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Oil Crops Outlook: October 2021

Aaron M. Ates

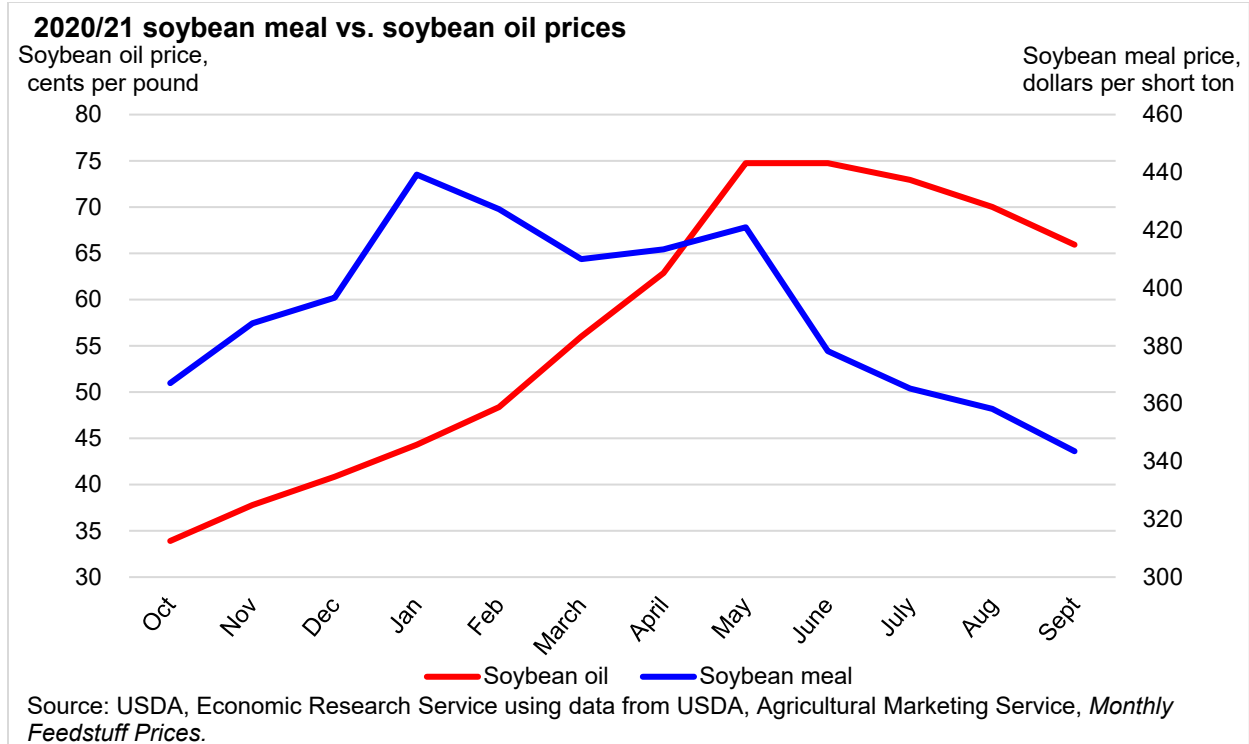
Todd Hubbs

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Soybean Meal Prices Under Pressure

Despite a strong start to the 2020/21 soybean meal marketing year, meal exports waned over the summer even though prices fell. As U.S. prices continue to decline, the potential for U.S. soybean meal exports capturing market share of world exports for 2021/22 improves. Slow growth in domestic feed demand puts pressure on soybean meal prices. Annual commercial red meat and poultry production forecasts remain relatively unchanged from 2020 to 2021 and dropped slightly for 2021 to 2022. However, with declining availability of alternative protein meal sources (canola and sun meal), increased domestic use of soybean meal is expected. Soybean oil prices are expected to remain relatively high due to strong biofuel production. An expectation of expanded crush to meet burgeoning soybean oil demand looks to place pressure on soybean meal prices during the forthcoming 2021/22 marketing year.



