

# Oil Crops Outlook



United States Department of Agriculture  
Economic Research Service

OCS-0100

Approved by the World Agricultural Outlook Board

January 13, 2000

## **Sluggish Meal and Oil Demand Weighs Down Soybean Prices**

The annual summary report of crop production pegged the 1999 U.S. soybean crop at 2,643 million bushels, 30 million below the previous estimate. This was based on a final harvested area estimate of 72.5 million acres. Reductions in harvested acreage and yield in Illinois, Iowa, Ohio, and North Dakota more than offset larger crops from the November estimates in South Dakota and other States. Excessive dryness throughout the country caused the national average soybean yield to fall to 36.5 bushels per acre, the poorest since 1995/96.

U.S. soybean crushing slowed in November to 142.8 million bushels, down from 150.2 million in October and 143.0 million in November 1998. Falling soybean oil prices are countering the somewhat better returns from producing soybean meal. USDA trimmed 5 million bushels from the 1999/2000 crush forecast to 1,605 million. U.S. exports of soybeans are on track to reach 865 million bushels, up from 501 million in 1998/99

This month's *Grain Stocks* report indicated that December 1 soybean stocks were 2,182 million bushels, just below last year's record. With only moderate growth in demand, season ending soybean stocks are forecast to remain a relatively high 365 million bushels. Although shorter supplies should support prices in coming months, normally half of the crop is already marketed by this time. So, the 1999/2000 average price forecast is only slightly higher than last month, at a comparatively low \$4.50-\$5.00 per bushel.

The slowdown in domestic soybean crushing buoyed soybean meal prices at \$154 per short ton in December, or about \$8 higher than a year earlier. A shortfall in India's expected soybean meal exports and concerns for prospective South American supplies have also recently buttressed meal prices. Despite these circumstances, U.S. exports of soybean meal have not been particularly strong this year. Higher U.S. prices are one reason, and the slippage of the euro versus the U.S. dollar further raises costs for European importers. Another contributing factor may be that the protein content of U.S. meal has been diminished by adverse weather last summer.

USDA lowered its soybean meal export forecast this month to 7.1 million short tons. As of January 6, cumulative export shipments were slightly ahead of last year's pace but total commitments (including outstanding sales) were down 11 percent. U.S. soybean meal sales to China have been nonexistent and EU purchases are down more than 90 percent. This year, both markets are relying

more heavily on meal supplies from domestically crushed oilseeds, and rapeseed in particular.

Strong growth in the fall quarter raised USDA's forecast of domestic meal disappearance 150,000 short tons this month to 31.15 million. However, the outlook in the last three quarters is not as bright, and the 1999/2000 total would be just 1.6 percent above 1998/99. USDA reported that, as of December 1, the U.S. hogs and pigs inventory was down 4 percent from a year earlier and 2 percent from September 1. Signs for a quick turnaround are absent as hogs kept for breeding were down even more sharply, 7 percent from a year earlier. Sow farrowing intentions for this winter and next spring were down 3 percent and 5 percent, respectively.

The contraction in the hog herd and higher meal prices mean that U.S. soybean meal consumption (of which hogs account for nearly one-half) will expand slowly in 1999/2000. In addition, temperatures so far this winter have been very mild, which would tend to moderate U.S. feed consumption. The surge in pork supplies has weakened meat prices, which should moderate feed consumption by poultry. Poultry output is forecast to slow from 5.5-percent growth in 1998/99 to 4.5 percent this year.

While the price of soybean meal has firmed, pressure from competing oils continues to undermine the domestic soybean oil price. The December average slid to 15.3 cents per pound. Accordingly, USDA lowered its forecast of the 1999/2000 average oil price to 15.0-17.0 cents per pound. Soybean oil's share of total soybean processing value has fallen to less than one-third. With the world market flush with competing oil supplies, prospective U.S. soybean oil exports have sagged. USDA reduced the January forecast of 1999/2000 U.S. soybean oil exports by 50 million pounds to 1,750 million. Current U.S. export commitments are more than 800 million pounds less than a year ago. There is little potential for the domestic market to consume the surplus, either. Domestic disappearance is anticipated only 0.9 percent higher to 15,800 million pounds. Year ending stocks of soybean oil are expected to accumulate to around 2,105 million pounds, 38 percent above last year.

