



Oil Crops Outlook

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Despite Low Prices, U.S. Farmers Intend To Expand Soybean Acreage

On March 31, USDA's *Prospective Plantings* report indicated U.S. farmers intend to plant 73.1 million acres of soybeans in 1999. Soybean acreage at this level would be a U.S. record, and would be up 730,000 acres from the previous high established last year. The largest prospective gains are in the western Corn Belt, including Nebraska (up 500,000 acres), South Dakota (up 450,000), and Iowa (up 400,000). Soybean expansion in these areas would be largely at the expense of corn and winter wheat. However, the number of States expecting a decline or no change in soybean acreage exceeds those anticipating an increase. Soybean intended acreage for 1999 will be smaller in the South as cotton and rice area expands.

U.S. minor oilseed acreage is also expected to rise. Sunflower producers intend to plant 3.96 million acres, up from 3.55 million last year. Although far from the record 5.6 million acres planted in 1979, this year's acreage would be the largest since 1982. Most of the sunflowerseed increase would occur in South Dakota, Kansas, and Minnesota, while North Dakota (the largest producing State) is expected to drop 40,000 acres. In addition, flaxseed planted acreage would increase from 336,000 acres in 1998 to 521,000 this year, with North Dakota producers accounting for all of the expansion.

The U.S. soybean farm price in March averaged \$4.55 per bushel, the lowest since 1976. Therefore, it seems unusual that farmers would consider planting so many soybeans. One reason this makes sense, however, is that there is more cropland available for soybean production this spring. U.S. winter wheat acreage declined 3.05 million acres from a year ago. Farmers in South Dakota, Illinois, Ohio, and Kansas are all likely to plant more soybeans onto land not taken for winter wheat production.

The other major factor for greater soybean planting is the marketing loan. In March, USDA announced that the 1999 marketing loan rates for soybeans, corn, and wheat would be set at \$5.26, \$1.89, and \$2.58 per bushel, respectively, the same as last year. The minor oilseeds marketing loan was set at 9.3 cents per pound. Under the 1996 farm legislation, these are the maximum rates allowed. Marketing loan rates for wheat, corn, soybeans, and minor oilseeds are required to be no less than 85 percent of the simple average of prices received by producers during the preceding 5 years, excluding the high and low years.

Soybean cash prices are unlikely to exceed the loan rates this year, so the difference will be made up by loan deficiency payments and marketing loan gains. Even if soybean cash prices continue weakening this spring, farmers are still assured of a better return by planting soybeans. Given relative production costs and expected yields, a ratio of 2.7-2.8 between the soybean marketing loan and December corn futures favors soybeans. The U.S. average

variable costs of corn production are approximately double the cost of soybeans (about \$81 per acre). Soybean yields also tend to suffer less under weather stress, so risk-averse farmers can better stretch their operating loans by planting more soybeans.

Lower U.S. Carryout Stocks of Soybeans Seen

The March *Grain Stocks* report reconfirms this year's ample soybean supply. March 1 soybean stocks were 1,458 million bushels, which is 255 million above a year earlier. Another indicator of low price environment is the proportion of stocks held on farm, which is 56 percent. This is the highest percentage since 1983. The share of total soybean stocks that farmers have under CCC loan is also comparatively high, at 20 percent. These stock levels and year-to-date crush and exports implied a larger residual demand for 1998/99, which was raised from 65 million bushels to 115 million. Consequently, forecast crop year ending stocks were reduced from 470 million bushels to 430 million. The range for the 1998/99 average soybean farm price was narrowed to \$5.00-\$5.10 per bushel.

Offsetting some of the ending stocks reduction were projected U.S. 1998/99 soybean exports, which were trimmed 10 million bushels this month to 770 million.

Domestic disappearance of soybean meal was left unchanged this month at 29.8 million short tons. USDA's *Hogs and Pigs* report indicated that intended farrowings for December 1998 through May 1999 were down 4 percent. Market hogs in the two smallest weight classes (which will account for most of the protein meal fed to swine between March 1 and September 30) were down 1 percent from a year ago. While the slowdown has not been as dramatic as expected for the current season, the report still portends a weaker outlook for 1999/00. There was a relatively large 6-percent decline in the breeding herd, and farrowing intentions for spring and summer are down 7 percent. The 1998/99 average soybean meal price was increased to \$130-\$140 per short ton. Slowing domestic soybean crush and smaller projected Argentine production is expected to support prices this summer.