Domestic Outlook

Soybean Supply Grows on Stocks and Yield

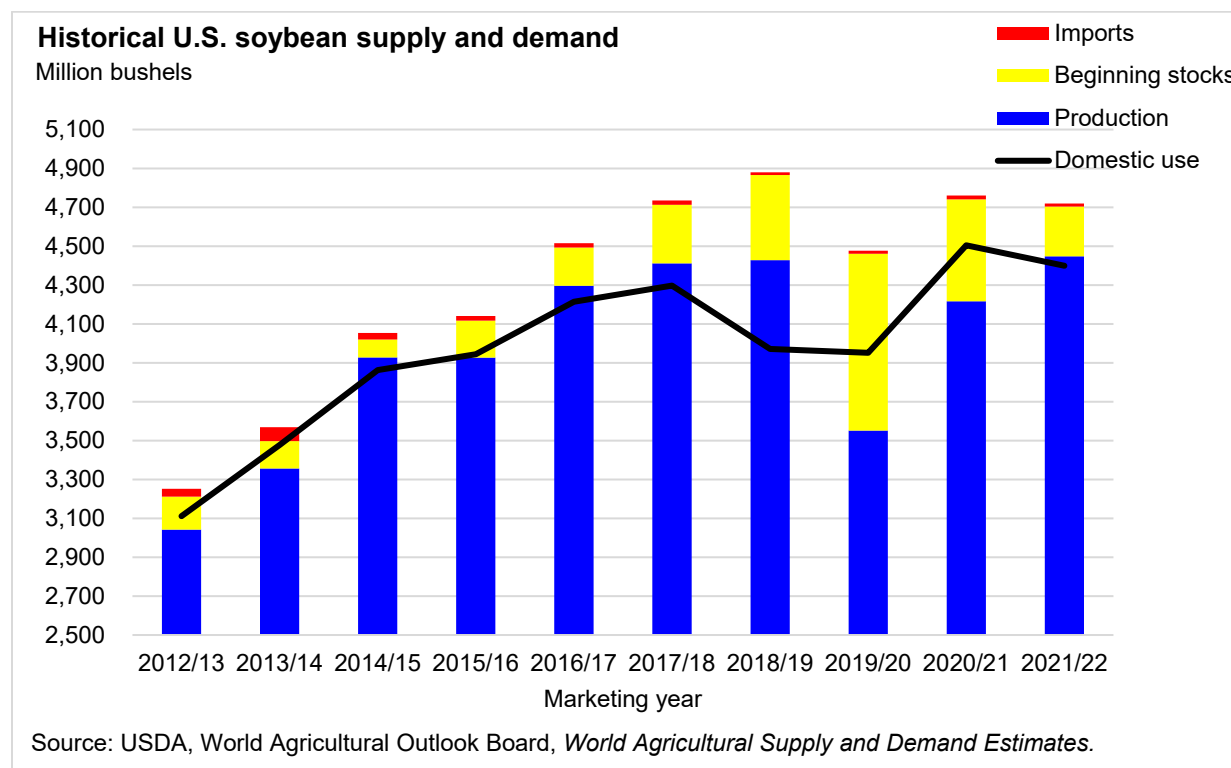
In the September 30 *Grain Stocks* report, the USDA National Agricultural Statistics Service (NASS) revised old crop (2020/21) soybean acreage, production, and—consequently—yield estimates. Acres sown and harvested were raised by 270,000 acres to 83.354 million acres and by 285,000 acres to 82.603 million acres, respectively. Because yield was seen 0.8 bushels per acre higher at 51 bushels per acre, production was bumped up 80.8 million bushels to 4.216 billion bushels. It is interesting to note that increased production in four of the largest producing States—Illinois, Iowa, Indiana, and Minnesota—account for half of the increase in 2020/21 soybean production. That is, production in Iowa increased 12 million bushels from the most recent estimate, 10.3 million bushels in Illinois, 9.8 million bushels in Minnesota, and 8.6 million bushels in Indiana. September 1 soybean inventory totaled 256.2 million bushels, 46 percent higher than anticipated last month and 268 million bushels lower than September 1, 2020 stocks.