#### **Adverse Weather Cuts U.S. Minor Oilseeds Production**

Excessive moisture last spring hampered planting of minor oilseeds in the upper Midwest. Instead of an 11-percent intended increase in plantings, U.S. sunflowerseed acreage changed little from 1998's 3.6 million acres. While conditions improved in the summer, moisture problems returned later in the fall. Late frosts enabled crops to reach maturity but seed weights were diminished. Wet weather during flowering promoted head rot disease, which also damaged seed yields and quality. The national average yield fell to 1,262 pounds per acre, the poorest since 1995. U.S. sunflowerseed production, at 4,342 million pounds, dropped 18 percent from the bumper 1998 harvest.

With tighter seed supplies and very weak oil prices, sunflowerseed crushing in 1999/2000 is forecast to decline 300 million pounds to 2,295 million. Exports of sunflowerseed oil for 1999/2000 are forecast down to 750 million pounds. A

sharp drop in export sales to India this season will restrict domestic sunflowerseed oil production. Seed exports are also likely to decline to about 540 million pounds. Year ending seed stocks should moderate from the large 1998/99 carryover of 508 million pounds. While farm prices are likely to rise from less than \$7 per cwt last fall, much of the harvest has already been marketed. Farmers have already taken loan deficiency payments on 60 percent of 1999 sunflowerseed production.

Similarly, a wet spring caused U.S. canola acreage to fall 39,000 acres in 1999 to 1.076 million. Below-average yields limited production to 1,364 million pounds, which is down 12 percent from 1998. Domestic crushing of canola seed is expected to increase little from the 1998/99 volume of 1,533 million pounds. Seed imports are seen remaining close to the 684 million pounds of 1998/99, while exports and ending stocks are expected to shrink somewhat.

Last spring, flaxseed farmers intended to increase planted area 55 percent. However, they only managed to seed 387,000 acres for a 15-percent increase. Yields topped the 1998 record, producing 7.9 million bushels. The 1999 U.S. flaxseed harvest is the largest since 1986. The abundance of domestic production should limit forecast imports from Canada to 4.1 million bushels, which would be the smallest in 12 years. U.S. safflower acreage also fell in 1999 to 275,000 acres. But slightly better yields than the poor 1998 conditions limited the reduction in 1999 safflowerseed production (of 405 million pounds) to 2 percent.

#### **Rain Stabilizes Outlook for South American Soybean Production**

A series of showers in late December substantially improved soybean growing conditions in the northern half of Brazil. The showers have encouraged a modest amount of replanting of fields that had poor stands from the early dryness, although the time available for replanting is minimal. Rain has still been elusive in the southern states, but until recently, soil moisture was better there than in the northern and western states. More rain in the next 6 weeks is necessary to achieve normal yields. USDA forecast 1999/2000 Brazilian soybean area up 200,000 hectares this month to 13.1 million. But the adverse impacts of drier than average conditions and later than normal seeding are expected to trim yields this year, leaving the soybean production forecast for Brazil unchanged at 31.0 million metric tons.

The center of Argentina's soybean production region also benefited from ample rain in the last few weeks. While most soybean planting has been completed, moisture conditions have improved for seeding additional second-crop soybeans. USDA forecasts Argentine 1999/2000 soybean area up 0.2 million hectares this month, to 8.0 million. These changes push the 1999/2000 soybean production forecast to 19.0 million tons, although it is still down from the two previous harvests. Larger supplies are anticipated to raise Argentina's soybean crush and exports to 17.8 million and 3.0 million tons, respectively. Consequently, export forecasts of soybean meal and soybean oil were raised also, to 14.1 million and 3.1 million tons.

