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Q2 2025 OUTLOOK

Know When to Hold 'Em

By John Newton, Ph.D.

Headed into the 2025 growing season, there are two big, unanswered questions for the soybean market:

1. How many acres will be planted?
2. How many U.S. soybeans will find a home in China?

The USDA projects that U.S. farmers will plant 84 million acres of soybeans.

The USDA's 2025 Agricultural Outlook Forum provided the first look at acreage, supply and demand estimates for the new-crop 2025/26 marketing year. As expected, given the relative strength in corn prices and weakness in soybean prices, the USDA projects that U.S. farmers will plant 84 million acres of soybeans, down 3 million acres from last year, and 94 million acres of corn, up 3.4 million acres from last year.

Similar sentiment percolated in the futures market during the spring crop insurance discovery period. The price ratio between new-crop soybean and corn prices fell to the lowest level in over a decade at 2.24, reflecting a spring soybean price of $10.54/bu. and a spring corn price of $4.70/bu.

For some farmers, however, soybean acreage decisions are locked in to maintain a rotation, and for others, especially in fringe areas of the corn belt, acres are far from certain. In the coming months, the market will move these acres higher or lower based on expected supply and demand conditions.[i]

For supply and demand, the USDA is currently penciling in several records:

- Supply: The U.S. average yield is projected at a record 53 bu./ac.
- Demand: Crushing is projected at 2.475 billion bushels.
- Demand: With record crushing, it follows that by-product use is also projected to be record high for soybean oil and meal.
- Demand: Biodiesel production is projected at a record 14 billion pounds, representing 45% of the total supply of soybean oil in 2025/26.

There is, however, a big "but" that is keeping a lid on soybean prices.

HOW MANY ACRES ARE NEEDED FOR CHINA?

It wasn't long ago that soybean exports topped 2 billion bushels a year. Many of those beans were destined for China. At one point, China's purchases represented nearly 60% of our annual soybean export volume, requiring millions of acres planted each year to meet this demand. Nearly one out of every three acres of soybeans planted were destined for China.

I calculate that just shy of 20 million U.S. acres will be needed to meet Chinese demand in the new crop year.

That is less certain today, and the USDA is currently projecting exports to remain relatively flat year over year at 1.865 billion bushels. Why is that?

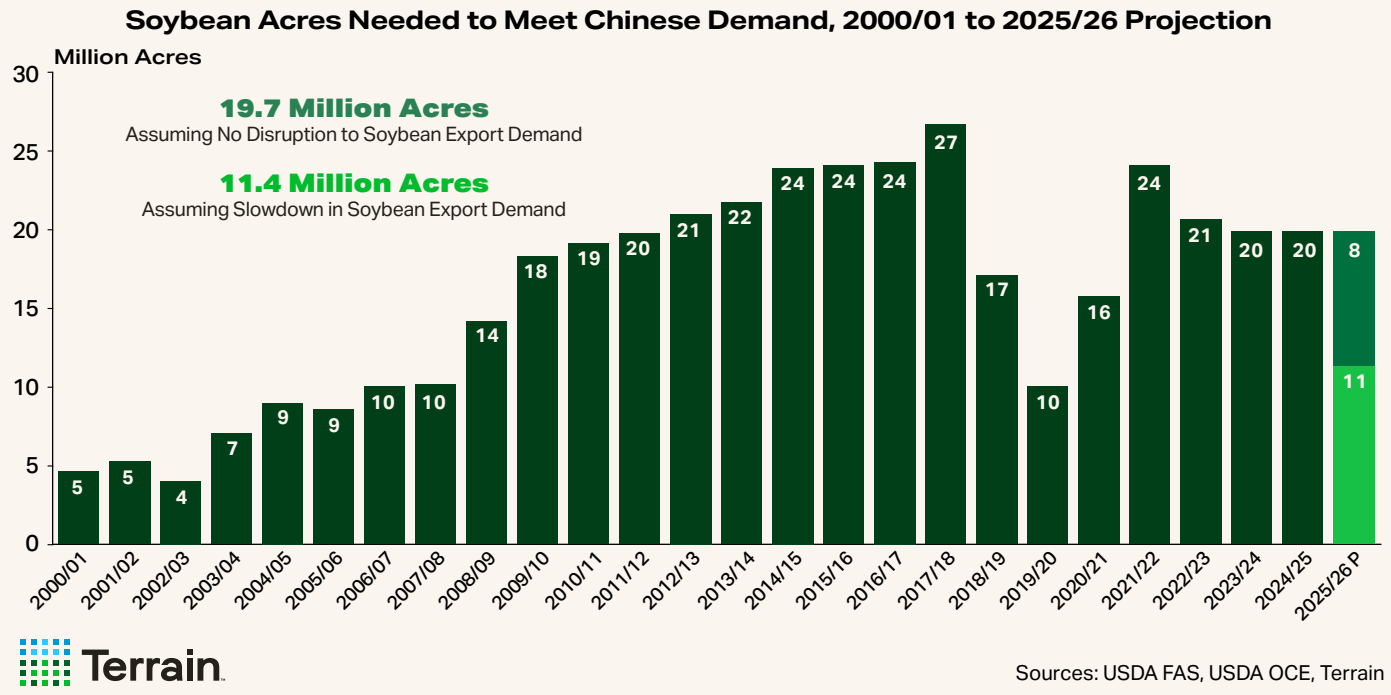
First, Brazilian production of soybeans continues to set new records each year, and a little more than a decade ago Brazil surpassed the U.S. as the largest shipper of soybeans to China. Second, China has been stockpiling soybeans. Going into the U.S. growing season, China is sitting on a record stocks-to-use ratio of 36%.