USDA edged its 1998/99 forecast of soybean oil exports up to 2,350 million pounds from 2,205 million a month ago. Based on this outlook and a slowing of domestic offtake in January and February, domestic disappearance was reduced an equivalent amount to 15,500 million pounds. Prices for soybean oil sagged in March to 18.5 cents per pound as monthly oil stocks accumulated. The April price forecast narrowed the range for the season average to 20.5-22.5 cents per pound.

Chinese Policy Alters World Oilseed And Products Trade

In China, soybeans, soybean meal, and soybean oil are subject to import duties set at 3, 5, and 13 percent, respectively. In addition, a value added tax (VAT) of 13 percent is levied. In 1995, the Chinese government relaxed import quotas and waived the VAT on soybean meal as a means of providing support for the domestic livestock sector. The VAT exemption for soybean meal succeeded in boosting imported supplies for an expanding livestock sector, pushing imports from a negligible amount in 1994/95 to 4.2 million metric tons last year.

However, the Asian financial crisis exposed massive losses in China's state-owned enterprises, including oilseed crushing plants. Chronically large price

differentials for vegetable oil enticed refiners to circumvent taxes and quotas on imports of crude soybean oil by not re-exporting the refined oil. The wave of meal imports undermined prices and left domestic processors with excessive stocks that they could not sell at a profit. These factors suppressed crushing margins and led to a great deal of idle crushing capacity. Yet, surplus domestic oilseed stocks increased, as access to supplies was discouraged by restrictions on interprovincial movement.

These events sparked a reform program to make these facilities profitable. In 1998, Chinese authorities were able to strengthen enforcement of import quotas for vegetable oils. China also recently redefined the list of VAT-exempt feed products, which excluded soybean meal and other oilseed meals. The change is retroactive to January 1 and effective through December 31, 2000. For months, Chinese customs officials collected mandatory deposits from importers against the rumored tax. Sales of soybean meal to China slumped as cautious traders feared potential defaults. Reducing tax evasion and ending soybean meal's VAT-exempt status should provide a greater incentive to import oilseeds for domestic processors to turn into protein meal and vegetable oil. With much lower world oilseed prices, the changes are hoped to reduce financial losses by the state-run crushing plants.

As of April 1, U.S. shipments of soybean meal to China were 0.15 million tons, down more than three-fourths from a year earlier. China's 1998/99 imports of soybean meal were forecast down to 3.0 million tons, from 3.5 million last month. Part of the reduction will be offset by larger fishmeal imports, which retain the VAT exemption. China's fishmeal imports, already the world's largest, were forecast up to 0.8 million tons from 0.48 million in 1997/98. This is aided by a substantial recovery this year in world fishmeal exports, which plunged by nearly half in 1998 after poor harvests by Peru and Chile.

In Argentina, hot and dry weather during the February pod filling period for double cropped soybeans has clipped yields, especially in Cordoba (Argentina's second largest soybean province). Recent heavy rains were too late to help the crop, but have caused isolated flooding and harvest delays. As a result, this year's estimate of Argentine soybean production was scaled back from 19.2 million to 18.7 million metric tons. The reduction in soybean crush to 15.9 million was moderated by larger expected imports. Argentina's expected exports of soybean meal were shaved back to 12.1 million tons. A boom is still expected in Argentina's soybean oil exports, which may rise from 2.2 million tons in 1997/98 to 2.6 million this season.

Larger Argentine soybean imports became possible following reports from Paraguay of larger soybean area, generally favorable weather, and excellent yields, which raised the 1999 production forecast to a record 3.4 million tons. A lack of crushing capacity and the growing ease of shipping down the Parana River has escalated Paraguayan exports to Argentina in recent years. River barges now transport about 70 percent of Paraguay's soybean exports, where in the past they were nearly all trucked to Brazil's port at Paranagua. Paraguay's 1998/99 exports were projected 0.3 million tons higher from the previous forecast to 2.7 million tons.

Weak soybean crush margins are still dampening EU soybean imports for 1998/99. Total EU soybean imports are forecast down again this month to 15.6 million tons, nearly 1.3 million less than the 1997/98 volume. Balancing this was higher expected EU soybean meal imports of 17.9 million tons.

USDA forecast South Korean 1998/99 soybean imports 100,000 tons lower this month to 1.3 million tons. The country's largest crusher (accounting for nearly half of national processing) has defaulted on its short term loans. Its operations will be interrupted until a debt restructuring plan is implemented later this month. Profitability of the two other South Korean crushers has also been under stress from inexpensive imports of soybean meal and oil. Projected Korean imports of soybean meal were raised 100,000 tons to 0.95 million.