Better information on the extent of damage to the Indian rapeseed harvest led to a 0.9-million ton reduction in last season's crop estimate, to 4.9 million tons. The entire Indian rapeseed crop is domestically crushed to produce oil, so such a large decline better explains India's record vegetable oil imports in 1998/99. While the the current crop is expected to rebound to 5.7 million tons, the previous year's change also implies a lower yield potential, cutting the 1999/2000 increase by 0.3 million tons. Domestic oilseed production by India is still projected down nearly 1 million tons from 1998/99.

### **Global Supply Glut Pressures Vegetable Oil Prices**

In late December, India's government announced it would raise import tariffs on refined edible oils from 16.5 percent to 27.5 percent. Tariffs on crude oil imports were left unchanged at 16.5 percent, although this rate is now restricted to processors and excludes traders. Import tariffs on oilseeds remain at a prohibitive 40 percent. The intent of the change was to encourage greater use of oil refining capacity in India. The government has been under pressure to support product prices for Indian oilseed farmers and processors.

However, it is not likely that Indian vegetable oil imports will radically decline. USDA forecasts 1999/2000 Indian imports of palm, soybean, and sunflower oil (in thousand metric tons) at 2,300 (versus 2,476 in 1998/99), 750 (830), and 200 (241), respectively. Importers probably will work down stocks brought in prior to the duty change and substitute more crude oil imports (including soybean, sunflowerseed, and rapeseed oils) for refined oils, such as palm olein. The majority of India's oil imports consist of Malaysian palm olein.

It has become difficult to protect domestic processing industries from imports as cheap vegetable oil prices are unlikely to strengthen soon. Even with the increased tariff, the current import price for palm olein is about 40 percent below year-ago levels. Global carryover stocks of vegetable oil from 1998/99 are a record 8 million tons. Global vegetable oil supplies for 1999/2000 are forecast up 0.18 million tons this month to a record 93.6 million. This would be 5 percent higher than in 1998/99. The latest forecast is mostly based on higher expected output of Argentine soybean oil, Malaysian palm oil, and Russian sunflowerseed oil. These offset production declines in rapeseed oil (India), soybean oil (U.S., Korea, and Russia), and cottonseed oil (China).

Based on favorable rainfall in the last 12 months, USDA projects an increase in 1999/2000 Malaysian palm oil production to 10.4 million tons, from last month's forecast of 10.2 million. Accordingly, Malaysian palm oil exports were forecast up 0.1 million tons to 8.65 million, with the remainder increasing domestic stocks.

The next release of the *Oil Crops Outlook* is scheduled at 4:00 p.m. ET Monday, February 14, 2000. The report may be accessed at <http://usda.mannlib.cornell.edu/> or via the ERS website at <http://www.econ.ag.gov>.

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**Table 1--Soybeans: U.S. supply and disappearance**

Year begin. Sept. 1	Supply				Disappearance				
	Beg. stocks	Im- ports	Produc- tion	Total	Crush	Ex- ports	Seed, feed, residual	Total	End. stocks
----- Million bushels -----									
1997/98	132	5	2,689	2,826	1,597	873	156	2,626	200
1998/99 1/	200	3	2,741	2,944	1,590	801	205	2,596	348
1999/00 2/	348	3	2,643	2,994	1,605	865	159	2,629	365

1/ Estimated. 2/ Forecast.

**Table 2--Soybean meal: U.S. supply and disappearance**

Year begin. Oct. 1	Supply				Disappearance			
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total	End. stocks
-----1,000 short tons-----								
1997/98	210	56	38,176	38,443	28,895	9,329	38,225	218
1998/99 1/	218	100	37,792	38,110	30,662	7,117	37,780	330
1999/00 2/	330	50	38,120	38,500	31,150	7,100	38,250	250

1/ Estimated. 2/ Forecast.

