



Weekly Outlook: Soybean Demand Linked to Economic Recovery

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Wet and warm conditions over some key soybean growing regions pressured soybean prices recently. The prospect of a good soybean crop places added emphasis on demand over the next year. Soybean consumption in 2020-21 shows a substantial increase driven mostly by expanded exports in the recent WASDE report. A robust recovery in domestic and world economic growth looks necessary to meet the higher consumption forecast.

Current marketing year ending stocks moved up to 620 million bushels in the WASDE report released on July 10. Despite the crush estimate increasing by 15 million bushels to 2.155 billion bushels, changes in the soybean residual drove stocks higher. In conjunction with the increase in this marketing year's crush estimate, the USDA increased crush prospects for the 2020-21 marketing year to 2.16 billion bushels. Total use for 2020-21 sits at 4.345 billion bushels, up 488 million bushels over this marketing year. Even with the expanded use totals, ending stocks come in at 425 million bushels for the 2020-21 marketing year. An expectation of higher soybean export totals and continuation of a healthy crush pace, while feasible, requires a better economic outlook than the current reality indicates.

Soybean crush appears on pace to meet the current marketing year estimate. Estimates of monthly soybean crush from the USDA through May totaled 1.63 billion bushels. From March through May, soybean crush levels eclipsed the previous year's amount by 7.5 percent. To hit the USDA estimate, crush over the last three months needs to total 527.12 million bushels. Last year over the same period, crush came in at 514.4 million bushels. As slaughter rates continue to improve in the livestock sector, meeting current crush projections looks good. Weak livestock prices impacting herd levels and plentiful vegetable oil supplies may inhibit further expansion in crush demand in the next marketing year. Economic activity affected by the coronavirus may lag current projections and hurt domestic meat consumption in the process.

Soybean exports remain on pace to hit the USDA estimate of 1.65 billion bushels this marketing year. As of July 2, exports for the year equal near 1.43 billion bushels. Outstanding sales sit at 302 million bushels. USDA's forecast for soybean export in 2020-21 sits at 2.05 billion bushels, up 400 million bushels 2019-20 estimates. Chinese buying under the phase one trade deal remains crucial to meeting this forecast. In general, soybean demand seems to rely on China over the next year as expanded meat and soybean exports hold importance for U.S. soybean consumption.

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China's hog herd fell around 40 percent during the African swine fever (ASF) outbreak and production is yet to recover completely. Recent updates from the World Organization of Animal Health (OIE) indicate the disease continues to show up in Asia and parts of eastern Europe. In Asia, reports of ongoing outbreaks of the disease in Vietnam, Myanmar, the Philippines, and North Korea point toward a long-term continuation. Recent flooding in southern China led to reports of the disease resurgence in parts of the country and causes concern. A vaccine for ASF seems unlikely in the near term, so expanded disease issues could hamper China's domestic hog industry. USDA's projected soybean imports by China in the 2020-21 marketing year sit at 3.53 billion bushels and rely on recovery in Chinese hog and poultry numbers for higher domestic crush. Hog prices remain strong in China due to the protein shortfall and recent restrictions on meat imports due to coronavirus concerns. Expectations of increased pork imports seem reasonable over the next marketing year. The potential for increased soybean imports by China from the U.S. looks certain. The magnitude remains in question.

Soybean outstanding sales for the next marketing year sit at 269 million bushels with 155 million bushels slated for China. Sales of this magnitude last occurred in the 2016-17 marketing year for this point in July. While a positive sign, geopolitical tensions between the U.S. and China continue unabated and insert a substantial amount of uncertainty into potential trade flows over the next year. Recent comments from the administration indicate that a phase two trade deal is unlikely. In conjunction with the expanded uncertainty with the world's largest soybean importer, soybean production in South America's major exporters is forecast up 4.7 percent in 2021 to 7.23 billion bushels. Brazil's production forecast sits at 4.81 billion bushels, up 184 million bushels over the estimate for the 2019-20 crop. Another good crop year in South America creates a highly competitive export environment in 2021.

Soybean crop potential will continue to be a significant factor in soybean price movements through harvest. Without a crop shortfall, higher soybean prices rely on demand prospects over the next year. Increased demand is linked to the nascent economic recovery and recent developments provide limited support for economic growth prospects.