



Weekly Outlook: Soybean Demand Remains Uncertain

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The USDA released the first projections for U.S. corn and soybean supply and demand in the 2020-21 marketing year on May 12. The forecasts for soybeans showed higher ending stocks this marketing year with a substantial decrease in the next marketing year’s ending stocks. While the prospects for this year’s crop come to the forefront, the consumption projections reflect the potential market size and merit consideration.

Current marketing year ending stocks increased to 580 million bushels due to a 100 million bushel drop in soybean exports. Total consumption for the 2019-20 marketing year is forecast at 3.901 billion bushels, down 70 million bushels from 2018-19. The initial forecast of soybean use for the 2020-21 marketing year came in at 4.315 billion bushels. Driven by an expectation of exports at 2.05 billion bushels, consumption near this level last occurred in 2017-18 before the onset of the trade war. The U.S. average soybean yield is projected at 49.8 bushels per acre with production at 4.125 billion bushels. Yield potential for the crop unfolds over the next few months and weather conditions determine the outcome. Additionally, planted acreage levels are yet to be determined and still have a significant amount of uncertainty due to the developing economic conditions. Ending stocks look to fall near 405 million bushels for 2020-21 under the USDA forecast. If the projection comes to fruition, it would be a positive development for soybean prices.

Crush totals through April remained strong and continue to support soybean prices this year. The NOPA crush report saw April crush totals at 171.7 million bushels. This total implies approximately 1.45 billion bushels of soybeans crushed through April this marketing year. Since the USDA projection sits at 2.125 billion bushels, crush levels from May to August need to total around 680 million bushels. Last year saw 680 million bushels over the same period. Since the start of 2020, crush totals this year came in almost six percent above last year. While a steady crush pace looks feasible for the remainder of this marketing year, there remain some reasons for caution. The prospect of reduced hog and cattle production levels over the rest of the year may hamper crush totals a bit. A resurgence of ethanol production leads to greater availability of distiller’s grains which impacts soybean meal use. The 2020-21 forecast for crush of 2.13 billion bushels indicates a slight increase over this year’s current projection. Implicit in the USDA forecast is a robust economic recovery. Substantial unemployment carrying into 2021 looks to impact meat consumption and the prospects for crush demand. While difficult to predict, sustained economic weakness could lower the crush total but may pale in comparison to issues in the export market.

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Despite an uptick in Chinese purchases recently, soybean exports continue to disappoint. A weak currency and large crop bolstered exports out of Brazil. As such, the USDA lowered current marketing year exports by 100 million bushels to 1.675 billion bushels. Soybean export totals through May 14 sit near 1.34 billion bushels. For the remainder of the marketing year, exports inspections need to average near 25 million bushels a week to hit the reduced target. Over the last month, weekly export inspections averaged a little under 17 million bushels per week. Outstanding sales as of May 7 sit at 210 million bushels. Since the last export sales report, China purchased 21.5 million bushels for this marketing year. Increased Chinese purchases for delivery this year provides hopeful signals of meeting this year's projection and possibly even the next marketing year's large export forecast.

The soybean export projection for 2020-21 sits at 2.05 billion bushels, 375 million bushels above the current marketing year. Export totals at that level imply that the U.S. recoups some market share of Chinese buying next marketing year. Projections for Chinese soybean imports sit at 3.53 billion bushels, up 147 million bushels from this marketing year. The economic recovery in China got off to a slow start with April economic numbers indicating lower retail sales and an uptick in unemployment. A continuation of slow growth may impact import totals. The rebuilding of the Chinese hog herd after African swine fever supports the forecast of higher imports. Brazil looks set to expand soybean acreage once again with the USDA forecasting a massive soybean crop in 2020-21 near 4.8 billion bushels. Despite this huge crop forecast, export projections out of Brazil sit lower than this marketing year by 36 million bushels at 3.05 billion bushels. If China meets the phase one trade commitments, U.S. exports to China will move higher, but exports to the rest of the world appear set for stiff competition out of South America. The optimistic outlook for soybean exports is dependent on the Chinese market and is key to lower ending stocks next marketing year.

Consumption projections reflect expectations of continued demand growth both domestically and in foreign markets. At present, substantial demand growth for soybeans remains dependent on an economic recovery that appears slower than many would like. The uncertainty around growth prospects appears set to stay in place for some time and soybean prices will reflect this reality.