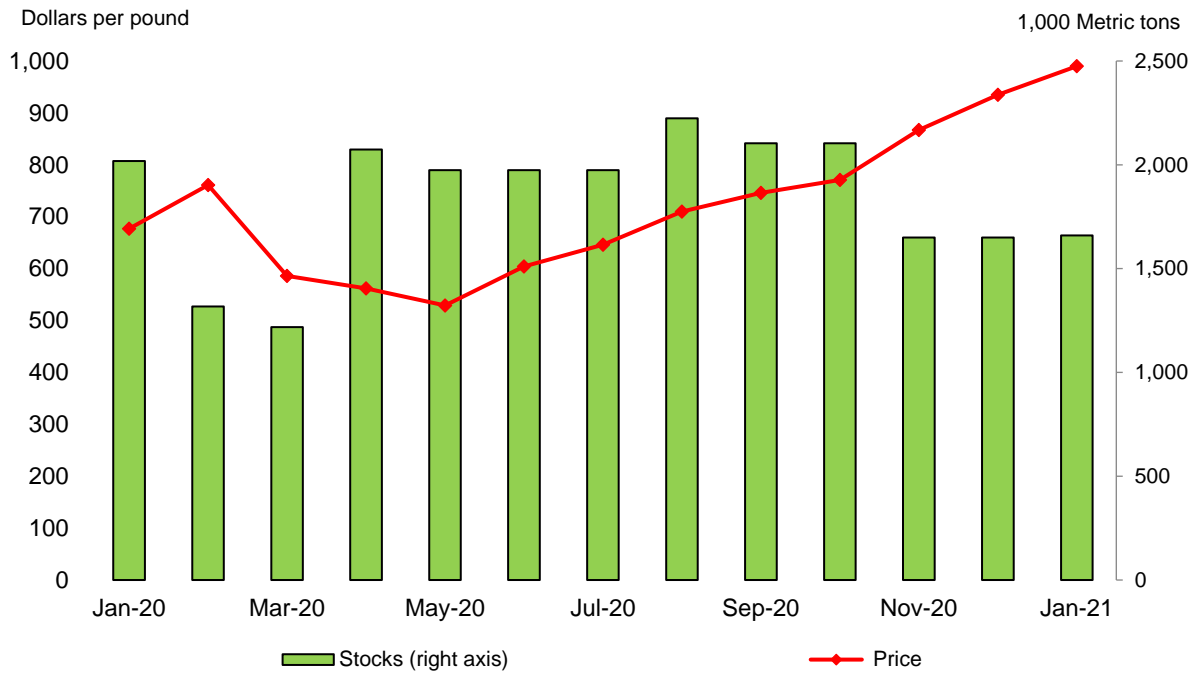
Chinese Demand for Oilseeds Continues to Grow

Despite African Swine Fever (ASF) continuing to affect some hog farms in China, expectations remain that China's protein meal demand growth will nearly return to levels seen before ASF. Through December, China has imported nearly 25.8 million metric tons of soybeans, a 7 percent increase from the 24 million metric tons imported during the first three months of the 2019/20 marketing year. The United States has been the largest beneficiary of increased Chinese buying, accounting for nearly 59 percent of year-to-date imports. While recent crush levels in China have been lower than previous weeks due to the Lunar New Year holiday, overall crush volumes are still higher than previous years. Nevertheless, based on year-to-date pace, USDA decreased China's forecasted crush slightly to 98 million metric tons. To offset this reduction in crush volumes, USDA forecasts that China will import an additional 100,000 metric tons of rapeseed oil to account for reduced soybean oil supplies.

Malaysian Palm Oil Stocks Expected to Decline

Unusually high rainfall in Malaysia has led USDA to revise its forecast of Malaysian palm oil production down to 19.6 million metric tons. Precipitation levels for January were the second highest level seen on the peninsula in the last 30 years. Despite the increased rainfall, Malaysia's export forecast remains unchanged at 17.3 million metric tons. This is likely attributed to a forecasted draw down in stocks of 150,000 metric tons and a 100,000 metric ton increase to Malaysian palm oil imports. It should be noted that although high rainfall has the potential to adversely affect the current palm crop, increases in rainfall generally equate to above average yields 9-12 months from the date of the increased moisture. This could be of particular interest for next year's palm crop.

Tighter Malaysian palm oil supplies spark still higher prices



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

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