

# Soy 2020 – Round 10

## Executive Summary

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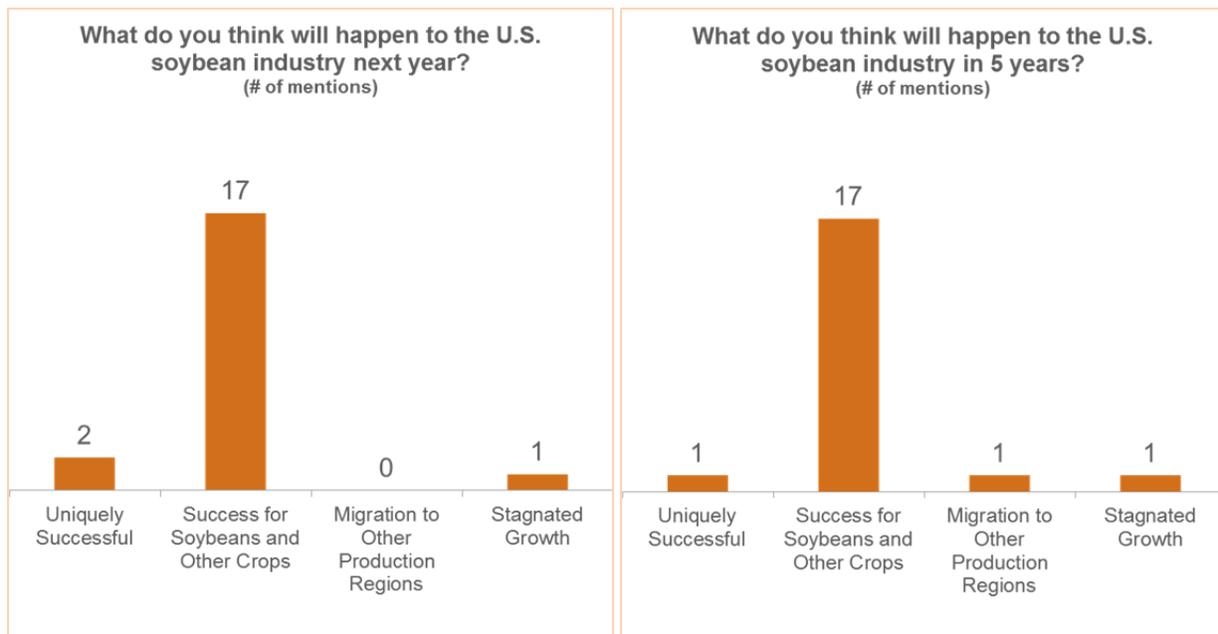
## EXECUTIVE SUMMARY

The United States soybean industry continues to shift due to varying market factors. Domestic and international market dynamics are creating both challenges and opportunities that will continue to have a significant impact on the soybean industry.

