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Weekly Outlook: Soybeans Need Good News

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January 27, 2020

***farmdoc daily* (10): 14**

Recommended citation format: Hubbs, T. "Weekly Outlook: Soybeans Need Good News." *farmdoc daily* (10): 14, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 27, 2020.

Permalink: https://farmdocdaily.illinois.edu/2020/01/soybeans-need-good-news.html

Soybean futures prices fell again last week on reports of a coronavirus outbreak rattling the Chinese economy and the prospects of a huge Brazilian crop. A double hit associated with increased production from our main competitor and a potential drop in Chinese demand appears set to drive prices lower in the near term. If present consumption trends stay in place this marketing year, the prospect of ending stocks dropping substantially below the current projection of 475 million bushels seem remote.

The coronavirus outbreak continues to spread around the world. The Chinese government's attempt to contain the virus appears to have fallen short and brings up the possibility of a hit to China's economic growth. While China's growth and integration in world markets helped commodity prices, the risk-off approach to most equity markets under the prospect of reduced growth in China is hurting agricultural commodity prices. Soybeans are particularly impacted by this development. Skepticism over the capability of China to meet the dollar amounts put forth in the phase one trade agreement gets exacerbated by any reduction in Chinese economic growth. Over the short term, soybean purchases from China look to be muted due to the Chinese government's reaction to contain the disease and expansion of the lunar New Year holiday. Expectations of demand loss due to the virus outbreak likely remain in place over the short term and look to put downward pressure on soybean prices.

While potential demand loss from China is bad enough news, the harvest of the Brazilian crop begins with expectations of a possible record production level. After a start to the growing season that included delayed planting and sporadic rainfall, reports in Brazil place production near 123.9 million metric tons (4.55 billion bushels). Early yield reports out of Mato Grosso indicated yields over 10 percent higher than last year. Areas in southern Brazil and the northern part of the country got planted later and still require cooperative weather conditions to meet these elevated projections. The release of the January projections by CONAB, the Brazilian agricultural statistics agency, set production at 122 MMT (4.48 billion bushels), up approximately 36.7 million bushels from December. USDA's current projection sits at 123 MMT (4.52 billion bushels). On top of the massive crop, the dollar strengthened approximately four percent against the Brazilian real since the turn of the year. U.S. old crop exports face stiff competition out of Brazil this spring.

Despite a large amount of bad news last week for U.S. soybean prices, soybean consumption remains on pace to reach USDA's forecast of 4.008 billion bushels thus far in the marketing year. The soybean crush forecast for the 2019-20 marketing year sits at 2.105 billion bushels. NOPA's crush estimate for

December totaled 174.8 million bushels. By using the relationship between NOPA crush and USDA's Oilseed crush report, total crush through December comes in at 710 million bushels. This estimate sits slightly behind last year's crush total over the same period. To reach the USDA crush projection, crush for the remainder of the marketing year needs to average 174 million bushels per month. A crush pace at that level comes in about 4 million bushels per month higher than last year's estimates. Soybean oil and meal prices also dropped on the news out of China. Crush margins look to remain relatively stable. Large export sales last week of soybean oil and meal reflect issues with crush capacity in Argentina. A continuation of these issues in Argentina do not appear likely to overcome price pressure in the soybean complex due to the disease outbreak in China.

The export projection of this marketing year for soybeans sits at 1.775 billion bushels. Soybean export calculations thus far in the marketing year use USDA weekly export inspection reports and Census Bureau export estimates. The USDA's weekly export inspections report shows that cumulative marketing year inspections attained 926 million bushels through January 23, above last year's total by 174 million bushels. Through the first quarter of the marketing year, cumulative Census export estimates exceeded inspections by 20 million bushels. If that margin persisted through the current period, cumulative exports reached 946 million bushels this marketing year. Export inspections this marketing year need to average 26.2 million bushels a week to reach the USDA projection. This pace is slightly below the 29.8 million bushels per week seen last marketing year over the same period. Outstanding sales through January 16 sat at 256 million bushels, down 203 million bushels from last year at the same time. China accounted for approximately 49 million bushels of those sales. Without an expansion of Chinese buying this marketing year, the required export pace may be tough to attain given the crop coming out of Brazil.

Uncertainty about the effect of the coronavirus outbreak on economic growth in Asia may stay around for a while. Expect soybean prices to continue reflecting a risk-off scenario over the next few weeks. The absence of substantial buying out of China looks to confirm the pessimism associated with the trade deal and place downward pressure on soybean prices.