



## Weekly Outlook: Rationing the 2012 U.S. Soybean Crop

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The small South American soybean crop of 2012 will result in much smaller inventories of that crop by the end of the year. However, that draw down in stocks in combination with the much larger harvest expected in 2013 suggests that the pace of consumption of South American soybeans will not have to slow. In contrast, the small U.S. harvest this year will require a substantial reduction in consumption over the next year.

The magnitude of the year-over-year reduction in consumption of U.S. soybeans that will be required is not yet known. The new production forecast to be released on September 12 and the estimate of September 1 stocks of old crop soybeans to be released on September 28 will provide for a better estimate of the needed decline. Based on the USDA's August forecasts, a reduction of 400 million bushels (12.7 percent) will be required. The pace of consumption, as revealed in weekly export reports and monthly reports of domestic crush, will be monitored to verify that the pace of consumption is slowing.

For the current marketing year, the USDA projects the domestic crush at 1.69 billion bushels, 2.55 percent more than crushed last year. Through the first 11 months of the marketing year, estimates by the National Oilseed Processors Association of the size of the crush by its members exceeded the crush of a year ago by 2.88 percent. The crush was nearly 8 percent smaller in the first quarter of the year, but nearly 13 percent larger in June and July. The year-over-year increase in the crush has been driven by soybean meal consumption. In February, the USDA projected a year-over-year decline in soybean meal consumption of 0.6 percent in the domestic market and 3.3 percent in the export market. Earlier this month the projections were for year-over-year increases of 4.5 and 4.6 percent, respectively. With only one month remaining in the marketing year, it appears that the domestic crush will exceed the USDA projection by 10 to 15 million bushels.

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Exports of U.S. soybeans during the current year are projected at 1.35 billion bushels. With only about three weeks left in the marketing year, cumulative export inspections (adjusted by Census Bureau estimates through June) totaled 1.3 billion bushels. Shipments will need to average about 16 million bushels per week for the next three weeks to reach the USDA projection. Shipments for the 7 weeks ended August 9 averaged 15.5 million bushels per week. It appears that exports for the year will be very close to the USDA projection. If so, stocks of old crop soybeans on September 1 could be 10 to 15 million bushels less than the current forecast of 145 million.

For the 2012-13 marketing year, the USDA projects a 175 million bushel reduction in the domestic crush, to a 16 year low of 1.515 billion bushels. The magnitude of the decline would be larger if this year's crush exceeds the current projection. Exports of U.S. soybeans are expected to decline by 240 million bushels, to a 7 year low of 1.11 billion bushels. As of August 9, the USDA reported cumulative sales of 597 million bushels for export during the 2012-13 marketing year. Of that total 392 million were sold to China and 154 million to unknown destinations. Including likely carryover sales from the current year, export commitments are likely near 675 million bushels, or 61 percent of the USDA projection for the year. Shipments of U.S. soybeans are expected to be large in the first half of the marketing year, but demand during the last half of the year will be influenced by the size of the South American crop.

The USDA currently projects that South American soybean acreage will increase by 2.7 million acres in 2013 (mostly in Brazil) to a total of 128.9 million. With a return to normal yields, that crop is projected at 5.45 billion bushels, 30 percent larger than the drought reduced crop of this year. A crop of that size would likely result in a larger than normal seasonal decline in U.S. soybean and soybean meal export shipments in the last half of the marketing year. Some additional imports of soybean meal would also be expected.

November 2012 soybean futures are currently more than one-third higher than the low established in early June, about \$1.35 higher than the low of July 25, and only about \$0.20 below the contract high of July 23. Most of the price increase since early June has been led by soybean meal prices. U.S. soybean oil stocks will be used to support oil consumption during the year ahead, but soybean meal consumption will have to be reduced substantially.

There is some expectation that more favorable weather in August in some areas will increase the yield potential of late maturity soybeans. Unless the crop is substantially larger than the August forecast, soybean meal and soybean prices will likely remain high for an extended period in order to ensure the necessary rationing. If the production forecast does not increase next month, new highs in both markets would be expected.