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Oil Crops Outlook: July 2020

Mark Ash
Dana Golden

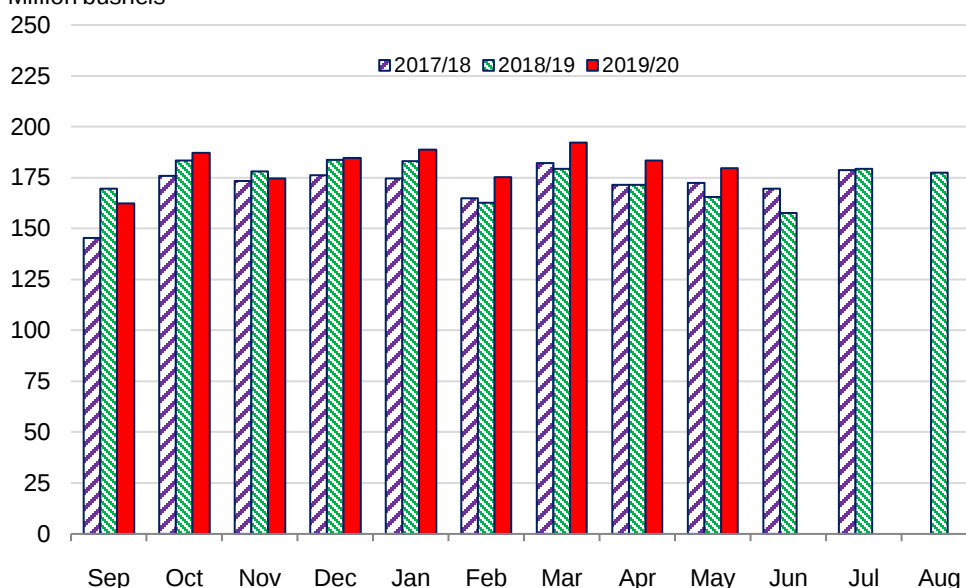
Domestic Soybean Crush Setting an All-time High as Meal Use Gains

USDA's *Acreage* report last month indicated that the 2020/21 soybean acreage is 83.8 million acres, a 10-percent recovery from 2019/20. A slightly higher harvested acreage estimate raises USDA's forecast of 2020/21 soybean production by 10 million bushels from last month to 4.135 billion and from 3.55 billion last year. Changes for domestic soybean demand hike the expected season-ending stocks by 30 million bushels to 425 million. USDA raised its forecast of the 2020/21 U.S. average farm price by 30 cents per bushel this month to \$8.50.

Figure 1

Domestic soybean crush continues to set monthly records

Million bushels



Source: USDA, National Agricultural Statistics Service, *Fats and Oils: Oilseed Crushings, Production, Consumption and Stocks*.

Domestic Outlook

Rebound in Soybean Acreage to Boost 2020/21 Production

USDA's *Acreage* report last month indicated that the 2020/21 soybean acreage is 83.8 million acres—a 315,000-acre increase from farmers' planting intentions in March. That level also represents a 10-percent recovery from 2019/20, when excessive wetness prevented millions of acres of cropland from being planted. Given acreage reductions virtually everywhere last year, more soybeans have been sown this year for nearly every State. Yet, compared with 2 years ago, U.S. planted acreage for soybeans has contracted by 6 percent due to a lower price level during planting.

A combination of the projected soybean crop with abundant beginning stocks boosts the expected 2020/21 total supply to 4.77 billion bushels. Only the record 2018/19 supply of 4.88 billion bushels surpasses this level.

In June, soil moisture conditions for several regions began to dry out after a spell of hotter than normal temperatures. Only a narrow swath through the middle of the country avoided the drying trend—where rainfall had been deposited by remnants of the tropical storm Cristobal. Nevertheless, crop conditions for U.S. soybeans remain generally good. Over the next 6-8 weeks, moisture needs will become increasingly more critical as the crop's stage of development advances from blooming to pod formation.