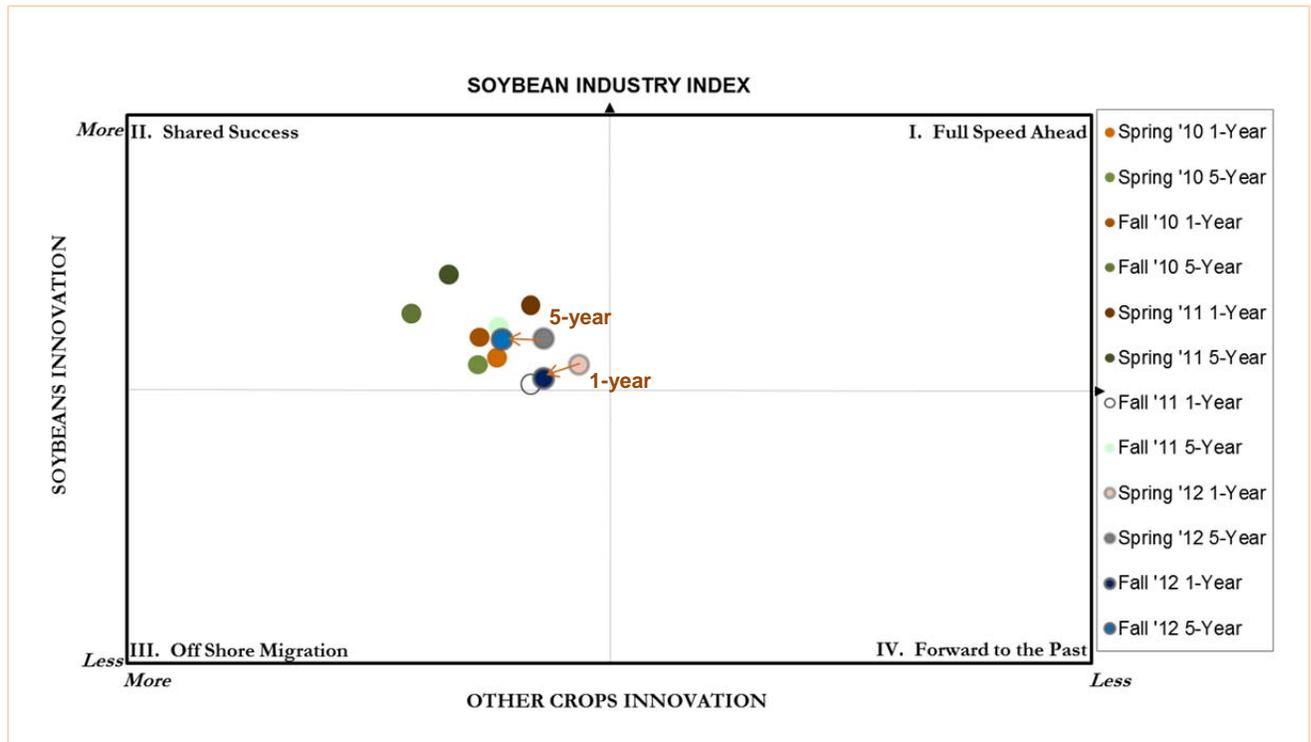
The Round 10 (Fall 2012) indicator tracking results specified a generally favorable environment for both soybeans and other crops. Participants continue to be optimistic about the soybean industry in both the short- and long-terms.

Participants cited a number of factors and issues that will play a significant role in the short- and long-term outlooks. However, the key factor as indicated by many experts is the anticipated market normalization and recovery following the 2012 drought and its effects on the industry chain.

For Round 10, a total of 20 experts were interviewed. Experts were asked at a high level how they felt about the soybean industry for both 1- and 5-year projection periods. 85% of the respondents believe soy will share success with corn and other crops for both 1-year and 5-year projections:



When asked about the soybean industry at a more granular level – questions pertaining to each participant’s specific area of expertise – the results reflect the expert’s overall opinion that soybeans would continue to share success with other crops for the next several years. In general, experts continue to be relatively optimistic about the U.S. soybean industry but less so than they were in Round 9, which consequently shifted the indicator tracker deeper into Quadrant II (Shared Success):



The factors below represent the largest positive (more) (+) and negative (less) (-) impacts on this round's results:

**1-year Factors**

**Soy Axis –**

**Status of Renewable Fuels (+):** An upward shift in optimism for renewable fuels is primarily driven by increased confidence that soybean feedstock prices will decrease while the price of biodiesel will increase in the near term. In the next year, experts generally believe that the renewable fuels sector will benefit from decreasing feedstock prices and flattening costs as crude petroleum prices increase or remain somewhat consistent. Experts are also optimistic that rising petroleum diesel and biodiesel prices will benefit the industry.

**Value Chain Profitability (-):** The downward movement in this factor is driven by a decreased optimism for soybean farmer profitability in the near term. It is important to note that this does not equate to soybean farmers becoming un-profitable. It only reflects a decrease in experts' confidence that soybean farmer profitability will continue to increase or see the type of gains recorded in the previous round of this study. The recent drought plays a major role in experts' reasoning, as market normalization leads to

decreasing soy prices. In the next year, better growing weather will allow soy yields and supply of to return historical averages, which in turn lowers prices for farmers.

