



South America's Time to Shine

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Key Points:

- **Fueled by a year of drought and dwindling stocks, expectations loom large for a record South American soybean crop in 2013. Current estimates project that South American soybean output will exceed the previous record by 9 percent.**
- **Together, Brazil and Argentina account for 90 percent of South America's soybean production, half of world production, and 60 percent of world soy exports. This increasing concentration has elevated the importance of the current growing season.**
- **The size of the South American crop is likely to have significant implications for the U.S. in 2013. A large crop could limit U.S. soybean acreage expansion and soybean exports during the first half of the year, while a disappointing South American season would have the opposite impact on the U.S.**
- **Given current estimates, a downward revision to South American production is more likely than an upward adjustment. Should the crop disappoint, we estimate that the market could sustain a 10-12 MMT reduction to current Argentina/Brazil output estimates without causing a return to significant price rationing and excessive volatility.**
- **However, should the South American soybean harvest meet or exceed current estimates, the persistence of record low U.S. stocks and competition for U.S. planted acreage will limit downside price movements through Spring 2013.**
- **Weather poses the greatest risk for the South American soybean crop, but other related concerns abound. These include yield drag resulting from record plantings, insufficient storage capacity, truck transport constraints, and bottlenecks at port facilities.**

High Expectations

After a year defined by diminished corn and soybean crops and extreme market volatility, the global grain industry has now turned its attention to South America. Both South and North America suffered severe droughts in 2012, and as a result struggled to keep up with corn and soybean demand during the 2011/12 season. In fact, world soybean consumption far exceeded global production in 2011/12 and world corn consumption is set to outpace production in 2012/13. These fundamentals have driven prices to new highs; and market participants are now keenly focused on South America to solve the riddle of just how tight supplies will be in 2013.