



Weekly Outlook: Focus on Soybean Oil

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The sharp increase in soybean prices that began in June 2012 and peaked in early September 2012 was carried more by soybean meal prices than by soybean oil prices. From the June low to the September peak, January 2013 soybean futures increased by 43 percent, January soybean meal futures increased by 51 percent, and January soybean oil futures gained 20 percent. Soybean oil futures are now back to the level of early June, while soybean futures are 13 percent above the early June level and soybean meal futures are 21 percent higher.

For the 2012-13 marketing year, the USDA expects soybean oil prices to remain weak relative to soybean meal prices. The price of crude oil at Decatur, Illinois is expected to average 2.26 times the price (per pound) of 48 percent protein meal at Decatur. The ratio of average prices was 3.08 during the 2010-11 marketing year and 2.64 last year. In nominal terms, the average price of soybean oil is projected in a range of \$0.51 to \$0.55 per pound, compared to an average of \$0.519 last year and \$0.532 during the 2010-11 marketing year. On the other hand, the average prices of soybeans and soybean meal are projected to be substantially above the averages of the previous two years.

The relative low price projection for soybean oil reflects prospects for weaker demand than forecast for soybean meal. Soybean oil exports during the current marketing year are projected at 1.2 billion pounds, compared to 1.464 billion pounds exported last year and exports of 3.233 billion pounds in 2010-11. U.S. soybean oil exports are expected to be limited by an increase in palm oil exports and by competition from larger Argentine exports of soybean oil during the last half of the marketing year. While exports during the current marketing year are expected to be down by nearly 14 percent from exports of a year ago, shipments and sales have been relatively large early in the marketing year. Shipments during the first seven weeks of the marketing year were more than 3.5 times larger than the very slow pace of a year ago. Unshipped sales as of November 15 were 2.8 times larger than unshipped sales on the same date last year. The large early export pace is supported by the small South American soybean harvest earlier this year and will likely slow after the first of the year as confidence in the 2013 South American crop increases. The prospects for very small inventories of U.S. soybean oil by the end of the marketing year, however, underscore the importance of a rebound in South American production.

Domestic consumption of soybean oil for purposes other than biodiesel during the current marketing year is projected at 13.1 billion pounds, 310 million pounds less than consumed last year. Consumption is expected to be limited by larger supplies and consumption of other vegetable oils, particularly cottonseed

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oil and peanut oil.

The consumption of soybean oil and all other fats and oils for methyl ester (biodiesel) production has not been reported by the Census Bureau since July 2011. The USDA's World Outlook Board indicated that it relies on data reported by the U.S. Energy Information Administration to estimate the amount of soybean oil used for biodiesel production. Biodiesel production totaled 723.3 million gallons during the 2010-11 marketing year and 928.9 million gallons during the first 10 months of the 2011-12 marketing year. The estimate for August 2012 will be available on November 28. Production for the marketing year may be near 1.13 billion gallons. For the 2011-12 marketing year, the USDA estimates that 4.9 billion pounds of soybean oil were used for biodiesel production, up from 2.737 billion pounds in the previous year. That estimate implies that soybean oil accounted for about 57 percent of the feedstock used in the production of biodiesel, compared to about 50 percent in the previous year.

For the current marketing year, the USDA also projects soybean oil consumption for the production of biodiesel at 4.9 billion pounds. However, the EPA has increased the minimum amount of domestic biodiesel consumption from one billion gallons in 2012 to 1.28 billion gallons in 2013. The increase of 280 million gallons will require about 2.1 billion pounds of additional feedstock, if biodiesel trade remains at the same level as in 2012. Biodiesel production could also exceed the minimum requirement in order to meet the advanced and total biofuel mandate for the year. The USDA projection of soybean oil consumption implies that most of the increase in biodiesel production in the 2012-13 marketing year will come from feedstock other than soybean oil. Alternatively, soybean oil consumption will exceed the current USDA projection.

In the first eight weeks of the 2012-13 marketing year, soybean oil prices averaged \$0.48 per pound, well below the USDA projection for the year. With demand potentially stronger than currently projected, the increase in prices that began two weeks ago is likely to be extended. Unless the biofuels mandate is amended, price strength could extend well into the future.