The next release of the *Oil Crops Outlook* is scheduled at 4:00 p.m. ET Thursday, May 13, 1999. The report may be accessed at <http://usda.mannlib.cornell.edu/> or via the ERS website at <http://www.econ.ag.gov>

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Table 1--Soybeans: U.S. supply and disappearance

Year begin. Sept. 1	Supply				Disappearance				
	Beg. stocks	Im- ports	Produc- tion	Total	Crush	Ex- ports	Seed, feed, residual	Total	End. stocks
----- Million bushels -----									
1996/97	183	9	2,380	2,573	1,436	882	123	2,441	132
1997/98	132	5	2,689	2,826	1,597	870	158	2,626	200
1998/99 2/	200	6	2,757	2,963	1,560	770	203	2,533	430

1/ Estimated. 2/ Forecast.

Table 2--Soybean meal: U.S. supply and disappearance

Year begin. Oct. 1	Supply				Disappearance			
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total	End. stocks
----- 1,000 short tons -----								
1996/97	212	102	34,211	34,525	27,321	6,994	34,316	210
1997/98	210	56	38,171	38,437	28,889	9,330	38,219	218
1998/99 2/	218	50	36,807	37,075	29,800	7,000	36,800	275

1/ Estimated. 2/ Forecast.

Table 3--Soybean oil: U.S. supply and disappearance

Year begin. Oct. 1	Supply				Disappearance			
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total	End. stocks
----- Million pounds-----								
1996/97	2,015	53	15,752	17,821	14,264	2,037	16,300	1,520
1997/98	1,520	60	18,143	19,724	15,264	3,077	18,341	1,382
1998/99 2/	1,382	58	17,605	19,045	15,500	2,350	17,850	1,195

1/ Estimated. 2/ Forecast.

Table 4--Cottonseed: U.S. supply and disappearance

Year begin. Aug. 1	Supply				Disappearance				
	Beg. stocks	Im- ports	Produc- tion	Total	Crush	Ex- ports	Other	Total	End. stocks
----- 1,000 Short tons-----									
1996/97	517	20	7,144	7,681	3,860	116	3,182	7,158	523
1997/98	523	96	6,935	7,553	3,885	149	2,957	6,990	563
1998/99 2/	563	180	5,182	5,925	2,650	75	3,000	5,725	200

1/ Estimated. 2/ Forecast.

Table 5--Cottonseed meal: U.S. supply and disappearance

Year begin. Oct. 1	Supply				Disappearance			
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total	End. stocks
-----1,000 Short tons-----								
1996/97	51	4	1,752	1,807	1,649	132	1,781	26
1997/98	26	0	1,767	1,793	1,596	109	1,705	88
1998/99 2/	88	0	1,195	1,283	1,230	30	1,260	23

1/ Estimated. 2/ Forecast.

Table 6--Cottonseed oil: U.S. supply and disappearance

Year begin. Oct. 1	Supply				Disappearance				End. stocks
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total		
----- Million pounds -----									
1996/97	94	0.3	1,216	1,310	1,012	232	1,244	66	
1997/98	66	0.1	1,223	1,289	1,003	208	1,211	79	
1998/99 2/	79	66.4	850	995	850	100	950	45	

1/ Estimated. 2/ Forecast.

Table 7--Peanuts: U.S. supply and disappearance

Year begin. Oct. 1	Supply				Disappearance					End. stocks
	Beg. stocks	Im- ports	Produc- tion	Total	Dom. Food	Crush	Seed& resid.	Ex- ports	Total	
----- Million pounds -----										
1996/97	758	127	3,661	4,545	2,029	692	363	666	3,751	795
1997/98	795	141	3,539	4,475	2,099	544	303	681	3,627	848
1998/99 2/	848	152	3,931	4,932	2,140	717	325	650	3,832	1,100

1/ Estimated. 2/ Forecast.

Table 8--Oilseeds prices received by farmers, U.S.