As of October 10, soybean crop development was reported with 92 percent of crops having dropped leaves and 58 percent harvested. USDA, NASS raised the 2021/22 national average soybean yield from last month's forecast of 50.6 bushels per acre to 51.5 bushels per acre in its *Crop Production* report. Higher yields are anticipated for Iowa, Kansas, Minnesota, and Nebraska. These changes are represented in the U.S. soybean new crop production forecast, which is raised by 74 million bushels from last month's estimate to 4.448 billion bushels. In response to higher production, soybean imports are lowered by 10 million bushels to 15 million bushels. Thus, total soybean supply is brought up by 145 million bushels to 4.72 billion bushels.

Higher supply and lower prices provide the potential for stronger crush levels over the next marketing year. Thus, soybean crush is raised by 10 million bushels from last month's estimate to a total of 2.19 billion bushels. Respectively, this increase in soybean crush raises soybean oil and meal production by 115 million pounds and 250 thousand short tons. The growth in supply, in conjunction with a higher crush, drives ending stocks up to 320 million bushels.

As alluded to earlier, soybean meal supply is expected to be 750,000 short tons higher in 2021/22 as export prospects appear formidable and domestic demand wanes at the conclusion of the 2020/21 marketing year. Specifically, the 2021/22 soybean meal supply is projected at 52.5 million short tons, covering this month's 300,000 short ton increase in domestic

disappearance, which raises total demand to 52.1 million short tons. Soybean oil carryin is up by 205 million pounds resulting in a total supply of 28 billion pounds. With use unchanged, soybean oil ending stocks are projected at 1.8 billion pounds, up 320 million from the previous forecast.



