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Weekly Outlook: Will China Cancel Some Soybean Purchases?

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In the December WASDE report, the USDA increased the forecast of 2013-14 marketing year exports of U.S. soybeans by 25 million bushels, to a total of 1.475 billion bushels. That forecast is 155 million bushels larger than exports of last year and only 26 million bushels smaller than the record exports during the 2010-11 marketing year.

Large U.S. exports are expected this year even with record large production in South America. The USDA's Foreign Agricultural Service estimated the size of the 2013 crop in South America (Brazil, Argentina, Paraguay, Bolivia, and Uruguay) at 5.377 billion bushels and forecasts the 2014 crop at 5.766 billion bushels. The projected size of the 2014 crop is 1.515 billion bushels larger than the drought-reduced crop of 2012. Compared to production this year, production in 2014 is expected to be 220 million bushels larger in Brazil and 190 million bushels larger in Argentina. Larger crop expectations reflect increased acreage (particularly in Brazil) and expectations of slightly higher yields (particularly in Argentina). Production is expected to be down slightly in Paraguay and Bolivia. The actual size of those crops will not be known for several months, but current weather conditions are generally favorable and some anticipate that the Brazilian crop in particular will be larger than the current forecast.

The primary reason for the forecast of large U.S. soybean exports in the face of record competition from South American supplies is the strength of Chinese demand. The USDA estimates show that China imported fewer than one billion bushels of soybeans from all origins as recently as the 2004-05 marketing year. Those estimates show larger imports each year since then, reaching 2.2 billion bushels during the 2012-13 U.S. marketing year. Chinese imports during the current marketing year are projected at 2.535 billion bushels. China accounted for 63 percent of total world soybean imports during both the 2011-12 and 2012-13 marketing years. That share is projected at 66 percent for the current year China imported 864 million bushels of U.S. soybeans during the 2011-12 marketing year and 791 million bushels during the 2012-13 marketing year. Exports to China accounted for 63 percent and 60 percent of total U.S. soybean exports in those two years, respectively.

Large soybean imports by China have been the result of the combination of declining production and increasing consumption. Chinese production totaled an estimated 639 million bushels in 2004 and only 448 million bushels in 2013. China consumed an estimated 1.583 billion bushels of soybeans during the 2004-05 marketing year and consumption during the current marketing year is forecast at 2.921billion bushels. Chinese consumption of soybean meal this year is forecast to be 126 percent larger than in

2004-05 while consumption of soybean oil is expected to be 89 percent larger.

Sales of U.S. soybeans for export during the 2013-14 marketing year have been extremely large. As of December 5, the USDA reported sales for the year that began on September 1, 2013 at 1.421 billion bushels, with nearly half of that total already shipped. Additional large sales under the daily reporting system have been reported since December 5 and will show up in subsequent weekly summaries. Sales account for just over 96 percent of the USDA's projection of exports for the year ending August 31, 2014. In the previous five years, total sales as of the first week of December accounted for 53 to 83 percent of total exports for the year. Sales to China as of December 5 totaled 901 million bushels, or 63 percent of the total sales, with additional sales reported since December 5. Sales to "unknown" destinations, which may include some sales to China, accounted for an additional 14 percent of the total sales.

With 38 weeks left in the 2013-14 marketing year, soybean export sales are already near the total export projection for the year. On the surface, it appears that either exports will exceed the USDA projection or that prices will have to increase to slow the pace of consumption. With year-ending stocks of U.S. soybeans already forecast at a near-pipeline supply of 150 million bushels, there is little room for exports to exceed the current projection. Exports can be measurably larger only if the 2013 U.S. crop was larger than the current forecast (final estimate to be released on January 10, 2014) or the domestic crush is smaller than forecast. A third alternative is that China will cancel some purchases of U.S. soybeans if the South American crop turns out to be large and prices are lower and/or the current bird flu situation there worsens and reduces the demand for soybean meal.

Developments over the next few weeks will be critical for the direction of old-crop soybean prices. A combination of export sales cancellations, a larger U.S. crop estimate, or a larger South American crop estimate would likely trigger a lower price trend. Without such developments, current high prices would likely persist a while longer in order to finish the rationing of old crop supplies. Protecting the downside price risk appears prudent.

This is the last issue of *Weekly Outlook* for 2013. The next issue will be released on January 6, 2014.