



Weekly Outlook: Soybean Crop Potential Tempering Demand News

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Soybean prices seem likely to vacillate between news on crop conditions and more robust demand prospects over the near term. USDA's Crop Production report, due out August 12, holds the potential to be an inflection point if the 2020 soybean crop comes in at levels anticipated by crop conditions.

The prospect of an above-trend soybean yield in 2020 appears high and creates headwinds for soybean prices. USDA projected the national soybean yield at 49.8 bushels per acre in July. Better crop ratings point to significant improvements in this year's crop. The soybean crop rated in good to excellent condition came in at 72 percent for the week ending July 26. The three percent increase from the previous week saw the rating come in 18 percent above last year's condition report and 11 percent above the ten-year average. Cooler and wetter weather across large areas of the Corn Belt holds the potential for ratings improving even more as we move into the critical period for soybeans in early August.

While many areas saw advances in ratings over the last week, some key states show greater than fifteen percent of acres in various levels of drought conditions. Iowa, Nebraska, Michigan, and Ohio all meet this criterion. Iowa shows 18 percent under severe drought levels. In total, sixteen percent of soybean acreage is currently experiencing drought conditions through July 28 according to the recent Drought Monitor report. The latest weather forecasts show the potential for some relief in many of those areas.

The current 6 to 10-day weather outlook provided by the National Weather Service projects warmer temperatures than usual across most of the Corn Belt next week. Precipitation forecasts indicate the probability of above-normal rain levels in the eastern Corn Belt with a higher likelihood of below-normal rain in the mid-South and Plains. A continuation of favorable weather and improving crop conditions brings the August 12 Crop Production report into focus. An August soybean yield above current trend projections seems likely and only the magnitude remains in question. Personal yield forecasting models currently project national soybean yield at 51 bushels per acre. If a yield of this magnitude came to fruition, 2020-21 marketing year ending stocks move well above 500 million bushels under current USDA consumption and acreage projections.

The prospect of growing supply places added emphasis on consumption. Exports, in particular, require growth in shipments. Any discussion of U.S. soybean export potential eventually ends up focusing on Brazil and China. Brazil's soybean production came in at 4.63 billion bushels in the 2019-20 crop year.

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China bought large amounts of soybeans from Brazil in the first half of 2020 to support a recovering hog herd. At over 1.6 billion bushels, Brazil's shipments to China supported record export totals. Exports in July slowed a bit from Brazil, but Chinese demand puts in place another strong month for Brazilian soybean exports. Supplies in Brazil appear less robust than in previous months and holds promise for expanded U.S. exports moving forward.

China's purchases of U.S. soybeans began in earnest in July. Outstanding sales through July 23 totaled approximately 560 million bushels of soybeans for the current and next marketing year. An additional 14 million bushels reported by the Foreign Agricultural Service reporting program can be attributed to China since the last sales report. After a string of Chinese sales recorded in July, last week saw a noticeable pullback in soybean sales. While large corn sales came through, the lack of soybean sales causes some concern. An uptick in geopolitical tension between China and the U.S. looks unlikely to cool down anytime soon. The impact on soybean purchases remains an active area for speculation. While soybean exports stay on pace to hit the current marketing year estimate of 1.65 billion bushels, the prospect of reaching 2.05 billion bushels in 2020-21 rests on Chinese buying in the fall. Tighter Brazilian supplies and China attempting to meet trade deal commitments offer the promise of large shipments as we move into the next marketing year.

Monthly crush totals appear set to drop for the third straight month when the USDA releases the June crush report on August 3. Despite lower monthly levels, soybean crush remains healthy and maintains a pace to hit the current USDA estimate for the 2019-20 marketing year of 2.155 billion bushels. Estimates of monthly soybean crush indicate total soybean use through June near 1.805 billion bushels. Crush during the last two months of the marketing year needs to come in at 350 million bushels to reach the USDA estimate, slightly below last year over the same period.

The USDA currently projects a 488 million bushel increase in soybean consumption over the current marketing year for 2020-21. Based on improving crop conditions, soybean prices need every bushel of consumption currently projected. While recent soybean sales provide support, significant uncertainty remains regarding the soybean export outlook. The potential for higher yields in the U.S. and growth in South American production look to temper soybean price rallies.