#### **Other Crops Axis –**

**Crop Acreage and Yields (+):** The upward movement in this factor is primarily driven by increased confidence in more planted acres and yields for corn. Again, the recent drought plays a major role in experts' reasoning here, as it dramatically decreased corn yields and caused supply shortages that have driven up corn prices. Consequently, these attractive corn prices will lead to more planted acres in the short term. Barring another major drought or widespread inclement weather issues in the next year, corn yields will increase to historical averages.

**Technology Adoption (-):** The downward movement in this factor is primarily driven by decreased optimism for farmer technology adoption in the short term. It is important to note that this does not equate to a direct decrease in technology adoption. It only reflects a decrease in experts' confidence that farmer technology adoption will continue to increase at the same rate as projected previously. Currently, there exists a high level of technology adoption among farmers. Consequently, there is little room to expect the same gains recorded in previous rounds. Furthermore, some farmers may be more conservative due to the 2012 drought, and experts believe that this will have some downward pressure on short-term technology adoption.

### **5-year Factors and Sub-factors**

#### **Soy Axis –**

**Crop Acreage and Yields (+):** The upward movement in the 5-year outlook for soy acreage and yields is driven by increased optimism that both soybean planted acres and yields will rise or remain consistent in the long term. Experts believe that the current high soy prices will entice farmers to plant more acres. Experts are also confident that the base demand for soy is strong enough for soybeans to remain an attractive alternative to corn in the long term. Furthermore, disease management issues and crop rotation from corn to soy will also help drive the increase in soy planted acres. Lastly, experts are confident that soy yields will improve due to biotechnology innovations.

**Value Chain Profitability (-):** The 5-year soybean outlook for value chain profitability is similar to the 1-year soybean outlook. The decrease in this factor does not equate to soybean farmers becoming un-profitable in the long term. It only reflects a decrease in experts' confidence that farmer profitability will continue to see that type of gains recorded in previous rounds of the study. As the market normalizes in the 5-year period, the current high soybean prices will eventually erode and stabilize. Lastly, some experts cited that soybean input costs, relative to corn, have increased faster than the increase in soy yields.

**Investment in Infrastructure (-):** The downward movement in this factor is driven by decreases across the board for investments in infrastructure, with the largest change coming from the public sector. This decrease is a function of the federal budget deficit and the fiscal cliff dramatically lowering experts' optimism for long term public investments in infrastructure.

#### **Other Crops Axis –**

**Crop Acreage and Yields (+):** The 5-year other crops outlook for acreage and yields is similar to the corresponding 1-year outlook. The upward movement in this factor is primarily driven by increased confidence in planted acres of corn in the long term. In the previous round, participants had decreased optimism for corn acres in the 5-year period, believing that corn would be overplanted and oversupplied. However, as the 2012 drought decimated corn yields and kept prices higher than expected, experts are again confident that high prices will continue to make corn attractive to producers. Experts are also optimistic that corn demand will continue to expand in the next 5 years. Some experts also believe that the increase in ethanol-gasoline blends from E10 to E15 will be an important demand driver. This projected increase in demand for corn will lead to higher prices, which will entice producers to plant more corn acres.

**Value Chain Profitability (+):** Participants have increased optimism for other crops value chain profitability in the long term. Experts specifically showed increased optimism for corn and other crop processor profitability. Processor profitability and margins will normalize as the industry recovers from the 2012 drought. Barring any major weather issues, yields will return to typical levels which consequently increase overall supply and decrease input costs for processors.

**Technology Adoption (+):** Experts express optimism that new technologies and seed varieties will be developed and adopted in the 5-year period. Farmer access to technology will increase at a decreasing cost in the long term. Overall profitability will be a key factor for technology adoption amongst farmers. The rising costs of production will require increasing efficiencies achieved through technology adoption. Farmers will need to find new ways to achieve efficient and profitable operations, and, as a newer generation of producers takes over, they are expected to bring better production and management strategies.

**Investment in Infrastructure (-):** The change in this factor is virtually identical to the 5-year soy axis for infrastructure investment above. The downward movement is driven by decreases across the board for investments in infrastructure, with the largest change coming from the public sector. The decrease is a function of the federal budget deficit and the fiscal cliff dramatically lowering experts' optimism for long term public investments in infrastructure.