**Table 3--Soybean oil: U.S. supply and disappearance**

Year begin. Oct. 1	Supply				Disappearance			
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total	End. stocks
----- Million pounds -----								
1997/98	1,520	60	18,143	19,723	15,262	3,079	18,341	1,382
1998/99 1/	1,382	82	18,081	19,546	15,655	2,372	18,027	1,520
1999/00 2/	1,520	80	18,055	19,655	15,800	1,750	17,550	2,105

1/ Estimated. 2/ Forecast.

**Table 4--Cottonseed: U.S. supply and disappearance**

Year begin. Aug. 1	Supply				Disappearance				
	Beg. stocks	Im- ports	Produc- tion	Total	Crush	Ex- ports	Other	Total	End. stocks
----- 1,000 Short tons-----									
1997/98	523	96	6,935	7,553	3,885	149	2,957	6,990	563
1998/99 1/	563	207	5,365	6,135	2,719	68	2,955	5,742	393
1999/00 2/	393	100	6,422	6,916	3,200	70	3,171	6,441	475

1/ Estimated. 2/ Forecast.

**Table 5--Cottonseed meal: U.S. supply and disappearance**

Year begin. Oct. 1	Supply				Disappearance			
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total	End. stocks
-----1,000 Short tons-----								
1997/98	26	0	1,769	1,795	1,598	109	1,705	88
1998/99 1/	88	0	1,232	1,320	1,175	121	1,295	24
1999/00 2/	24	0	1,440	1,464	1,315	115	1,430	34

1/ Estimated. 2/ Forecast.

**Table 6--Cottonseed oil: U.S. supply and disappearance**

Year begin. Oct. 1	Supply				Disappearance			
	Beg. stocks	Im- ports	Produc- tion	Total	Domestic	Ex- ports	Total	End. stocks
----- Million pounds-----								
1997/98	66	0.1	1,224	1,291	1,004	208	1,212	79
1998/99 1/	79	48.2	832	958	772	111	882	76
1999/00 2/	76	9.0	1,025	1,110	925	110	1,035	75

1/ Estimated. 2/ Forecast.

**Table 7--Peanuts: U.S. supply and disappearance**

Year begin. Oct. 1	Supply				Disappearance					
	Beg. stocks	Im- ports	Produc- tion	Total	Dom. Food	Crush	Seed& resid.	Ex- ports	Total	End. stocks
----- Million pounds -----										
1997/98	795	141	3,539	4,475	2,099	544	303	681	3,627	848
1998/99 1/	848	155	3,963	4,967	2,153	460	401	562	3,575	1,392
1999/00 2/	1,392	169	3,870	5,431	2,180	700	351	800	4,031	1,400

1/ Estimated. 2/ Forecast.



**Table 8--Oilseeds prices received by farmers, U.S.**

Marketing year	Soy- beans	Cotton- seed	Sun- flowers	Peanuts	Flaxseed
	\$/bu.	\$/ton	\$/cwt	Cents/lb	\$/bu.
1991/92	5.58	71.00	8.69	28.30	3.52
1992/93	5.56	97.50	9.74	30.00	4.12
1993/94	6.40	113.00	12.90	30.40	4.25
1994/95	5.48	101.00	10.70	28.90	4.63
1995/96	6.72	106.00	11.50	29.30	5.19
1996/97	7.35	126.00	11.70	28.10	6.37
1997/98	6.47	121.00	11.60	28.30	5.81
1998/99	4.93	123.00	10.60	28.40	5.05
1998/99					
September	5.25	113.00	11.50	29.90	5.09
October	5.18	120.00	10.80	29.00	4.87
November	5.39	133.00	10.70	24.60	4.97
December	5.37	138.00	11.00	27.20	5.00
January	5.32	139.00	11.40	NA	5.05
February	4.80	141.00	12.00	NA	5.05
March	4.61	NA	10.80	NA	4.94
April	4.63	NA	9.62	NA	4.93
May	4.50	NA	9.80	NA	4.89
June	4.44	NA	9.54	NA	4.38
July	4.19	NA	9.09	NA	4.40
August	4.39	70.00	8.28	NA	3.86
1999/2000					
September	4.57	72.00	8.41	27.00	4.00
October	4.47	89.00	6.77	25.40	3.76
November	4.45	94.00	6.85	23.90	3.66
December 1/	4.29	99.00	6.88	21.30	3.50

1/ Preliminary. NA = Not available.

