Q4 2023 OUTLOOK

Higher Soybean Prices Will Depend on Three Things

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SITUATION

Against a bearish backdrop, there are three stories for higher soybean prices: U.S. yields may yet prove disappointing, domestic crushing for renewable diesel and sustainable aviation fuel may surprise, and El Niño may reduce Brazil's yield.

BACKGROUND

The second flash drought of 2023 arrived during August, the most critical window for soybeans. While farmers in certain areas, particularly the eastern corn belt and the South, had enough moisture in this window for strong yields, most producers are highly uncertain of their soybean yields. Export demand also remains tepid, with the hope that crush demand will offset the export weakness. El Niño is typically associated with a more volatile growing season, and so far, 2023 to 2024 appears to be one of the most powerful El Niño patterns on record.

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Though the 2022/2023 marketing year ended with a flourish for soybean exports, the combination of high Brazilian production, a strong dollar, and poor river conditions in 2022 left exports at their weakest since the trade war lows of 2019.

The 400 million-bushel difference between the 2020/2021 and 2022/2023 marketing years is over 7% of total usage in 2022/2023 — potentially a $2/bu. or more difference in prices.

As we look at 2023/2024, we are seeing some of the same conditions as 12 months ago.

The second flash drought of the summer means that the Mississippi River is starting the marketing year at levels even lower than last year. Continued domestic macroeconomic strength has kept interest rates high, with the possibility of more increases, and this has kept the U.S. dollar and U.S. crop export prices high.

YIELD

While August weather clearly did no favors for soybean development and yield, and certain areas in the U.S. will have sharply reduced yield in 2023, there is no indication yet that yields will be catastrophically affected by the weather.

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I continue to believe that the final yield will be in the range of 47 bu./ac. to 50 bu./ac. Simply put, there was too much optimism in early August to think that final yields will be below 47 bu./ac. I do think that yields will decline, but not enough to result in $15 or higher soybean prices without other contributors.

DOMESTIC CRUSHING

The increase in domestic crushing demand is well documented and oft discussed. However, there has yet to be any change in policy regarding either the Renewable Fuel Standard (RFS) or Sustainable Aviation Fuel (SAF) that might concretely increase demand for fats and oils and therefore soybean crushing demand.

Currently, soybean crushing for the 2023/2024 marketing year is expected to increase a modest 5% over 2022/2023, short of the increase in domestic crushing capacity. There is continued discussion in Congress about the size of SAF tax credits, and a favorable decision would impact demand as soon as early 2024. But with the other fights in Congress looming, SAF tax credits are unlikely to be at the forefront.

EL NIÑO

The final factor might be the most likely to raise prices, though after the weather gyrations of 2023, it could also be the most stressful.

From a marketing perspective, growers that are farther north are likely to benefit from export demand shifting to the Pacific Northwest.

Historically, El Niño weather patterns result in reduced soybean yields in South America. With the growth in output in Brazil over the past 15 years, reductions in yield are felt ever more sharply in North American prices. However, the link between the level of sea temperatures in the fourth quarter and observed yields isn't linear.

From a marketing perspective, growers that are farther north are likely to benefit from export demand shifting to the Pacific Northwest. Those in the central and eastern corn belt are more likely to find greater benefits from storing until river conditions improve and potential El Niño effects are priced into the market. However, keep a careful eye on those decisions. Higher interest rates demand larger carries and basis improvements.