

January 12, 2017

Soybean Oil Yield Forecast at 11.60 Pounds per Bushel for 2016/17

Soy Complex Market Factors

Today's report was somewhat bullish, though with massive crops forecast, it is hard to believe the fundamental picture will tighten significantly. The U.S. crop is now projected at 4.307 billion bushels or 117.21 million metric tons (MMT), while Brazil's crop might be a record 104 MMT. USDA adjustments to the balance sheet were mainly to production, with harvested area reduced slightly and yield down 0.4 bushels per acre (bpa) to 52.1 bpa. Ending stocks are now projected at 420 million bushels.

The soybean market, however, will continue to receive support from demand. China's imports remain strong, perhaps bolstered by uncertainty over the future administration and its trade policies. Changes to trade policies between China and the U.S. could have huge implications in this market: China currently imports 3 billion bushels of soybeans a year from all sources, while the U.S. exports approximately 2 billion bushels a year.

High soybean meal demand has helped support strong crush levels. USDA raised soybean meal production by 200,000 short tons (ST), while soybean oil production rose 100 million pounds. The relative challenges of soybean meal storage influence the crush pace and thus soybean oil production. However, changes in the biofuel mandate for 2018 could make soybean oil more of a driver of the market. Some 6.2 billion pounds of soybean oil may be used for biodiesel this marketing year. October soybean oil use for biodiesel was almost 30 percent higher than the year prior. Currently, soybean oil represents half of the feedstocks used for biodiesel.

Forecast soybean oil yield for 2016/17 has risen slightly to 11.60 pounds per bushel from the December forecast but is still down slightly from the 2015/16 yield of 11.64 pounds per bushel.

All in all, the soybean market may most likely be in for a rollercoaster ride. There is a large supply paired to strong demand and a weather market in South America. The market will continue to focus on whether rains are too heavy or too light, though in general the weather now seems close to ideal.

Geopolitics will also be a main focus this crop year. There is uncertainty about the new U.S. administration, while Argentina has announced changes in its soybean export policy. The Argentine government will cut its soybean export tax to 18 percent by 2020, reducing the tax 0.5 percentage points per month in 2018 and 2019. This will most likely support higher production.

Soy oil basis values are finally coming under pressure as a result of strong meal demand and the

Soy Complex Highlights

- 2016/17 U.S. soybean ending stocks drop to 420 million bushels
- Brazil's soybean crop projected at 104 MMT
- U.S. soybean oil output up 100 million pounds for 2016/17

World Soybeans

	<u>Beginning</u> <u>Stocks</u>	<u>Production</u>	<u>Imports</u>	<u>Domestic</u> <u>Use</u>	<u>Exports</u>	<u>Ending</u> <u>Stocks</u>	<u>Stocks-to-</u> <u>Use</u>
Brazil	(Million Metric Tons)						
2015/16	19.50	96.50	0.41	43.40	54.38	18.63	19.1%
2016/17	18.63	104.00	0.35	44.10	59.50	19.38	18.7%
Argentina							
2015/16	31.92	56.80	0.68	47.52	9.92	31.95	55.6%
2016/17	31.95	57.00	1.00	49.15	9.00	31.80	54.7%
China							
2015/16	17.01	11.79	83.23	95.00	0.11	16.91	17.8%
2016/17	16.91	12.90	86.50	100.80	0.15	14.86	14.7%
World							
2015/16	78.05	315.53	133.31	315.53	132.18	77.19	24.5%
2016/17	77.19	337.85	137.53	330.34	19.90	82.32	24.9%

typical seasonal lull in soy oil demand. In the heart of the Midwest, crude soy oil basis is around -100, near parity with basis in the West and weaker than the -25 or so seen in the East. Basis could continue weakening in coming weeks as biodiesel production weakens (relatively) in January and February.

For soy oil futures, pressure had come in the form of thin market trading over the holidays. After today's report, the Mar-17 contract traded up close to \$0.37 per pound before settling closer to \$0.36 per pound—just above near-term support. Resistance and support are now pegged around 50 points on either side of that line.

U.S. Soy Complex Supply and Demand

Soybeans	2014/15 Crop		2015/16 Crop		2016/17 Crop	
	Change from		Change from		Change from	
	January	December	January	December	January	December
<i>Million Bushels</i>						
Beginning Stocks	92		191		197	
Imports	33		24		25	-5
Production	3,927		3,926		4,307	-54
Total Supply	4,052		4,140		4,528	-60
Crushings	1,873		1,886		1,930	
Exports	1,842		1,936		2,050	
Seed Use	96		97		95	
Residual	50		25	+1	33	+1
Total Use	3,862		3,944	+1	4,108	
Ending Stocks	191		197		420	-60

Soybean Oil	2014/15 Crop		2015/16 Crop		2016/17 Crop	
	Change from		Change from		Change from	
	January	December	January	December	January	December
<i>Million Pounds</i>						
Beginning Stocks	1,165		1,855		1,687	
Imports	264		288		275	
Production	21,399		21,950		22,390	+100
Total Supply	22,828		24,093		24,352	+100
Domestic Use	18,959		20,166		20,550	
Biodiesel	5,039		5,670		6,200	
Food, Feed & other Industrial	13,920		14,496		14,350	
Exports	2,014		2,240		2,150	
Total Use	20,973		22,406		22,700	
Ending Stocks	1,855		1,687		1,652	+100

Soybean Meal	2014/15 Crop		2015/16 Crop		2016/17 Crop	
	Change from		Change from		Change from	
	January	December	January	December	January	December
<i>Thousand Short Tons</i>						
Beginning Stocks	250		260		264	
Imports	333		403		325	
Production	45,062		44,672		45,411	-200
Total Supply	45,645		45,335		46,000	-200
Domestic Use	32,277		33,108		34,100	
Exports	13,108		11,963		11,600	-200
Total Use	45,384		45,071		45,700	-200
Ending Stocks	260		264		300	

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