Based on the USDA's current yield, acreage and export projections, and given China's historical market share of U.S. exports, I calculate that just shy of 20 million U.S. acres will be needed to meet Chinese demand in the new crop year.

But what if China's demand slows to the market share it had in 2018 and 2019? If that were to occur, just over 11 million acres would be needed to meet Chinese demand. There could be approximately 8.4 million acres of soybeans planted this year that may or may not have a home in China — 10% of current acreage projections and nearly 440 million bushels.

Under this scenario, it's unlikely that crush could increase by an asymmetric amount to consume those

How Many Soybean Acres Do We Need?



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Sources: USDA FAS, USDA OCE, Terrain

bushels. Under this scenario, the USDA's $10/bu. price projection may be too rosy.

A BETTER SAFETY NET, FOR NOW

The partially good news for soybean farmers is their risk management tools are more robust going into the 2025 planting season than they were six or seven years ago.

Should prices fall to lows experienced within the last decade, the farm safety net is better equipped to lend support for now.

Today, the benchmark and support prices for the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs — which pay out according to a farm's base acres — are higher for most crops than they were in 2018. (Read more in a previous report from Terrain.) The ARC benchmark price guarantee is $12.17/bu., 26% higher than before the 2018 growing season. For farmers less concerned about yield risk, the PLC support level is $9.66/bu., up 15% from 2018.

Additionally, the spring crop insurance price used in traditional multiperil crop insurance products and crop insurance area-plan endorsement (such as the Supplemental Coverage Option or the Enhanced Coverage Option) is $10.54/bu.

