farmdoc DAILY

Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Have Soybean Prices Put in a Low?

Todd Hubbs

Department of Agricultural and Consumer Economics
University of Illinois

September 16, 2019

***farmdoc daily* (9): 172**

Recommended citation format: Hubbs, T. "Have Soybean Prices Put in a Low?" *farmdoc daily* (9): 172, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, September 16, 2019.

Permalink: https://farmdocdaily.illinois.edu/2019/09/have-soybean-prices-put-in-a-low.html

Last week's price rally in the soybean market relied on the prospects of easing trade tensions with China. The potential for soybean prices to maintain recent momentum depends on developments in trade negotiations and production prospects for both the U.S. and South America.

USDA's September soybean production forecast came in at 3.633 billion bushels, down 47 million bushels from the August forecast. Yield per harvested acre fell by 0.6 bushels per acre to 47.9 from the August forecast of 48.5. Compared to the August forecast, yield prospects for the top ten states in soybean acreage increased in Missouri and Kansas. Yield prospects declined in Illinois, Iowa, Minnesota, Indiana, and South Dakota. North Dakota, Nebraska, and Ohio saw no change in expected yield from August. The crop production report showed the lowest pod count for the 11-states in the objective yield survey since 2012. At 1,561 pods per 18-square feet, this year's pod count led to an implied pod weight near 0.35 grams per pod. A pod weight at this level is the highest in a decade and led to speculation about potential lower pod weights in this late-planted crop. Over the last five years, pod counts increased from the September forecast to the final yield estimate. Pod weights over the same period fell in four out of the five years.

In conjunction with the lower production forecast, total supply for the 2019-20 marketing year dropped an additional 65 million bushels, to 4.658 billion bushels, on lower beginning stocks. Soybean crush and export estimates for the 2018-19 marketing year increased by 20 and 45 million bushels, respectively. The USDA left the 2019-20 soybean export forecast 1.775 billion bushels and the crush forecast at 2.115 billion bushels. Ending stocks for the 2019-20 marketing year fell to 640 million bushels, down 115 million bushels from the August projection. While expectations of strong crush levels remains in place for the next marketing year, the prospects of maintaining higher soybean prices fall on exports or production issues. The recent thaw in trade negotiations between China and the U.S. came as a rare positive development this year and prompted the rally in prices last week.

Soybean exports for 2018-19 came in down approximately 390 million bushels from the previous marketing year. Exports to China, using export sales data on accumulated exports, fell 544 million bushels from the previous marketing year and 835 million bushels from the 2016-17 marketing year. At around 490 million bushels, U.S. soybean exports to China have not been this low since the 2006-07 marketing year. The recent announcement of lower tariffs on soybeans and pork look to support soybean prices, but clarity on the level of tariff reductions and a guarantee of following through by Chinese buyers remain lacking. For the current marketing year through September 5, outstanding sales and accumulated exports total 39.3 million bushels. Recent reports place Chinese purchases in the range of 29.5 million bushels (804 thousand metric tons). Additional purchases may total between 37 – 110 million bushels. This amount of buying remains a long way from the levels of export needed to support prices in the long-term but provides a positive development on the trade front.

New agreements with Argentina and Russia on meal imports combined with an expanded emphasis to rebuilding the hog herd decimated by African swine fever point towards China preparing for an extended fight in the trade war. Additionally, Chinese soybean production sits at a forecast level of 628 million bushels, up 8 percent from last year. The lull in the trade fight may allow China to backfill soybeans and pork to alleviate domestic pressures and settle in for a protracted battle. While Chinese buying of South American soybeans may cool in the near term, the potential for U.S. soybean exports to remain at reduced levels from pre-trade war totals in the 2019-20 marketing year continues as a high probability. Soybean production prospects in South America will continue to be crucial over the next few months, particularly if the trade war rekindles.

The forecast of South American production for the 2019-20 marketing year came in at 7.03 billion bushels, up 2.4 percent from last year's estimate. The projected size of the Brazilian soybean crop increased by 220 million bushels to a production level of 4.52 billion bushels. The soybean production forecast for Argentina decreased 84 million bushels from last year's estimate to 2.032 billion bushels. Some early season dryness in southern Brazil and Argentina merits monitoring. A continuation of the current dryness may delay planting in some areas. However, it remains too early to forecast any definitive change in soybean production in those regions.

If production issues do not materialize, the status of the trade war will be paramount. Current U.S. crop prospects point to maintaining some of the recent price gains. A failure of trade negotiations in October may push prices back to ranges seen in early September. Marketing soybeans on price rallies associated with trade negotiations and weather may be prudent. The uncertainty related to production levels and trade remains exceptionally high.

YouTube Video: Discussion and graphs associated with this article available at https://youtu.be/ZDA-8IzWZ3w