Marketing year	Soy-beans	Cotton-seed	Sun-flowers	Peanuts	Flaxseed
	\$/bu.	\$/ton	\$/cwt	Cents/lb	\$/bu.
1991/92	5.58	71.00	8.69	28.30	3.52
1992/93	5.56	97.50	9.74	30.00	4.12
1993/94	6.40	113.00	12.90	30.40	4.25
1994/95	5.48	101.00	10.70	28.90	4.63
1995/96	6.72	106.00	11.50	29.30	5.19
1996/97	7.35	126.00	11.70	28.10	6.37
1997/98	6.47	121.00	11.60	28.30	5.81
1997/98					
September	6.72	115.00	11.20	29.70	5.73
October	6.49	119.00	10.60	27.90	5.78
November	6.86	124.00	11.10	25.00	5.71
December	6.72	122.00	11.10	26.90	5.72
January	6.69	121.00	11.10	30.70	5.82
February	6.57	107.00	11.80	NA	6.27
March	6.40	NA	12.10	NA	6.26
April	6.26	NA	12.70	NA	6.23
May	6.26	NA	13.80	NA	6.33
June	6.16	NA	14.40	NA	6.17
July	6.14	NA	15.80	NA	6.17
August	5.43	113.00	14.40	NA	5.45
1998/99					
September	5.25	113.00	11.40	26.80	5.09
October	5.18	120.00	10.70	26.30	4.86
November	5.40	133.00	10.50	21.50	4.97
December	5.37	138.00	10.80	24.00	5.01
January	5.32	139.00	11.40	25.50	5.06
February	4.80	141.00	12.20	NA	5.05
March ¹	4.55	NA	11.10	NA	4.84

¹ Preliminary. NA = Not available.

Table 9--Vegetable oil prices

Marketing year	Soybean oil ²	Cotton-seed oil ³	Sun-flower oil ⁴	Peanut oil ⁵	Corn oil ⁶
Cents/lb.					
1991/92	19.10	22.83	21.63	27.30	25.82
1992/93	21.40	30.07	25.37	27.40	20.90
1993/94	27.00	30.30	31.08	43.20	26.38
1994/95	27.51	29.23	28.10	44.30	26.47
1995/96	24.70	26.53	25.40	40.30	25.24
1996/97	22.50	25.58	22.64	43.70	24.05
1997/98	25.80	28.85	27.00	49.00	28.94
1997/98					
October	24.31	28.47	24.51	49.63	25.20
November	25.73	29.11	26.41	51.00	26.25
December	25.08	26.78	26.36	51.25	26.28
January	25.09	27.69	25.75	51.60	26.04
February	26.51	29.37	25.91	51.00	27.31
March	27.09	30.46	26.51	51.00	28.50
April	28.10	32.47	28.50	50.00	30.93
May	28.28	33.13	31.06	47.20	33.20
June	25.83	30.22	28.40	45.50	32.82
July	24.88	29.40	NA	44.00	31.52
August	23.99	30.11	NA	43.75	29.93
September	25.13	33.26	NA	43.88	29.25
1998/99					
October	25.21	33.99	NA	45.40	29.46
November	25.20	34.16	NA	45.00	29.65
December	23.99	33.40	26.70	44.25	29.88
January	22.88	31.72	23.41	44.00	29.15
February	19.96	28.21	19.86	39.75	26.58
March ¹	18.54	26.27	19.12	34.75	23.01

¹ Preliminary ² Decatur ³ PBSY Greenwood MS⁴ Minneapolis ⁵ Southeast mills ⁶ Chicago

Table 10--Oilseed meal prices

Marketing year	Soy-bean meal ²	Cotton seed meal ³	Sun-flower meal ⁴	Peanut meal ⁵	Linseed meal ⁴
	\$/Short ton				
1991/92	189.20	140.50	76.80	154.50	125.25
1992/93	193.75	161.78	89.00	172.90	133.60
1993/94	192.86	164.30	94.00	194.91	139.55
1994/95	162.55	112.02	62.70	128.94	95.85
1995/96	235.90	190.74	123.75	202.70	159.00
1996/97	262.00	192.00	110.60	232.00	158.75
1997/98	185.30	144.40	84.20	209.60	110.00
1997/98					
October	229.30	189.10	96.90	210.00	140.60
November	245.30	189.10	88.10	210.00	161.25
December	222.50	190.50	100.00	210.00	150.50
January	202.85	153.10	90.00	210.00	130.00
February	192.75	139.10	75.87	210.00	121.25
March	174.20	128.70	72.60	210.00	116.25
April	162.50	116.25	64.90	210.00	102.50
May	160.00	105.00	66.90	210.00	96.25
June	168.55	129.40	88.35	210.00	100.00
July	183.40	146.65	97.50	210.00	117.50
August	146.25	130.30	85.00	207.50	101.00
September	135.80	115.60	NA	205.00	90.00
1998/99					
October	135.70	106.50	50.00	161.00	83.75
November	144.45	107.90	50.00	100.00	92.50
December	146.40	119.75	80.90	103.75	102.50
January	138.80	110.60	77.50	105.00	95.00
February	132.30	101.25	73.75	102.50	87.25
March ¹	133.00	106.50	70.00	91.25	83.00

¹ Preliminary ² Hi-pro Decatur ³ 41% Memphis ⁴ Minneapolis ⁵ 50% SE mills