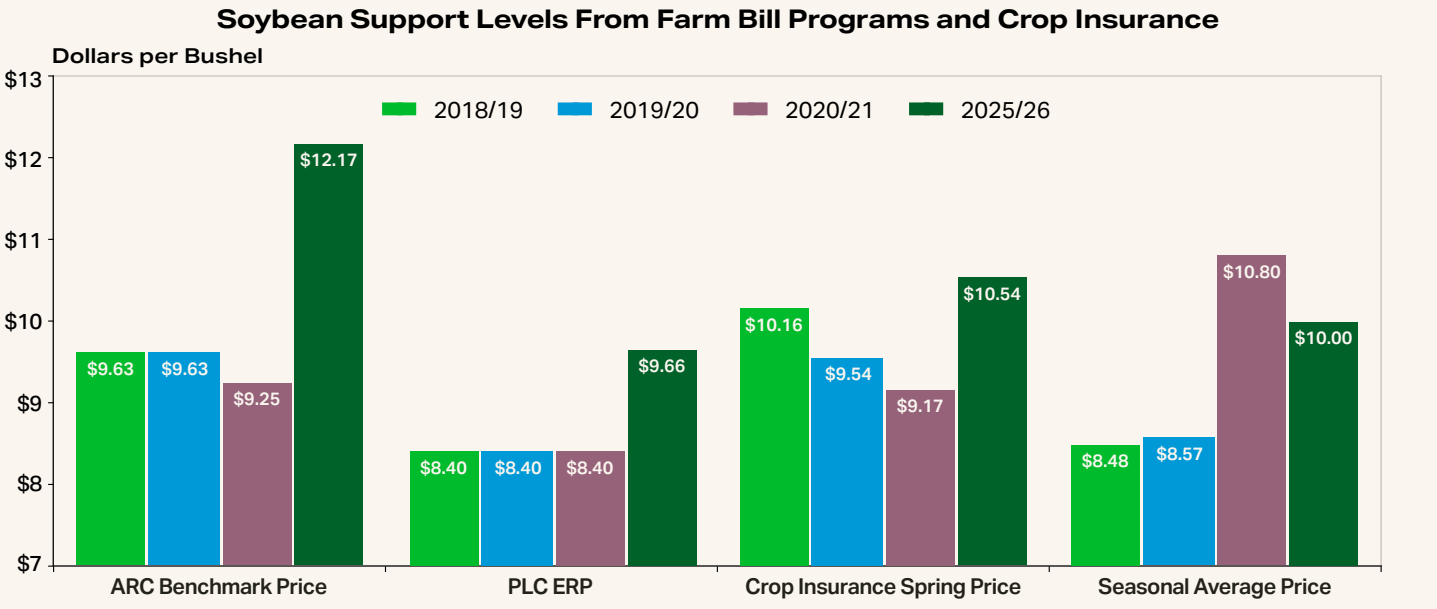
Should prices fall to lows experienced within the last decade, the farm safety net is better equipped to lend support for now. Moving forward, that's less certain, as the current one-year farm bill extension, which authorizes support from ARC and PLC, expires at the end of September.[ii]

KNOW WHEN TO HOLD 'EM

Astute observers of agricultural policy may have seen this language before:

"The Parties project that the trajectory of increases in the amounts of [...] agricultural goods [...] purchased and imported into China from the United States will continue in calendar years 2022 through 2025."

Risk Management Is Different This Time Around



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Sources: USDA RMA, USDA FSA, Terrain

For three consecutive years, China purchased more than $30 billion in U.S. agricultural products annually, contributing to a record-high U.S. net farm income in 2022. The purchases slowed in fiscal year (FY) 2024 to $26 billion and are projected to slow further in FY25 to $24 billion.

What if, however, the Phase 1 deal is dusted off, as recently suggested by the Chinese? While that appears to be a long way away from where we stand today, we all know things can change quickly. Hence, uncertainty remains the name of the game for soybeans in 2025.

For many farmers, two things are certain. One, on high-productivity ground, the corn-soybean rotation is good for soil health, and those acreage decisions have likely been made. In fringe areas of the corn belt, acreage decisions are more fluid. Two, you can't play poker without cards, or in this case, without more than 8 million acres of beans.

ENDNOTES

[i] The next update to acreage estimates will be the USDA's March 31, 2025, Prospective Plantings report.

[ii] ARC and PLC support for the 2025/26 crop year is unaffected by a farm bill expiring.

ABOUT THE AUTHOR

John Newton, Ph.D., is the Executive Head of Terrain. Guiding the team's endeavors, he has more than two decades of experience using data to address agriculture's challenges. John has a deep understanding of how governmental policy and risk management programs impact the financial outcomes of America's farming and ranching families, most recently serving as Republican Chief Economist for the U.S. Senate Committee on Agriculture, Nutrition & Forestry. He earned his Ph.D. in agricultural economics and master's degrees in applied economics and macroeconomics from the Ohio State University.

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