Updated Acreage Data Sparks a Rally in Soybean Prices

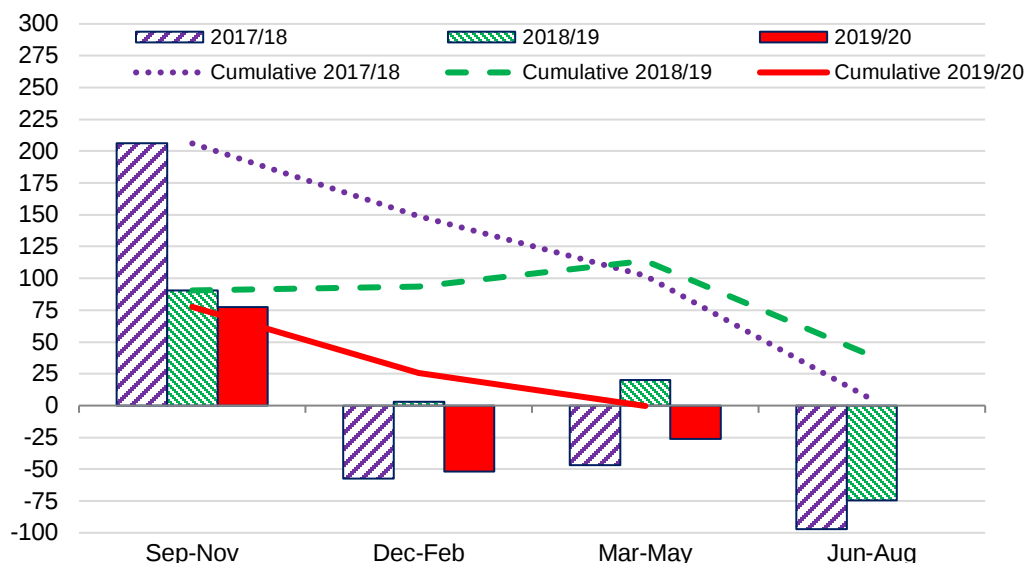
USDA's latest *Grain Stocks* report indicated that June 1 soybean stocks totaled 1.386 billion bushels. March–May soybean use was the third largest on record, contributing to a reduction in June stocks by 22 percent from last year's all-time peak (1.783 billion). Even so, the June inventory for soybeans ranks as the second largest ever. June soybean stocks are considerably larger than anticipated, though, based on reported use for the year-to-date. This led USDA to reduce its estimate of the residual (the cumulative difference between the change in stocks and reported uses) by 50 million bushels this month.

Old-crop soybean stocks have been drawn down in 2019/20 by the robust pace of domestic crushing. At 179.6 million bushels, the May 2020 crush is the sixth consecutive month for a monthly record. The net change for domestic soybean demand hikes the expected season-ending stocks by 30 million bushels to 425 million.

Figure 2

Unusually small discrepancy in soybean supplies versus reported use accounts for unexpectedly large June 2020 stocks

Million bushels



Sources: USDA, National Agricultural Statistics Service, *Grain Stocks and Fats and Oils: Oilseed Crushings, Production, Consumption and Stocks*, Foreign Agricultural Service, *Global Agricultural Trade System and World Agricultural Supply and Demand Estimates*

Gains for the domestic use of soybean meal are primarily responsible for the higher crush demand. Domestic disappearance of soybean meal for 2019/20 is forecast 300,000 short tons higher this month to 37.8 million. For soybean oil, domestic use also rebounded in May after widespread restaurant closures caused a sharp drop in consumption for April. Despite a May revival, cumulative soybean oil use for October 2019–May 2020 is still slipping further behind the year-earlier pace. USDA lowered its forecast of the 2019/20 disappearance for edible and other inedible use of soybean oil by 150 million pounds to 14.55 billion. The forecast for total demand is unchanged, however, as an improved export outlook for soybean oil offsets the reduction in domestic use. Exports of soybean oil for 2019/20 are expected 150 million pounds higher to 2.85 billion, which would be a 9-year high. So, solely on account of increased production, season-ending soybean oil stocks may be 80 million pounds higher—to 2.02 billion pounds (and the highest carryout since 2011/12).