**Table 9--Vegetable oil prices**

Marketing year	Soybean oil 2/	Cotton- seed oil 3/	Sun- flower oil 4/	Peanut oil 5/	Corn oil 6/
Cents/lb.					
1991/92	19.10	22.83	21.63	27.30	25.82
1992/93	21.40	30.07	25.37	27.40	20.90
1993/94	27.00	30.30	31.08	43.20	26.38
1994/95	27.51	29.23	28.10	44.30	26.47
1995/96	24.70	26.53	25.40	40.30	25.24
1996/97	22.50	25.58	22.64	43.70	24.05
1997/98	25.80	28.85	27.00	49.00	28.94
1998/99					
October	25.20	33.99	NA	45.40	29.46
November	25.20	34.16	NA	45.00	29.65
December	24.00	33.40	26.70	44.25	29.88
January	22.90	31.72	23.40	44.00	29.15
February	20.00	28.21	19.90	39.75	26.58
March	19.50	26.27	19.10	34.75	23.01
April	18.80	24.39	19.10	35.20	23.08
May	17.85	24.25	19.90	35.00	22.96
June	16.50	25.19	18.80	37.75	22.95
July	15.30	24.70	17.10	39.00	22.43
August	16.50	21.39	18.75	38.75	22.41
September	16.80	20.22	18.75	38.00	22.08
1999/2000					
October	16.08	20.15	17.78	40.40	21.97
November	15.63	19.69	17.91	41.00	21.96
December 1/	15.33	21.25	17.58	35.40	21.68

1/ Preliminary 2/ Decatur 3/ PPSY Greenwood MS  
4/ Minneapolis 5/ Southeast mills 6/ Chicago

Table 10--Oilseed meal prices

Marketing year	Soy-bean meal 2/	Cotton seed meal 3/	Sun-flower meal 4/	Peanut meal 5/	Linseed meal 4/
\$/Short ton					
1991/92	189.20	140.50	76.80	154.50	125.25
1992/93	193.75	161.78	89.00	172.90	133.60
1993/94	192.86	164.30	94.00	194.91	139.55
1994/95	162.55	112.02	62.70	128.94	95.85
1995/96	235.90	190.74	123.75	202.70	159.00
1996/97	262.00	192.00	110.60	232.00	158.75
1997/98	185.30	144.00	84.20	209.60	110.00
1998/99					
October	135.70	106.50	50.00	161.00	83.75
November	144.50	107.90	50.00	100.00	92.50
December	146.40	119.75	80.90	103.75	102.50
January	138.80	110.60	77.50	105.00	95.00
February	132.30	101.25	73.75	102.50	87.25
March	133.00	106.90	70.00	91.25	83.00
April	134.50	110.90	70.00	94.50	82.50
May	133.20	108.75	70.00	93.75	80.60
June	139.10	114.50	57.00	100.00	80.00
July	132.70	115.00	62.50	100.00	75.00
August	141.70	100.65	60.00	105.00	71.25
September	150.65	111.92	61.25	102.50	80.00
1999/2000					
October	153.57	111.83	63.75	98.00	89.38
November	154.71	112.00	65.00	103.00	119.50
December 1/	154.00	124.17	68.13	103.00	107.50

1/ Preliminary 2/ Hi-pro Decatur 3/ 41% Memphis 4/ Minneapolis 5/ 50% SE mills