

Oil Crops Outlook

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Smaller Crop, Strengthening Foreign Competition Trim U.S. Soybean Demand

The U.S. soybean harvest is virtually complete except for the last double-cropped fields in the South. Dry weather prevailed throughout the United States in September and October, producing very favorable harvest conditions, but a dry summer cut yields. Estimated 1999 U.S. soybean production fell 23 million bushels this month to 2,673 million. Yield reductions for Iowa, Minnesota, Indiana, and Nebraska accounted for most of this month's change, partially offset by upward revisions for Illinois, Missouri, and other States. The national average yield estimate now drops to 36.7 bushels per acre.

Low soybean prices and slowing exports from South America have encouraged brisk U.S. export shipments this fall. As of November 4, cumulative soybean exports for the 1999/2000 crop year were 13 percent higher than a year earlier. Recent shipments to the EU and Mexico have been comparatively strong. However, the outlook for future exports may be softening. The smaller U.S. harvest and prospects for larger Brazilian and Argentine production intensify the competition for exports several months from now. Outstanding export sales are 10 percent below a year ago, implying the brisk shipment pace may slow down sooner. USDA reduced its forecast of 1999/2000 soybean exports to 865 million bushels from 880 million in last month's forecast.

Prospects for domestic crushers have improved compared to a year ago, but are reduced 20 million bushels from last month's forecast to 1,610 million bushels. Although still historically low, soybean meal prices rose in October to \$154 per short ton versus \$136 a year earlier. Soybean oil prices have dropped from 25.2 cents per pound in October 1998 to 16.1 cents in October 1999, but soybean meal nearly always forms the major component of crushing value for soybeans.

Despite this month's lower soybean supply estimate, the decline in crush and exports edges the 1999/2000 ending stocks forecast up to 395 million bushels. U.S. average soybean prices are forecast lower to \$4.60-\$5.10 per bushel for 1999/2000. This price range would be well below the \$5.26 national loan rate and the lowest since 1986/87.

In October, President Clinton signed the agricultural appropriations act for fiscal year 2000. Among the provisions to assist commodity producers was funding of \$475 million in payments to oilseed producers, based on their 1997 or 1998 production. U.S. oilseeds production in 1999 totals 83.2 million metric tons, so the payment rate to soybean producers would be about 15 cents per bushel. More general provisions extended the discount of 30 percent on crop insurance premiums and the payment limitation for loan deficiency

payments (LDP) and marketing loan gains was raised (for crop year 1999 only) from \$75,000 to \$150,000 per person. At average LDP rates for soybeans of about 90 cents per bushel, many mid-sized farms might have been affected by the lower payment limit. The act also funds support payments for quota peanuts at \$30.50 per ton and \$8.75 per ton for additional peanuts (which are produced in excess of the national poundage quota).

Demand for Soybean Products To Stagnate in 1999/2000

The modest 0.5-percent rise in global soybean meal output should lead to slightly stronger U.S. prices this year. The 1999/2000 average soybean meal price is expected at \$140-\$165 per short ton, down \$5 from last month's forecast but up from \$138.50 last year.

Growth in domestic disappearance of soybean meal was projected to slow to 31.0 million tons from 30.6 million in 1998/99. Most of the increase will be in poultry feeding, since the long anticipated contraction in hog production is well underway. The September 1 hogs and pigs inventory was 4 percent below a year earlier. Current slaughter volumes are very high and the trend should continue into next year. Hogs kept for breeding were down 8 percent from a year earlier and June to November intended farrowings were down 4 percent.

Current export commitments of soybean meal are trailing year ago levels by nearly one-fifth. U.S. soybean meal exports for 1999/2000 were projected lower this month to 7.4 million tons and would be only 0.2 million higher than 1998/99. Chinese import demand is down substantially and is not likely to strengthen much in coming months.

Despite large soybean oil supplies and low prices, prospects for 1999/2000 U.S. soybean oil exports may be limited by potentially greater foreign competition. Current export commitments are down almost 60 percent from a year ago. For 1999/2000, soybean oil exports are forecast down to 1,800 million pounds, which would be off one-fourth from the previous season.

South American Soybean Farmers Ready for Planting

As the U.S. 1999/2000 harvest is just winding up, Brazilian farmers have begun to plant soybeans. Dry conditions in Brazil's northern states have slowed planting progress, although recent showers will help the conditions. As of November 5, soybean plantings were estimated about 16 percent completed, compared to the 5-year average of 21 percent. Rainfall has been better in southern Brazil, but this is usually the last region to begin planting.

The current burden of dollar-denominated farm debts will arrest the long term expansion in Brazilian soybean area. However, lower per hectare production expenses for soybeans will favor soybeans versus corn. Smaller U.S. and Indian crops have buoyed world prices. Soybean prices in local currency have firmed as Brazil's real weakened against the U.S. dollar from 6 months ago, back near levels early this year just after the collapse of the fixed exchange rate policy. Brazilian soybean area is now expected to match last year's 12.9 million hectares. Normal weather is assumed, although the inflation in input costs may curtail yields. These factors are expected to generate a 1999/2000 harvest equaling the 31.0 million metric tons produced last season. In Paraguay, soybean production is also likely to stabilize near the revised 1998/99 level of 3.0 million tons.

