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Soy-Crop Bust Spurs China to Drain U.S. Bins: Commodities

By Jeff Wilson - May 8, 2012

U.S. soybean stockpiles are poised to drop to the lowest relative to consumption since at least 1965 after the worst drought in five decades decimated crops across South America, driving China to buy more from Midwest farmers.

Inventories will decline 20 percent to 172 million bushels (4.68 million metric tons) before next year's harvest in the U.S., the largest grower, according to the average of 31 analyst estimates compiled by Bloomberg. This year's 22 percent rally may extend another 8.9 percent by the end of June to $16 a bushel, according to Linn Group, a brokerage and researcher based in Chicago. Prices reached a record $16.3675 in 2008.

The U.S. Department of Agriculture cut its forecasts for the South American crop four times in as many months after predicting record supplies as recently as December. The estimates are scheduled to be updated May 10. Imports by China, where demand doubled since 2004, will advance to a record 55 million tons this year as farmers feed a hog herd expanding 4.4 percent to a record 690 million animals, USDA data show.

"Prices may top the 2008 peak if Chinese demand doesn't slow or there are any threats to the U.S. crop this summer," said Christopher Narayanan, the head of agricultural commodities research for Societe Generale in New York. "China's soybean imports have grown at a rate of more than 17 percent annually the last 10 years, and the biggest risk is that demand won't slow."

World Index

Soybeans traded on the Chicago Board of Trade led gains in the Standard & Poor's GSCI Spot Index of 24 commodities this year and reached a 45-month high of $15.125 on May 2. The GSCI advanced 0.7 percent since Dec. 30, as the MSCI All-Country World Index of equities rose 6.8 percent. Treasuries returned 0.4 percent, a Bank of America Corp. index shows.

Production across Brazil, Argentina, Paraguay, Uruguay and Bolivia will drop 16 percent this season, the most since a drought in 2009, according to Newedge USA Clearing, part of the second-biggest broker on U.S. exchanges. Craig Huss, the chief risk officer at Decatur, Illinois-based Archer Daniels Midland (ADM) Co., the world's largest grain processor, told analysts on a conference call May 1 that fewer South American exports would make it "difficult to buy beans going forward."

Before the 2013 harvest, U.S. reserves will be the equivalent of 2.6 percent of projected consumption of 3.363 billion bushels, said Roy Huckabay, an executive vice president at the Linn Group. The lowest stockpiles-to-use ratio was 4 percent in 1965, the earliest that government data is available, when production was 77 percent smaller than in 2011.

Smaller Inventory

The USDA probably will forecast on May 10 that global inventories will drop 23 percent to 52.96 million tons as of Oct. 1, the biggest pre-harvest slump in 16 years, according to the average of 18 analyst estimates compiled by Bloomberg.

Hedge funds are making their biggest bet on higher prices since at least June 2006, according to data from the Commodity Futures Trading Commission. They held a net-long position of 253,889 contracts as of May 1. Speculators were wagering on a retreat as recently as December, the data show.

The rally will spur farmers to plant more and importers to buy less, said Dale Durchholz, the senior market analyst for AgriVisor LLC, a consultant in Bloomington, Illinois. Production probably will rebound 21 percent in the year that starts Sept. 1 to a record 284.4 million tons, Memphis, Tennessee-based Informa Economics Inc. said in a report May 4. That would be the largest output gain in three years.

Financial Incentive

Shortages before the U.S. harvest starts in September mean futures for July delivery are trading at a premium of $1.41 a bushel to the March 2013 contract. That compares with 2 cents three months earlier, exchange data show.

"The market is telling U.S. livestock producers and Chinese buyers to slow purchases because there is little incentive to accumulate high-priced inventories," Durchholz said. "China already has enough on the books for post-harvest delivery to get them through two months of consumption. We will shift from perceived tightness to burdensome supplies very quickly if Mother Nature cooperates for U.S. growers."

Chinese farmers aren't keeping up with demand for soy-based animal feed, vegetable oil and biofuel in the world's most- populous nation, where the economy expanded 9.2 percent last year. The harvest was 13.5 million tons last year, down from a peak of 17.4 million in 2004. Consumption is up 36 percent in the past three years to an estimated 70.1 million tons, or 28 percent of global use, USDA data show.

The Asian nation bought 921,642 tons of U.S. soybeans in the four weeks ended April 26, almost three times the amount a year earlier, the USDA said May 3. About 7.12 million tons have been booked for shipment in the year that starts Sept. 1, 21 percent more than at this time last year.

Global Stockpiles

China has led an expansion of world soybean consumption that was almost four times the pace of population growth in the past decade, government data show. Global stockpiles will drop to about 51.4 days of use on Oct. 1, the lowest ratio in 15 years, according to Bill Gary, the president of Commodity Information Systems Inc. in Oklahoma City, who has worked in the grain market for a half century. Supplies may be tightest around March 2013, before the South American harvests, he said.

U.S. farmers probably will increase production by about 5.2 percent to 3.214 billion bushels this year, according to the average estimate of 24 analysts surveyed by Bloomberg. That may not be enough to keep up with demand. The ratio of U.S soybean reserves to demand will fall to 4.1 percent, the lowest in 48 years, predicts Doane Advisory Services Co., a farm and food- company researcher based in St. Louis.

Profitable Corn

Corn, the biggest U.S. crop, is still more profitable to plant than soybeans. Farmers are expected to boost corn planting to 95.864 million acres this year, the most since 1937, the USDA said March 30. That may limit gains in soybean planting while boosting corn output by 7.7 percent to 14.395 billion bushels, according to the average estimate in the Bloomberg survey.

“We need a big crop in the U.S. to offset losses in South America this year,” said Bill Nelson, a senior economist at Doane Advisory Services who expects prices to approach $16 no later than August. “There is just no leeway when there are any crop problems. The anxiety has never been greater.”

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