



Weekly Outlook: Soybeans Rally despite Record Yield Forecast

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The highly anticipated August Crop Production report presented a record yield for soybeans this year. Despite the forecast of higher production, soybean futures went into the weekend up over 30 cents for the week. Strong Chinese demand and skepticism surrounding production levels supported this rally.

The soybean crop forecast of 4.425 billion bushels is 873 million bushels above last year. Soybean planted acreage stayed at the June Acreage report level of 83.8 million acres, up 7.7 million acres from last year. The Farm Service Agency (FSA) released reported acreage and prevent plant acreage later the same day. Prevent plant for soybeans came in at 1.22 million acres. North and South Dakota led the way with 510,981 and 296,425 acres placed in prevent plant. The FSA reported total planted and failed soybean acres as of July 31 at 75.9 million acres. Over the last decade, FSA acreage typically accounts for approximately 95 - 97 percent of final NASS planted acreage. FSA acreage came in at 90.6 percent of projected soybean acreage this year. Impacts with coronavirus issues may influence timely reporting. FSA acreage at such low levels does leave the question of how large final soybean acreage may be in 2020. The next FSA report due out September 11 looks to provide more clarity.

The U.S. average soybean yield forecast of 53.3 bushels showed a 3.5-bushel increase from the July forecast. Yields in many states across the Corn Belt reflected the excellent growing conditions shown in crop condition reports. Nine of the eighteen states tracked for weekly Crop Progress reports on soybeans are set for record yields this year. The derecho that ripped through Iowa and northern Illinois last week led to much speculation about crop loss. A probability of some losses seems very likely. The magnitude of impact on national yields is difficult to predict. Iowa (58 bushels per acre) and Illinois (64 bushels per acre) yield forecasts may fall with impacts in Iowa being more severe. This week's crop condition report looks to provide an initial indication of the impact. The rally at the end of last week seems to discount USDA's current yield forecast. Over the last decade, the USDA final yield estimate came in below the August forecast only three times. The years of 2010 (-.5 bushels), 2017 (-.1 bushels), and 2019 (-1.1 bushels) still came close to the final estimate. Drier weather projections over large swathes of the Corn Belt fuel the idea of lower yields. The last time USDA's August forecast came in over two bushels higher than the final yield occurred in 2003. An assumption of a crop near 4.42 billion bushels seems prudent now, but a smaller crop enters the picture if the weather forecast comes to fruition.

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The projection for soybean consumption during the 2020-21 marketing year sits at 4.445 billion bushels. Soybean use increases by 583 million bushels from last year on higher crush and export totals. This dramatic upturn in use links directly to an escalation in exports to China. Recent sales provided support for optimism surrounding higher exports. At approximately 442 million bushels, outstanding sales for the next marketing year are off to a tremendous start. USDA forecasts soybean exports at 2.125 billion bushels next marketing year, on par with export totals from 2017-18. During the 2017-18 marketing year, China imported 1.036 billion bushels of soybeans from the U.S. and imported 3.457 billion bushels in total. China's total import projection for the next marketing year sits at 3.637 billion bushels. If China bought from the U.S. at a similar percentage to 2017-18, U.S. exports to China come in at 1.09 billion bushels. The rest of the world needs to take 1.035 billion bushels to hit the USDA export projection. Exports at these levels remain feasible. The potential for soybean exports expanding dramatically above the present forecast looks limited.

Competition out of South America sets up to be quite robust. At 6.78 billion bushels, soybean production in Brazil and Argentina next year sits up 320 million bushels over this year's crop. Forecasted exports from both countries come in at 3.36 billion bushels, down almost 425 million bushels from the current marketing year. The prospect of the U.S. recouping market share from China seems high given recent sales and the commitments associated with the trade agreement. A large crop out of South America with reduced exports to China sets up buying opportunities by non-Chinese importers of those soybeans.

The forecast for the marketing year average price dropped to \$8.35 per bushel in the latest WASDE report. At this point, expectations of a much smaller soybean crop seem premature. Optimism about exports is well-founded. The recent price rally looks like a pricing opportunity for new crop soybeans under a scenario in which production stays near USDA forecast levels.