Brazil's domestic crushing industry has shown more strength than earlier anticipated. Forecasts of 1998/99 and 1999/2000 crush were raised this month to 20.6 million and 20.8 million tons, respectively. The dynamic performance of Brazil's domestic livestock feeding has been the major reason. Conversely, increases in Argentina's production and exports will pare back Brazil's expected soybean meal exports to 9.8 million tons in 1998/99 and 10.0 million in 1999/2000.

With the firming of soybean prices, a 14-percent expansion in Argentine wheat area is likely to allow farmers to increase double-cropping of soybeans. Continued weakness of vegetable oil prices will discourage sunflowerseed planting. Argentine soybean area was forecast up to 7.7 million hectares this month, from the October forecast of 7.5 million. Although dry weather has made for less than ideal preplanting conditions, it is too early yet to predict any yield problems. A trend yield would produce 18.5 million tons, up 0.5 million from last month. Based on the robust monthly crush data from Argentina, it was apparent that both the 1997/98 and 1998/99 soybean harvests had been underestimated. USDA revised production estimates of these crops up to 19.5 million and 19.9 million tons, respectively.

Higher production would support Argentina's 1999/2000 soybean exports at 2.8 million tons, down slightly from 3.1 million in 1998/99. Argentine soybean crushing for 1998/99 is predicted to reach 17.6 million tons, which would be 36 percent larger than the previous year. However, such growth is not likely to be duplicated this season, and USDA forecasts a leveling off at 17.6 million. Therefore, Argentina's 1999/2000 soybean meal exports are forecast virtually unchanged from 1998/99 at 13.9 million tons.

A major constraint on world trade for these soybean meal producers is the dramatic reversal of China's buying patterns. China has shifted toward greater use of domestic oilseed crushing capacity versus imports of protein meal and vegetable oil. Soybean imports surged 31 percent to 3.85 million tons in 1998/99, and USDA projects them to rise to 4.3 million in 1999/2000. Alternatively, Chinese soybean meal imports were estimated down one-third to 1.4 million tons in 1998/99 and only 1.1 million tons are projected for 1999/2000. Greater requirements for vegetable oil than protein meal have also encouraged greater rapeseed use at the expense of soybeans. Rapeseed imports have been very brisk from Canada, Europe, and Australia. Chinese rapeseed imports are now expected to reach 2.4 million tons in 1999/2000, compared to 2.1 million in 1998/99.

Without a substantial Chinese import demand, the surplus of South American soybean meal supplies is backing into EU markets at a very favorable price. But with bumper EU rapeseed harvests, margins for EU soybean crushers have been squeezed very tight. As soybean processing drops, EU soybean imports are forecast to decline from 16.1 million tons in 1998/99 to 16.0 million this year. Not only will EU soybean meal consumption fail to repeat its robust 12-percent gain in 1998/99, it may even decline by 1 percent. Therefore, EU soybean meal imports also may shrink, from 20.2 million to 20.0 million tons in 1999/2000. Other markets in Asia and the former Soviet Union are likely to absorb most of the global growth in soybean meal output. But global soybean meal consumption is projected to rise only 1 percent in 1999/2000, compared to nearly 5 percent last season.

Later than normal freezing weather allowed most of the Canadian rapeseed crop to reach maturity, which had been in doubt because an excessively wet spring seriously delayed planting in the Canadian prairies. As a consequence, the Canadian harvest is estimated at a record 8.6 million tons. Despite projections for a record volume of rapeseed exports (largely to China), Canadian ending stocks may still accumulate to an historically high level.

Ukraine's sunflowerseed production for 1999/2000 is forecast up this month to 2.7 million tons. Compared to last year, area harvested expanded to 2.8 million hectares. Although input application was minimal, somewhat better weather improved 1999 Ukrainian yields.

In the mid-1990's, the government of Ukraine liberalized marketing of sunflowerseed. As a result, Ukrainian sunflowerseed exports surged in following years. However, domestic crushing sagged, as the processors were unable to compete effectively against their western European counterparts. To address this greatly underutilized capacity and a shortage of government revenues, officials advocated a 30-percent export tax on sunflowerseed. The International Monetary Fund, which lent Ukraine \$2.6 billion in 1998 to cover foreign debt payments, opposed the tax as detrimental to earning much needed foreign exchange from one of the country's largest export products.

Nevertheless, effective October 2, the government enacted a new 23-percent tax on sunflowerseed exports. Ukrainian sunflowerseed exports have already stalled, and USDA forecasts 1999/2000 exports to decline more than 40 percent to 0.5 million tons. Conversely, domestic crushing is expected to soar over 60 percent from 1998/99 to 2.1 million tons. Ukrainian exports of sunflowerseed oil (a large proportion of which go to Russia) are forecast to expand 50 percent to 0.3 million tons.

