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MARKET SNAPSHOT

SOYBEANS

Dec. 31, 2018

Executive Summary

Drivers for the soybean industry include Chinese exports, domestic demand and South America production.

- China has stepped away from U.S. purchases in the face of the trade dispute.
- Domestic demand remains strong on solid crush margins.
- Large South American crops are expected and could prove bearish to the market.

Profitability is currently below breakeven for many producers. Strong production and Chinese tariffs have sent futures and cash prices plummeting. Great yields provide moderate upside potential in some regions.

World Markets

The U.S.-China trade dispute continues to dominate the soybean market. It has caused profound impacts on trade flows, basis, carry in the futures market and storage decisions. It will likely remain a key market factor.

The window for U.S. soybean exports to China is closing. Brazil will likely start shipping soybeans by the end of January 2019. If China has enough soybeans in stocks or in transit, they may not purchase any U.S. soybeans regardless of the tariff level. As a result, the hope for better export prospects and higher use would not be realized in the 2018-19 marketing year.

Farm-level soybean prices weakened year over year on both large U.S. production and the U.S.-China trade dispute. The dispute has disproportionately impacted local prices in northern growing regions because soybeans from these regions are more exposed to the export market with much of the crop normally shipped to China via Pacific Northwest terminals.

Low soybean prices and high storage fees are prompting farmers to store as many soybeans on-farm as possible. This has forced elevators to walk a tightrope as they may increase prices to pull soybeans out of bins in the country. These moves can be risky with export prospects dampening the outlook for regional price appreciation this year.

Soybean trade with China has declined significantly relative to last year. Chinese export commitments are down 95 percent year over year. Other countries have taken up some of the slack with export commitments to countries other than China increasing by more than 50 percent over last year. However, they are a drop in the bucket compared to Chinese shipments. The net effect is a 30 percent reduction in total export commitments year over year.

US Market

Soybean domestic demand remains robust due to elevated crush margins, thanks to cheap soybeans. Soybean meal and oil exports will be key in the first quarter of 2019. Exports of both soy products increased in the first half of 2018 due to Argentina's drought-hit production. However, the rapid pace is widely expected to slow in 2019, amid renewed competition from Argentina.

Weather has also been a complicating factor for the U.S. soybean harvest. While much of the soybean crop is out of the fields, some pockets of the country still have unharvested soybeans that may remain in the field. The impact could be felt in local markets.

Now that U.S. soybean production is largely set, the focus turns to South American production. Brazil is projected to have an enormous soybean crop, due to more acres in production and excellent weather. The USDA projects Brazil's soybean production to reach 122 million metric tons (MT), and Argentina's production to come in at 55.5 million MT. That would be Argentina's third largest on record, and significantly higher than last year's 37.8 million MT production. First quarter 2019 will provide significant information about the size of the South American crop and harvest timing.

Additional Information

Northwest FCS Business Management Center
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Agricultural Marketing Resource Center
www.agmrc.org/renewable_energy

Energy Information Administration
www.eia.doe.gov

The National Biodiesel Board
www.biodiesel.org

USDA Economic Research Service
www.ers.usda.gov/topics/crops/soybeans-oil-crops

USDA World Agricultural Supply and Demand Estimates
www.usda.gov/oce/commodity/wasde/latest.pdf

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This report is written in collaboration with **Tanner Ehmke** at **CoBank's Knowledge Exchange**, a knowledge-sharing initiative designed to provide strategic insights about trends, structural change and policy directives within the key rural industries served by the bank. It draws on the expertise that exists within CoBank and the rest of the Farm Credit System, the broad perspectives of outside consultants and academics and the first-hand knowledge and experience of its customers. The CoBank Knowledge Exchange's overriding aim is to enhance and inform its own and its customers' understanding of emerging business trends, risks and opportunities. For a list of reports prepared by CoBank's Knowledge Exchange Division, see the Knowledge Exchange tab at www.CoBank.com.

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