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Weekly Outlook: Soybean Price Potential for 2018

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Soybean prices received support with the release of the October crop production report. The lowering of harvested acreage for soybeans led to a slight reduction in the estimated production level for the 2018 crop. The recent rally in soybean prices leaves the question of which way prices are heads as we continue into the 2018-19 marketing year.

The 2018 soybean production forecast of 4.689 billion bushels is three million bushels lower than the September forecast. The projection of national yield increased to 53.1 bushels per acre, but the reduction in harvested acreage by 514,000 acres lowered production. The production report indicated a shift of harvested soybean acres out of the eastern Corn Belt and Mid-South regions and to the western Corn Belt. In particular, Arkansas (320,000), Indiana (250,000), Illinois, Kansas, Kentucky, and Missouri (100,000 acres each) showed reduced harvested soybean acreage. North Dakota (300,000), Nebraska (200,000) and Iowa (100,000) provided the most substantial increases in acreage. While lower harvested acreage kept soybean production below expectations, the record high production still holds the potential for a higher yield. The big crop emphasizes consumption and global production for the upcoming marketing year.

The USDA's supply and demand projections for the 2018-2019 marketing year kept crush and export levels constant from the September report at 2.07 and 2.06 billion bushels respectively. Ending stocks increased by 40 million bushels to 885 million bushels on higher beginning stocks for the marketing year. The current use projections for crush looks feasible under the present price structure and reduced export levels associated with Chinese tariffs. Exports, as currently projected, sit 3.2 percent below last year's 2.129 billion bushels. To reach the current export projection, the export pace needs to accelerate. Export inspections through October 11 place soybean exports at 174 million bushels, 35 percent behind last year's pace. Through October 4, outstanding sales lag last year's pace by 16 percent. Chinese sales currently sit approximately 272 million bushels below last year. While Mexico and Canada upped sales to this point by 59.7 and 11.2 million bushels respectively over the previous year, it appears to date that other importers are not making up the loss of the Chinese market. The China National Grain and Oils Information Center (CNGOIC) projects soybean imports for China near 294 million bushels below the

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current USDA forecast of 3.435 billion bushels. Reports out of China indicate an intention to reduce their reliance on U.S. soybean imports via a variety of measures including lower crude protein requirements in hog rations. While the current price differential between the U.S. and South American soybean prices delivered to China indicate U.S. soybeans are competitive, a sustained uptick in sourcing U.S. soybeans by Chinese buyers is yet to materialize.

In conjunction with reduced U.S. soybean imports by China, forecasts of soybean production by major South American producers indicates an increase over last year's production by 731 million bushels, at 6.9 billion bushels. An expected recovery in Argentina from last year's drought and expanded acreage in Brazil boost prospects for world production over last year. The forecast for Brazilian exports sits 44 million bushels below last year at 2.75 billion bushels. The lower forecast may seem strange given the current market situation, but Brazilian soybean exports set a torrid pace during the fourth quarter of the last marketing year. The current projection is still the second highest on record for Brazil. World supplies of soybeans are plentiful and trade issues do not benefit American producers. The WASDE world consumption projection comes in at 12.97 billion bushels, up 596 million bushels over last year. A more in-depth look at the global consumption data shows almost 64 percent of the increased world consumption comes from Argentina (210 million bushel increase) and China (169 million bushel increase). Argentina's recovery from the drought explains most of the increased consumption. Chinese consumption is the critical question and lacks clarity. Based on Chinese government announcements, an intent to shift away from reliance on soybean imports from the U.S. is underway. Neither of the countries pegged for substantial increases in soybean consumption this marketing year encourages U.S. soybean sales overseas.

Barring a resolution in the trade dispute or a significant production shortfall in a major producing country, the current 885 million bushels of ending stocks for the 2018-19 marketing year may sit at the low end of reasonable projections. The recent price rally in soybeans appears linked to recovery from an expectation of a much larger U.S. crop. Price prospects for soybeans during the remainder of 2018 look to have a limited upside potential under current production and trade scenarios.

YouTube Video: Discussion and graphs associated with this article at youtu.be/iKj4m4HjGag