But crop rotation needs, lower farm prices, and difficulties obtaining credit should substantially reduce Ukrainian sunflowerseed planting next year. Smaller supplies would again depress crushing if more seed imports are not allowed. Although Russia has itself imposed a 10-percent oilseed export duty, it is an obvious source of imports as its crushing industry is even less competitive. Ukrainian rapeseed area more than doubled in 1999 and should swell again next year as farmers would obtain relatively better returns for this crop, which is not subject to an export tax.

The next release of the *Oil Crops Outlook* is scheduled at 4:00 p.m. ET Monday, December 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 -----									
1997/98	132	5	2,689	2,826	1,597	870	158	2,626	200
1998/99	200	3	2,741	2,944	1,590	801	205	2,596	348
1999/00 2/	348	3	2,673	3,024	1,610	865	154	2,629	395

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 -----								
1997/98	210	56	38,176	38,443	28,895	9,329	38,225	218
1998/99 1/	218	100	37,792	38,110	30,580	7,200	37,780	330
1999/00 2/	330	50	38,270	38,650	31,000	7,400	38,400	250

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 -----								
1997/98	1,520	60	18,143	19,723	15,264	3,079	18,341	1,382
1998/99 2/	1,382	83	18,081	19,547	15,600	2,372	17,972	1,526
1999/00 2/	1,526	79	18,115	19,720	15,900	1,800	17,700	2,020

1/ Estimated. 2/ Forecast.

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

Year begin. Aug. 1	Supply			Total	Disappearance			Total	End. stocks
	Beg. stocks	Im- ports	Produc- tion		Crush	Ex- ports	Other		
	----- 1,000 Short tons -----								
1997/98	523	96	6,935	7,553	3,885	149	2,957	6,990	563
1998/99 2/	563	207	5,365	6,135	2,719	68	2,955	5,742	393
1999/00 2/	393	20	6,255	6,668	3,150	70	3,098	6,318	350

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-----								
1997/98	26	0	1,769	1,795	1,598	109	1,705	88
1998/99 1/	88	0	1,232	1,320	1,175	120	1,295	24
1999/00 2/	24	0	1,420	1,444	1,295	115	1,410	34

1/ Estimated. 2/ Forecast.

Table 6--Cottonseed 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-----								
1997/98	66	0.1	1,224	1,291	1,004	208	1,212	79
1998/99 1/	79	37.0	832	948	760	112	872	76
1999/00 2/	76	7.5	1,010	1,094	909	110	1,019	75

1/ Estimated. 2/ Forecast.

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

Year begin. Oct. 1	Supply				Disappearance					
	Beg. stocks	Im- ports	Produc- tion	Total	Dom. Food	Crush	Seed& resid.	Ex- ports	Total	End. stocks
----- Million pounds-----										
1997/98	795	141	3,539	4,475	2,099	544	303	681	3,627	848
1998/99 1/	848	155	3,963	4,968	2,153	460	403	561	3,575	1,392
1999/00 2/	1,392	169	3,827	5,388	2,175	700	317	800	3,993	1,395

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
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	4.61	NA	10.70	NA	4.95
April	4.63	NA	9.44	NA	4.94
May	4.51	NA	9.85	NA	4.87
June	4.44	NA	9.52	NA	4.37
July	4.20	NA	9.16	NA	4.40
August	4.39	70.00	8.28	NA	3.86
1999/2000					
September	4.57	72.00	8.41	27.00	4.00
October 1/	4.49	89.00	7.32	26.00	3.84

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
1998/99					
October	25.20	33.99	NA	45.40	29.46
November	25.20	34.16	NA	45.00	29.65
December	24.00	33.40	26.70	44.25	29.88
January	22.90	31.72	23.40	44.00	29.15
February	20.00	28.21	19.90	39.75	26.58
March	19.50	26.27	19.10	34.75	23.01
April	18.80	24.39	19.10	35.20	23.08
May	17.85	24.25	19.90	35.00	22.96
June	16.50	25.19	18.80	37.75	22.95
July	15.30	24.70	17.10	39.00	22.43
August	16.50	21.39	18.75	38.75	22.41
September	16.80	20.22	18.75	38.00	22.08
1999/2000					
October 1/	16.08	20.15	17.78	40.40	21.97

1/ Preliminary 2/ Decatur 3/ PBSY Greenwood MS
4/ 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	144.00	84.20	209.60	110.00
1998/99					
October	135.70	106.50	50.00	161.00	83.75
November	144.50	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	133.00	106.90	70.00	91.25	83.00
April	134.50	110.90	70.00	94.50	82.50
May	133.20	108.75	70.00	93.75	80.60
June	139.10	114.50	57.00	100.00	80.00
July	132.70	115.00	62.50	100.00	75.00
August	141.70	100.65	60.00	105.00	71.25
September	150.65	111.90	61.25	102.50	80.00
1999/2000					
October 1/	153.57	111.40	63.75	98.00	89.40

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