IN THE MARKET

October 2021

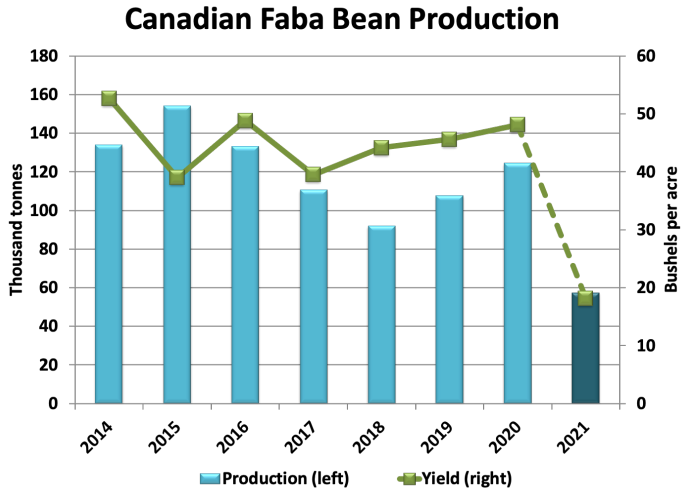
Faba Bean & Soybean Global Economic Outlook

Chuck Penner, LeftField Commodity Research

Normally, the factors influencing Canadian faba bean prices come from beyond our borders. Crops in France, the United Kingdom (U.K.), the Baltic countries, and especially Australia, set the tone for the market. On the demand side, Egypt is the dominant buyer and determines Canadian export potential.

This year, things are a bit different. The drought in Western Canada and the Northern United States (U.S.) has turned the market for protein crops on its head. As a result, offshore influences have largely become a non-issue for Canadian faba beans. In fact, crops in most key exporters are fairly favourable in 2021, but that is not showing up in Canadian prices.

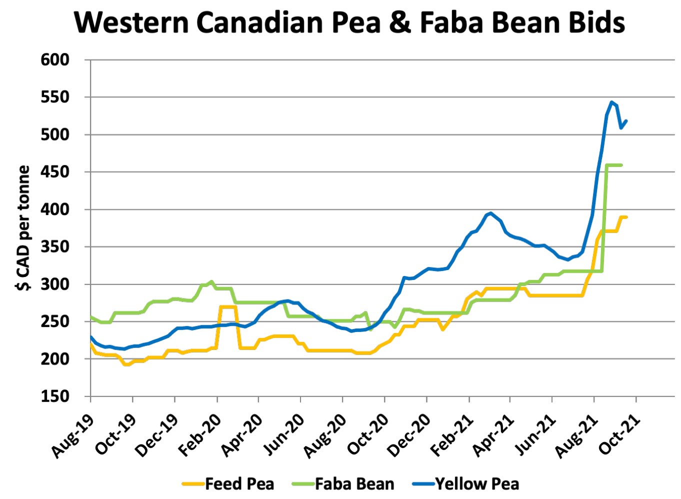
The latest estimate from Statistics Canada (StatCan), once Alberta harvested area is included, shows how badly the 2021 drought hit the faba bean crop. Even though seeded area was the second highest on record, up 28% from 2020, the crop was less than half of last year. According to StatCan, the 2021 faba bean yield dropped to 18.2 bushels per acre, 60% less than last year, and the crop fell to only 57,000 tonnes. We expect the final StatCan yield estimate will look a little different (maybe a bit better), but it is clear the crop is small.



Source: LeftField Commodity Research

On its own, the small Canadian faba crop still is not enough to cause the entire price reaction. Largely, that is because domestic consumption is not well enough established to require big volumes of faba beans. Demand from south of the border has become more developed, with the U.S. frequently the top customer for Canadian faba beans. Even so, the volumes needed are not huge (yet).

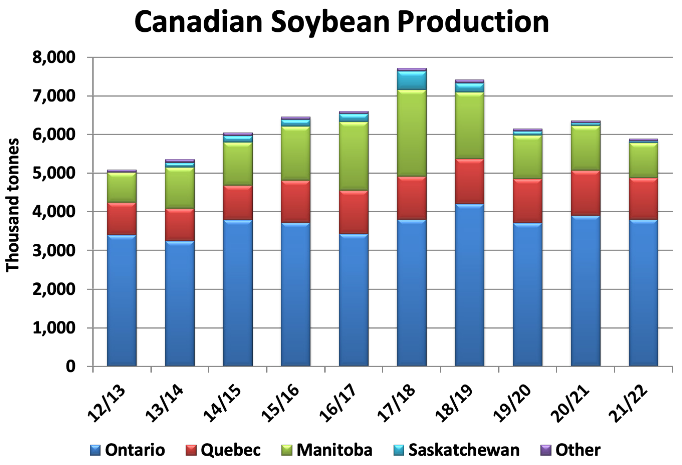
Rather than the Canadian faba bean crop itself, the main source of strength is the broader pulse market in North America. The drought has severely affected production of all pulses in Canada and the northern U.S., causing shortages of proteins at the same time as usage is booming. Prices for all pulses are at multi-year highs and, in some cases, have hit new records.