Crop prices rallied in early July after farmers planted less acreage than expected, particularly for corn. Although U.S. acreage planted to all principal crops in 2020/21 has rebounded by 9.3 million acres from 2019/20, it is 7.4 million acres below the 2018/19 level. The combined acreage of corn and soybeans represents nearly all the recovery from last year but a considerable portion of the decline from 2 years ago. Current yield prospects for both crops are far from settled.

Thus, the corn market recently strengthened, with soybean prices following its lead. In Illinois, forward contract prices for soybeans spiked in July by about 40 cents per bushel. USDA raised its forecast of the 2020/21 U.S. average farm price by 30 cents per bushel this month to \$8.50. A similar rally for soybean meal prices prompted an increase for its season-average price by \$10 to \$300 per short ton.

For 2020/21, a larger new-crop supply could also benefit the soybean crush, which is forecast 15 million bushels higher this month to 2.16 billion. Once again, steady gains for soybean meal demand will buoy prices and encourage more soybean processing. Although USDA did not change its 2020/21 export forecast this month, a recent series of new-crop export sales is contributing support to market prices.

Acreage of Sunflowerseed Rebounds While Canola Dips

While non-oil-type acreage increased modestly this year, nearly all expansion of total sunflowerseed acreage (up 14 percent to 1.54 million acres) is due to oil-type varieties. U.S. acreage of oil-type sunflowerseed increased from 1.2 million acres in 2019/20 to 1.37 million acres this year. The weather was particularly conducive this spring for sunflowerseed planting in the Northern Plains with an acreage expansion for both North Dakota and South Dakota by 95,000 and 80,000 acres, respectively. Higher sunflowerseed prices also contributed to increased plantings. Production should recover in 2020/21 after it slumped to a 30-year low last year.

For canola, farmers planted 1.87 million acres in 2020/21, which is down from 2.04 million in 2019/20. Canola plantings are 6 percent below March planting intentions. The largest decrease is in North Dakota (with 1.55 million acres), where weaker canola prices and dry weather in the Northwestern portion of the State led farmers to decrease plantings.

U.S. peanut area planted increased by 6 percent in 2020/21 to 1.514 million acres from 1.428 million last year. Most of the gains are in Georgia, Texas, and Alabama, where farmers generally sowed less cotton. Better rainfall and slightly cooler temperatures this spring compared with a year ago also allowed for an increase of planted area.