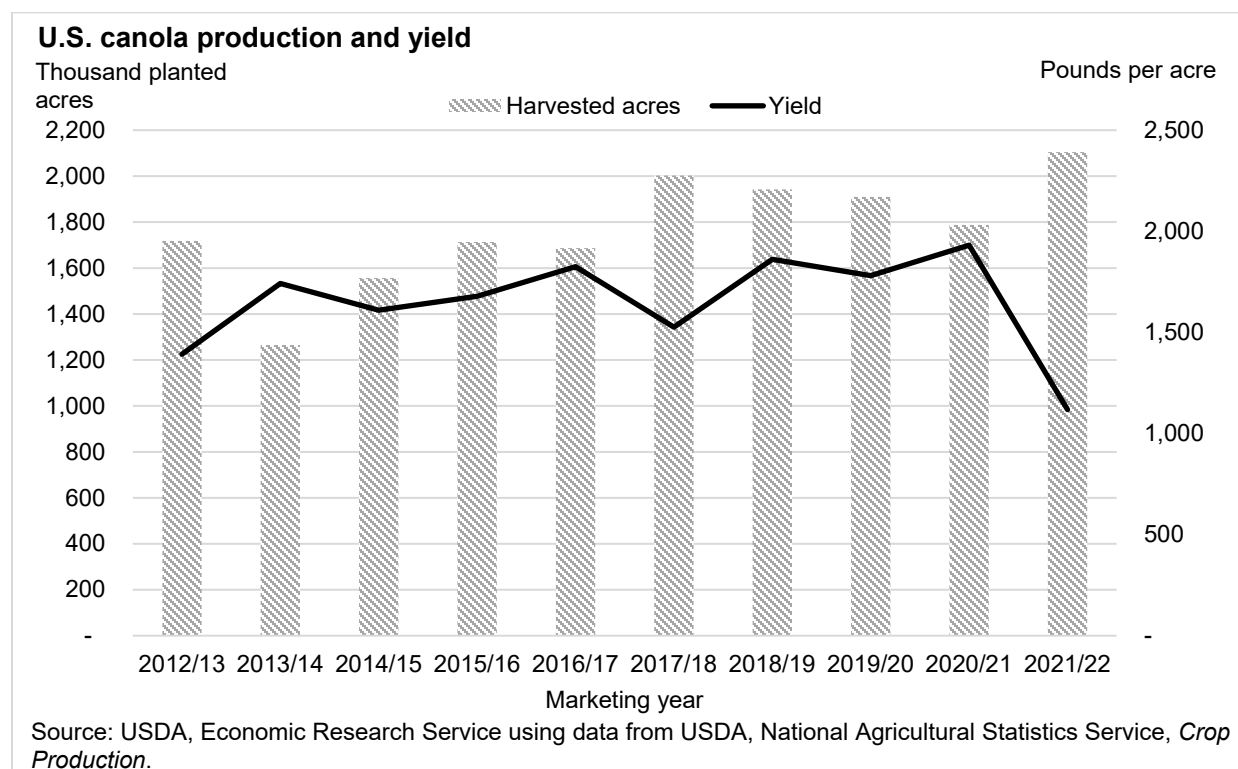
Sunflower and Canola Crop Production

With 88,800 less acres harvested than anticipated, USDA, NASS reports 2021/22 sunflowerseed production to be 1.9 billion pounds, 36 percent lower than 2020/21 production. Mainly due to poor weather conditions, the largest decreases are expected in States that have historically accounted for nearly 75 percent of sunflowerseed production: North Dakota and South Dakota. Moreover, sown acreage for these top two producing States decreased this year by 33 percent and 16 percent, respectively. Drought conditions diminished U.S. average expected yield from 2020/21 by 236 pounds per acre to 1,554 pounds per acre. Per the October 12 *Crop Progress* report released by USDA, NASS, 19 percent of sunflowerseed crops had been harvested.

September 1 sunflowerseed stocks are reported at 388 million pounds in the most recent USDA, NASS *Grain Stocks* report, up 100 percent from last year. Of this total, 298 million pounds are oil type sunflowerseed and 90 million pounds are non-oil sunflower stocks. Even

still, overall supplies are down 904 million pounds from last year to 2.65 billion pounds. This supply decrease facilitates an increase in the season-average price forecast to \$30.10 per hundredweight from \$21.30 in 2020/21.

The most recent USDA, NASS *Crop Production* report also includes the first survey-based canola production forecast for the 2021/22 marketing year. This report indicates 328,000 more acres of canola were planted than in 2020/21, totaling 2.152 million acres. However, the majority of U.S. canola is produced in the north-central region of North Dakota, just below the major Canadian canola producing provinces of Saskatchewan and Manitoba. Much like these provinces, weather conditions have been unfavorable for canola producers in North Dakota. Consequently, yields are expected to be 42 percent smaller than in 2020/21, settling at 1,119 pounds per acre. In addition to North Dakota, Kansas, Montana, and Washington have seen smaller yields while output in Minnesota is nearly 41 percent higher than last year. Ultimately, this means the U.S. can expect a reduction in canola production of 1.1 billion pounds from 2020/21, to 2.354 billion pounds in 2021/22, on 18 percent higher sown acreage. Along with an expected year over year decrease in imports of nearly 100 million pounds to 882 million pounds, total canola supply for 2021/22 is expected to decrease by 25 percent to 3.71 billion pounds. This supply decrease limits the amount of canola available to be crushed in the U.S. to 3.22 billion pounds.



The U.S. is not the only canola producing country experiencing record-low canola production. In fact, canola production estimates in Canada—the world’s largest canola producer—have been lowered from previous forecasts. Specifically, USDA estimates 2021/22 Canadian canola yield will decline to 1.48 metric tons per hectare from last month’s estimate of 1.59 metric tons per hectare, resulting in a 33 percent year-over-year decrease in total production to 13 million metric tons. With lower production, crush is reduced by 555 million pounds and results in lower domestic use of canola meal and oil.