Source: LeftField Commodity Research

Faba beans have been caught up in the broad rally for pulses, as the rising tide lifts all boats. Whether it is for use in feed, pet foods, or fractionation, faba beans are in demand, causing prices to spike. Bids at several buyers have moved above $12.00 per bushel for both tannin and white fabas. As long as the rest of the pulse market stays supported, faba beans will continue to command these high prices.

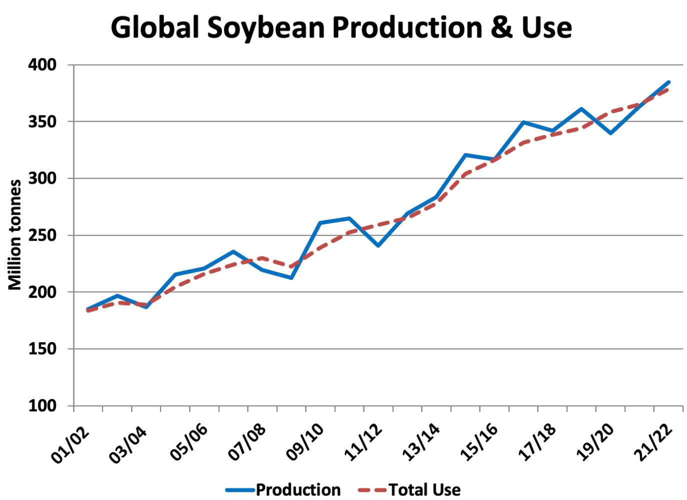
Unlike faba beans, the soybean story is international rather than Canadian. At this point in the year, the harvest is just getting underway in parts of the U.S. and Western Canada. The latest production estimates from StatCan showed the 2021 Canadian crop at 5.9 million (M) tonnes, down 7% from last year, but the declines were not spread out evenly. Soybean production in Western Canada was estimated down 23%, dropping below a million tonnes for the first time since 2012/13, while the eastern crop was only 4% lower than last year (and could rise further).



Source: Statistics Canada

While the smaller Canadian crop may have a few local effects, it is the situation beyond our borders that is more important to the outlook. From a global perspective, the United States Department of Agriculture (USDA) is forecasting that total production in 2021/22 would be a new record of 384 M tonnes, up 21 M tonnes from last year. That is slightly more than total usage of 378 M tonnes. Keep in mind that soybean consumption is trending steadily higher and record crops are needed each year just to keep up with the growth in usage.

For the past two years, global soybean production has fallen behind consumption, causing ending stocks to shrink. If 2021/22 plays out as the USDA is suggesting and the global crop is larger than consumption, ending stocks will start to turn higher again. It would not be a big jump, though, as the gap between production and use for 2021/22 is quite narrow.



Source: United States Department of Agriculture

The U.S. soybean crop is getting closer to the bin and there is less uncertainty about yields, with the USDA forecasting a 6% increase in the 2021 crop. Meanwhile, estimates of exports and domestic crush have been pared back, allowing U.S. ending stocks to edge higher. It is certainly not heavy, however, and the forecast for U.S. supplies at the end of 2021/22 is only 185 M bushels, far below the extreme highs of two to three years ago.

More of the focus is now shifting to the South American crop, with planting just getting started in parts of Brazil. There are already forecasts of another increase in the crop, although that is based on more seeded area, with yield numbers a far-off consideration.

China dominates the demand side of the soybean outlook and there is plenty of uncertainty about that market. The USDA is forecasting China will consume another five million tonnes of soybeans in 2021/22 and import an extra two million tonnes. That said, there are concerns about the size of the Chinese hog herd and ideas of a larger domestic corn crop. Things can change considerably over the next few months.

Futures markets for soybeans, meal, and oil are all facing some downward momentum. Even so, the difference between supply and demand is still very narrow and only small changes in either portion of the outlook would have an oversized effect on prices.