

Oil Crops Outlook

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Bumper Harvests, Macroeconomics Improve South American Export Competitiveness

Late last year, Brazil's federal government introduced a fiscal reform plan aimed at reducing the nation's large budget deficit. But resistance in Brazil's Congress and a moratorium on debt payments by major states to the federal government undermined investor confidence in the proposed reforms and initiated a serious flight of capital. Defending the the country's currency, the real, had sharply diminished dollar reserves, so on January 13, Brazil's central bank was forced to devalue by 8 percent. This limited devaluation was unsuccessful, so the managed exchange rate was subsequently abandoned and allowed to float freely. The real has since depreciated nearly 60 percent against the value of the U.S. dollar.

For soybeans, the immediate impact of these events will be modest. The devaluation has raised Brazil's internal soybean prices and would spur marketing and export of remaining old crop supplies. This does not affect new crop production, but should accelerate the marketings in 1998/99 at the expense of the next marketing year. Carryover supplies for 1999/00 would have been even greater in the absence of devaluation. Projected 1998/99 exports by Brazil are raised this month to 9.2 million tons, but the increase is primarily because of larger expected supplies. Ample and timely rains raised the forecast 1999 Brazilian harvest to 30.5 million metric tons. The 1998 crop was also revised higher to 31.5 million tons, lifting the estimate of 1998/99 beginning stocks to 5.6 million tons. Brazil's domestic crush was unchanged as higher internal soybean prices and lower product prices (as a result of greater Argentine crushing) will pressure Brazilian crush margins.

Higher prices are also expected to cut Brazil's 1998/99 internal consumption of soybean meal to 5.55 million tons, which would represent no increase from last season. However, reduced domestic use could be largely offset by greater Brazilian meal exports, which are forecast higher to 10.8 million tons. If Brazil's recession worsens, total trade with Latin American neighbors could drop and may weaken meal demand in those economies as well.

The devaluation's inflation of domestic soybean prices partially offsets the global price decline, cushioning the likely decrease in Brazilian soybean plantings late this year. Productivity for the 2000 crop will suffer as imported inputs such as fertilizer, chemicals, farm equipment, and improved seeds will be much costlier. The export competitiveness of Brazil's soybeans would be very strong next year, provided the government does not reimpose any export taxes. For the long term, credit will still be difficult to obtain because of the very high domestic interest rates needed to keep capital within Brazil. Swollen interest payments on the large public debt may crowd out investment in crushing facilities and transportation infrastructure. The depreciation of assets (in dollar terms) may consolidate Brazilian crushing capacity among fewer multinational firms.

Continuation of recent rains in February will be a key determinant of the size of Argentina's 1999 soybean crop, as the majority of fields will soon be setting and filling pods. Early conditions were somewhat dry, particularly in southern Buenos Aires. These poorer stands led USDA to shave the estimate of soybean harvested area from 7.3 million hectares to 7.1 million. But based on favorable rains received in recent weeks, USDA raised forecast Argentine production to 18.0 million tons from 17.5 million last month. As a consequence, projected 1998/99 crush would soar to a record 15.0 million tons, about double the 1991/92 volume. Argentine soybean meal exports would swell to 11.75 million tons. On the other hand, Brazil's devaluation alters the composition of exports somewhat, so Argentine 1998/99 soybean exports were scaled back to 3.0 million tons.

As in the United States, large hog herds and cheap protein have kept EU soybean meal consumption very brisk. Expected EU imports of soybeans and soybean meal were raised to 16.0 million and 17.6 million tons, respectively. Although a great deal of trade has already occurred, Russia's imposition of a 10-percent export duty on sunflowerseeds in January will further restrict EU oilseed supplies. U.S. exporters of oil-type sunflowerseed are likely to benefit, although winter closing of the St. Lawrence Seaway and the upcoming Argentine sunflowerseed harvest will eventually diminish this opportunity.

Conversely, import demand throughout Asia has stagnated. With regional gluts of soybeans and soybean meal, China has placed greater emphasis on imports of high oil content rapeseed to satisfy oil needs. Last year's short Chinese rapeseed crop is expected to raise rapeseed imports to 1.6 million tons this season, up from virtually nothing just 2 years ago. The sluggish rate of China's year-to-date soybean meal imports reduced the 1998/99 import projection to 3.9 million tons, compared to 4.1 million in 1997/98. Japan's soybean meal consumption and imports of soybeans are also seen lower than a year ago.

Outlook for U.S. Exports Deteriorating

Greater foreign supplies have dimmed the potential for U.S. soybean exports this year. As of January 28, outstanding U.S. export sales were nearly even with a year earlier. But, given abundant competitor supplies, new U.S. sales will be harder to make and year-to-date shipments already trail last year's pace by 138 million bushels. U.S. 1998/99 soybean exports are projected at 810 million bushels, down 20 million from the January forecast.

Domestic soybean crushing in the first quarter of 1998/99 was up 4 percent from a year earlier. But crushing has already slowed, as December was the first month in more than a year to not set a monthly record. Sliding soybean oil prices have compounded crushers' dilemma of already low returns for soybean meal. Consequently, USDA's February forecast for 1998/99 crushings was reduced 5 million bushels to 1,590 million.