International Outlook

Argentine Crush and Production Move Lower

Throughout September, Argentina received some much-needed rainfall in the northeast region of the country. However, the rain was merely enough to dampen the bone-dry Paraná River, continuing to delay the transportation of crush products from major crushing facilities. 2020/21 soybean crush is seen falling 1.15 million metric tons to 39.65 million metric tons. The drop in crush occurred despite marginally higher 2020/21 yields on a lower harvested acreage total—down 130,000 hectares to 16.47 million hectares—leading to an upward revision in 2020/21 soybean production by 200,000 metric tons to 46.2 million metric tons. Hence, Argentine exports are expected to fall by 50,000 metric tons to 5.15 million metric tons. The increased supply of soybeans is expected to carry over to the new marketing year, where October 1 beginning stocks are projected to be 25.75 million metric tons.

The increase in Argentina's beginning stocks for the 2021/22 marketing year partly offsets the anticipated decrease in sown area for the upcoming marketing year. In response to profitability for corn production, Argentine producers are expected to plant less soybeans in 2021/22. In turn, harvested area is lowered from 17.2 million hectares to 16.9 million hectares, reducing the total soybean production estimate 1 million metric tons from last month's forecast to 51 million metric tons. Moreover, logistical impediments previously discussed are expected to continue indefinitely. As such, the soybean crush forecast for 2021/22 is lowered by 1 million metric ton to 42 million metric tons. In turn, soybean meal and soybean oil production are also lowered by 400 and 200 million metric tons, respectively, to 32.75 and 8.35 million metric tons. Export volumes for soybean meal and soybean oil are also impacted by the lower crush volumes. Specifically, soybean meal exports are forecast down by 200,000 metric tons to 29.3 million metric tons while soybean oil is lowered by 50,000 metric tons to 6.25 million metric tons.

Brazil Export Pace Remains Sluggish

Brazil planted 38.6 million hectares of soybeans in the 2020/21 marketing year. With yields reaching all-time highs of 3.55 tons per hectare, Brazil produced a total of 137 million metric tons of soybeans. Despite high production numbers in the current marketing year, exports are lowered by 350,000 metric tons to 81.65 million metric tons as Brazil's main trade partner, China, has slowed their soybean purchases. Brazil is expected to store these soybeans, raising October 1 beginning stocks for the 2021/22 marketing year to 26.95 million metric tons which is

up 7 million metric tons from last year. Although Brazil has not experienced problems crushing soybeans like Argentina, Brazil's soybean meal exports remain slow. Brazil's soybean meal exports are forecast down by 470,000 metric tons to 16.63 million metric tons for the 2020/21 marketing year.

While 2020/21 was a record production year for Brazil, producers are expected to re-write the record book in the upcoming marketing year. Yield is anticipated to slightly increase from 2020/21 on a larger harvested area of 40.4 million hectares, resulting in a new production record of 144 million metric tons of soybeans. It is expected 47.7 million metric tons of these soybeans will be crushed. It is anticipated that Brazil soybean meal and soybean oil exports will remain strong in the 2021/22 marketing year, with no changes from last month's estimates.

Power Outages Disrupt Chinese Trade

China has experienced power shortages/outages in many of their northern provinces in recent weeks. Not only has this situation undoubtedly affected the country's entire food marketing system, but effects are also seen reverberating throughout the global oilseeds market since China is the leading importer of soybeans.

The 2020/21 Chinese soybean crush was lowered by 1 million metric tons to 93 million metric tons. Domestically, crushing facilities housed in China's affected regions may have been impacted. As such, China is expected to maintain a healthy supply of soybeans totaling 153.723 million metric tons, carrying an additional 925,000 metric tons of soybeans into the new marketing year. Whether the power shortages in China are short- or long-lived remain to be seen; however, as discussed above, typical trade partners (i.e., Argentina, Brazil, and the United States) have felt immediate impacts. Heightened competition is expected to ensue in the global soybean trade market when China begins to increase imports, particularly with larger supplies for Argentina and Brazil heading into the United States export season.

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