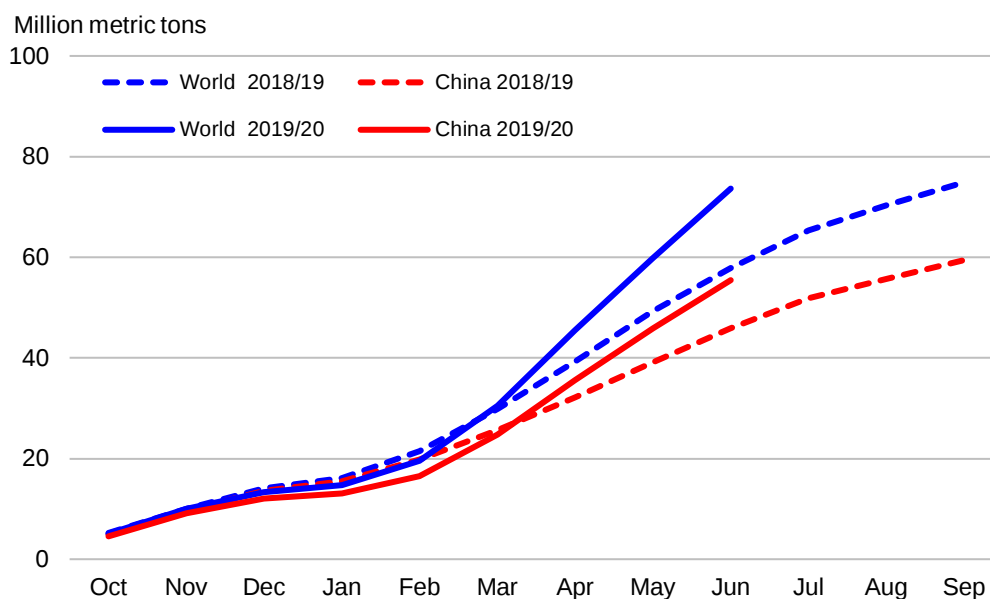
International Outlook

Brisk Soybean Trade Between Brazil and China Endures

Brazilian soybean exports in 2019/20 may have already peaked at 15 million tons in April and 14.4 million in May. The decline has been far from precipitous, however, with June shipments dipping to 13.8 million tons (versus 8.6 million in June 2019). USDA forecasts 2019/20 soybean exports from Brazil 4 million metric tons higher this month to 89 million. By the end of September, a sharp reduction in stocks—which are seen plunging to 22.8 million tons compared to 32.4 million in 2018/19—can accommodate additional foreign trade from Brazil.

Figure 3

Export boom for Brazilian soybeans propelled by shipments to China



Source: Brazil Ministry of Development, Industry, and Trade.

China is the primary market for Brazil's soybean exports. The country's 2020/21 soybean crush is projected up 1.5 million tons (to 95 million) this month in line with an increase for 2019/20. Crushing would benefit from higher beginning stocks and an expected reduction for season-ending stocks. The expansion may stem from a slightly higher use of soybean meal. A soybean oil deficit could also be eased by a higher crush, so China's 2020/21 oil imports are seen 200,000 tons lower this month to 1 million.

Canadian Canola Stocks May Decline with Stable Output

Based on official planting data, 2020/21 canola acreage in Canada is estimated at 8.3 million hectares—equivalent to the 2019/20 area harvested. Crop production may also remain steady at 19 million tons. Development for a majority of the Canadian crop is ahead of average this summer. In contrast, other areas are lagging behind following a freeze in late May that required some replanting. In June, dryness was emerging as a concern across the Canadian prairies until heavy rains fell late in the month and into early July.

The estimate of Canada's canola crop is revised down by 900,000 tons this month. However, forecasts of domestic crush are trimmed only 250,000 tons (to 9.75 million) while exports are expected unchanged (at 8.9 million). Previously, Canadian season-ending canola stocks were seen accumulating but now they could be shaved to 2.7 million tons from 2.8 million in 2019/20.

Russian Sunflowerseed Exports Surge Despite Trade Ban

USDA raised its forecast of 2019/20 sunflowerseed exports from Russia by 550,000 tons this month to 1.2 million. The subsequent plunge in Russian sunflowerseed stocks has taken away supplies from domestic crushers, though. In response, the Russian Government implemented an export ban on sunflowerseed between July and September. The Russian domestic crush for 2019/20 is forecast down by 325,000 tons this month to 13.7 million tons.

Turkey is a major market for Russian sunflowerseed exports and is taking a considerable portion of the country's trade surplus this year. USDA forecasts 2019/20 sunflowerseed imports by Turkey at 1.15 million—up 300,000 tons from the previous estimate.

Indian Soybean Oil Imports Gain at the Expense of Palm Oil

Palm oil imports for 2019/20 are forecast 150,000 tons lower this month to 8.85 million based on an equivalent reduction in expected consumption. At the same time, Indian pipeline stocks of vegetable oil were running low in May after logistical issues led to a collapse in imports for April and May. The situation is now turning around, with conditions more favorable for imports of soybean oil and sunflowerseed oil. The Indian Government has suspended import licenses for refined palm oil in an effort to aid domestic refiners. An increase in soybean oil imports by 150,000 tons to 3.35 million is seen offsetting lower supplies of palm oil.

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