Slackening demand would push year ending soybean stocks to 410 million bushels. The stocks-to-use ratio would be 16.1 percent, the highest since 1990/91. Unless a significant drought threat develops this summer, U.S. soybean cash prices are unlikely to rise much from current levels. Central Illinois cash prices fell back below \$5.00 per bushel in February, the lowest for this month since 1987. USDA forecast the 1998/99 average farm price at \$5.00-\$5.40 per bushel, compared to the January forecast of \$5.10-\$5.60.

After a brief firming in November and December, soybean meal prices dropped again in mid-January to less than \$135 per ton. The 1998/99 average price is now expected to be among the lowest in three decades, at \$130-\$145 per ton. A major reason is the strengthening of foreign competition for U.S. soybean meal exports, which were cut to 7.9 million tons from 8.25 million last month. With practical limits on the volume of soybean meal that can be consumed by the current global livestock inventory, additional world supplies will cut protein meal prices and further scale back crushing. Domestic disappearance has still been comparatively robust, and the higher USDA forecast to 29.85 million short tons reflects this. However, likely cutbacks in the swine herd portend a dramatic slowdown by next summer, even at the current bargain prices.

Vegetable Oil Prices Down

A higher forecast for global 1998/99 soybean oil production is expected this month, to 23.5 million metric tons. Most of the increase is due to larger crushing in Argentina and the EU. For exports, the U.S. market share declines as Argentine and Brazilian exports are expected to edge higher to 2.49 million and 1.37 million tons, respectively.

U.S. soybean oil stocks showed an unusual decline for December, as production slowed while demand accelerated. Despite this, soybean oil prices dropped to 22.9 cents per pound in January, more than 1 cent less than the December average. February prices have continued to slide below 21 cents per pound. The 1998/99 average oil price forecast was trimmed to 23.5-25.0 cents per pound. Returns from domestic sunflowerseed crushing have also suffered due to the tumble in vegetable oil prices.

Year-to-date export shipments have been only modestly behind last season's pace, but new U.S. export sales have slowed. At these prices, Chinese buying should soon increase once new import licenses are issued. Yet, there is a narrowing window of opportunity before the seasonal surge in production of South American soybean and sunflower oil, Chinese and Indian rapeseed oil, and Southeast Asian palm oil this spring. Indonesia's reduction this month in the export tax on crude palm oil (from 60 percent to 40 percent) should also help place more oil supplies onto the world market. U.S. 1998/99 soybean oil exports were forecast at 2,550 million pounds, down from 2,700 million last month. Like soybean meal, domestic disappearance of soybean oil has remained quite strong. While the year-to-year increase would be 336 million pounds to 15,600 million, it still represents a slowdown from the billion-pound gain registered in 1997/98.

Last year's copra harvest in the Philippines was adjusted upward, as expected drought damage proved to be premature. Copra is the dried kernel of coconuts, which when crushed produces coconut oil. More of the weather impact was shifted to the current season, with coconut oil production anticipated to decline from 1.5 million tons in 1997/98 to 1.1 million in 1998/99. The Philippines usually accounts for about 40 percent of world coconut oil production (3.2 million tons in 1998/99) and 60 percent of world exports (1.5 million tons in 1998/99).

Global olive oil production is expected to drop 15 percent in 1998/99 to 2.2 million tons due to reduced output from the top three producers (Spain, Italy, and Greece). Freezing weather damaged Spanish production. The three countries are also the leading consumers, so the impact on world trade will be comparatively modest.

The next release of the *Oil Crops Outlook* is scheduled at 4:00 pm. ET Friday, March 12, 1999. The report is also available on the ERS website at <http://www.econ.ag.gov>.

Information Contacts:

Mark Ash--Soybeans, minor oilseeds, oils	(202) 694-5289	mash@econ.ag.gov
Robert Skinner--Cottonseed, peanuts	(202) 694-5313	skinner@econ.ag.gov

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 -----									
1992/93	278	2	2,190	2,471	1,279	770	130	2,179	292
1993/94	292	6	1,870	2,168	1,276	589	95	1,959	209
1994/95	209	5	2,515	2,729	1,405	838	151	2,395	335
1995/96	335	4	2,174	2,514	1,370	851	109	2,330	183
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	1,590	810	153	2,553	410

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	37,757	38,025	29,850	7,900	37,750	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	63	18,070	19,515	15,600	2,550	18,150	1,365

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	1,250	10	1,260	23

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-----								
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					
	Beg. stocks	Im- ports	Produc- tion	Total	Dom. Food	Crush	Seed& resid.	Ex- ports	Total	End. stocks

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----- 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	2,125	775	321	685	3,907	1,025

1/ Estimated. 2/ Forecast.

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

Marketing year	Soy-beans \$/bu.	Cotton-seed \$/ton	Sun-flowers \$/cwt	Peanuts Cents/lb	Flaxseed \$/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 ¹	5.22	139.00	10.50	27.90	5.03

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 ¹	22.88	31.72	23.41	44.00	29.15

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	144.40	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 ¹	138.80	110.60	77.50	105.00	95.00

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