



A Slower Pace of Soybean Consumption Is Needed

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The pace of consumption of U.S. soybeans continues to draw a lot of market attention. The pace of domestic soybean consumption accelerated in December 2013 and the pace of export commitments continues to exceed expectations. Even with the normal seasonal slowdown in exports of soybeans, soybean meal, and soybean oil consumption seems to be on track to exceed the available supply.

For the 2013-14 marketing year, the USDA projects the domestic soybean crush at 1.7 billion bushels and projects exports at 1.495 billion bushels. With seed, feed, and residual use of 109 million bushels, consumption at the projected level would leave year ending stocks of 150 million bushels, or 4.5 percent of projected consumption. The projection of the domestic crush is 11 million bushels, or 0.7 percent, larger than the crush during the previous marketing year and 45 million bushels larger than projected in September 2013. Based on estimates from the National Oilseed Processors Association (NOPA), the crush during September 2013, the first month of the marketing year, was nine percent less than the crush during September 2012. The monthly crush, however, exceeded that of a year earlier in each month from October through December 2013, with the cumulative crush during those three months exceeding last year's crush by 2.5 percent. While the total crush during the first four months of the marketing year is only marginally larger than that of a year ago, the recent pace has exceeded expectations and suggests that the marketing year total could exceed the current USDA projection.

The USDA projection of marketing year exports is 175 million bushels, or 13 percent, larger than last year's exports which were limited by small supplies and high prices. The projection is very close to the record large exports of 2009-10 and 2010-11. Exports are expected to be large in spite of record large soybean production outside the U.S in 2012-13 and expectations of even larger foreign production in 2013-14. The large export expectations reflect expectations of very strong demand from China. China is projected to import 2.535 billion bushels of soybeans from all origins during the current marketing year, up from about 2.2 billion bushels in each of the previous two years. Through the first 21 weeks of the current marketing year, the USDA reported soybean export inspections to all destinations at 1.115 billion bushels, 17 percent more than cumulative inspections of a year ago. The pace of shipments to date, then, is higher than the pace implied by the USDA's projection of the size of the year-over-year increase in exports.

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The magnitude of unshipped sales is also much larger than that of last year. As of January 16, the USDA reported that those outstanding sales stood at 514 million bushels, compared to 307 million bushels at the same time last year. Nearly 53 percent of those sales were to China and 23 percent were to unknown destinations. Total export commitments (shipments plus outstanding sales) stood at 1.549 billion bushels, 54 million bushels more than the USDA's projection of exports for the entire year. Sixty-four percent of the commitments were to China.

If exports for the current marketing year reach 1.549 billion bushels, year ending stocks would total only 96 million bushels, or 2.8 percent of projected consumption. Stocks cannot realistically be reduced to such a low level, with 125 million bushels being a likely minimum level of ending stocks. Exporters appear to be selling soybeans that will not be available. So how does the apparent discrepancy between the pace of consumption and available supplies eventually get resolved?

There are a number of ways or combination of ways that the difference between the USDA's projections and the current pace of consumption will be resolved. These include a slowdown in the pace of the domestic crush, cancellation of some export sales, rolling some export sales into the 2014-15 marketing year, larger imports of South American soybeans this summer, and smaller year-ending stocks than now projected.

Prices for the 2013 soybean crop will be determined by how the soybean supply and consumption balance is maintained. Cancellation of export sales would be the most negative development for prices. The market continues to expect cancellations by China, but none have been confirmed. A slowdown in the pace of the domestic crush would also indicate that supplies are adequate and point to lower prices. A lot of attention, then, will be focused on the January NOPA crush report. A continuation of large export shipments and sales would be the most friendly for prices, indicating that larger imports would be needed this summer and that year ending stocks will be smaller than now forecast. Prices appear locked into a broad side-ways pattern until the likely pathway becomes more obvious. For producers still holding old crop soybeans, the higher price pathway would be welcome, but holds the most risk since a larger U.S. crop in 2014 is expected to eventually lead to lower prices. Protecting the downside price risk on old crop soybeans still seems prudent.

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