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By Jeff Wilson

Feb. 7 (Bloomberg) -- Dry weather and shipping delays in South America are boosting demand for soybeans from the U.S., the world's largest grower and exporter, and producing the tightest inventories in almost five decades.

Stockpiles will shrink to a nine-year low of 130 million bushels on Aug. 31, before the next U.S. harvest, according to the average of 31 analyst estimates in a Bloomberg survey.
Reserves will total 4.2 percent of demand, the lowest since 1965, U.S. Department of Agriculture data show. The USDA will update its estimates tomorrow.

The drop in supplies will help send Chicago futures up 9 percent to an average $16.16 a bushel through August, Morgan Stanley said in a Feb. 4 report. Prices have climbed 9.5 percent from a six-month low on Jan. 11 as drought dimmed prospects for the crop in Argentina and rain left delivery backlogs at Brazilian ports. The countries are the largest shippers after the U.S., where export sales are up 27 percent from a year earlier, driven by demand from China, the biggest buyer.

"The U.S. does not have the supply to sell more soybeans overseas," said Dan Cekander, the director of grain-market analysis at Newedge in Chicago, who predicted a rally to $16.50.
"Price rationing will have to occur. It may take six months before world supplies are more balanced with demand."

Soybeans are up 5 percent this year on the Chicago Board of Trade to $14.805, while the Standard & Poor's GSCI gauge of 24 commodities gained 4.8 percent and the MSCI All-Country World Index of equities climbed 4.7 percent. A Bank of America Corp.
index shows Treasuries lost 0.9 percent.

Argentina Cut

For a second straight month, the USDA probably will cut its forecast of production in Argentina to 52.9 million metric tons, compared with 54 million estimated in January, a Bloomberg survey of 23 analysts and traders showed. The country accounts for more than 44 percent of global exports of soybean meal fed to livestock and soy oil used for cooking and biofuel.

Most fields in Argentina got less than half of the normal moisture since Jan. 1, which makes conditions drier than a drought in 2012 that cut production to a three-year low of 40.1 million tons, according to T-Storm Weather LLC in Chicago.

In Brazil, excess rain in Mato Grosso, the biggest soy- growing state, disrupted inland crop deliveries and may extend the wait time to 50 days for ships to load exports, Hamburg- based researcher Oil World said Feb. 5. There were 135 ships loading or waiting to load soybeans, animal feed or corn on Feb.
5 at the five major Brazilian ports, according to SA Commodities in Santos, Brazil. A year earlier, 67 were waiting.

Record Crop

Harvests in March and April from Argentina and Brazil still are forecast to be the highest ever, with combined output jumping 28 percent from a year earlier, according to the USDA's January estimate. Brazilian farmers probably will collect 82.7 million tons, the most ever, up from 66.5 million a year earlier, according to the average estimate in a Bloomberg survey of 23 analysts.

Since Jan. 28, the premium that exporters paid for U.S. soybeans delivered to New Orleans terminals is down 30 percent, a sign that overseas demand for U.S. supplies may be slowing, said Christopher Narayanan, the head of agricultural commodity research in New York at Societe Generale SA. Yesterday, the CBOT contract for March delivery was $1.515 more expensive than November futures, the highest premium since Dec. 17, which may slow demand for supplies left from last year's crop, he said.

"Until we see an improvement in the export premiums, the market may move sideways," Narayanan said. Chinese buyers waiting for North American harvests to arrive in September and October "raises the risks for subdued U.S. exports once South American crops begin hitting the market," he said.

Rising Exports

U.S. exporters sold 33.4 million tons of soybeans as of Jan. 31, up from 26.26 million in the same period a year earlier, including an 11 percent jump in purchases by China to 20.2 million, government data show. Sales already are equal to 91 percent of the USDA's forecast for the marketing year, with almost seven months left in the season that ends Aug. 31.

Sales of soybean meal reached 6.54 million tons in the first 17 weeks of the marketing year, up 43 percent from the same period in 2012, according to the USDA. The Philippines, the biggest buyer this year, increased purchases by 46 percent to 730,800 tons. Soybean-oil sales jumped to 733,000 tons from 199,000 a year earlier, with China buying 164,000, compared with none in the previous period.

China Pork

China has expanded imports of soybeans almost six-fold since 2000 as rising incomes and population boosted meat consumption, fueling more demand for crops to feed livestock. The country is the world's largest pork consumer and will raise 690 million pigs this year, or 61 percent of the world total, according to USDA forecasts.

Demand has yet to slow for U.S. soybeans because of the supply risks in South America. Shipping and harvest delays in Brazil may force importers to buy more from the U.S., and an extension of Argentina's drought may limit output to 47 million tons, or 13 percent less than the USDA's forecast, Christina McGlone-Hahn, a Deutsche Bank AG analyst in New York, said in a Feb. 1 report.

"Either South America has to ship 12 percent more soybeans from March to August than they have ever done before, or prices have to rise to choke off Chinese demand for U.S. soybeans," said Doug Jackson, a vice president at INTL FCStone Inc. in West Des Moines, Iowa, who has been a grain-industry analyst since 1974. "South America can have an infinite supply of soybeans, but if they can't get them to the world market, it doesn't matter."

Pod Growth

February and March are the key months for Argentine crops as plants develop pods and fill them with beans, said Steve Nicholson, the chief economist for International Food Products Corp., a distributor and adviser on food ingredients in Fenton, Missouri. A crop of less than 50 million tons will increase demand for U.S. soybean meal and vegetable oil, he said.

Argentine farmers also have been slow to sell crops to processors or exporters as inflation accelerates and the peso loses value against the dollar, Nicholson said. Argentine supermarkets, including local units of Wal-Mart Stores Inc., Carrefour SA and Cencosud SA, agreed to freeze prices for 60 days amid an inflation rate that economists say jumped 26 percent last year, twice the official government estimate.

While the official rate for the peso fell 13 percent in the past 12 months to 4.986 per dollar yesterday, the currency in the blue chip-swap, an operation used to buy and swap assets traded in Argentine pesos and U.S. dollars, has weakened 39 percent to 7.6948 per dollar, according to data compiled by Bloomberg.

Hindering Sales

"The Argentina inflation and currency problems may be a bigger hindrance to exports than just the dry weather,"
Nicholson said. "The only way to convince China and other buyers that the U.S. is out of soybeans is with higher prices."

In Brazil, most crop deliveries travel as far as 2,000 kilometers (1,243 miles) by truck to reach ports, making them more prone to weather delays than those in the U.S., where barge and rail networks handle most bulk shipments to export hubs, said Michael Cordonnier, president of Soybean & Corn Advisor, a crop forecaster and researcher in Hinsdale, Illinois.

Shipping soybeans to China takes about 56 days from Mato Grosso, the biggest growing state, compared with 32 days from the U.S. Midwest via the Mississippi River, Cordonnier said. The transport cost to southern ports from Mato Grosso can reach $150 a ton, compared with $35 from Iowa to New Orleans, he said.

Processing Profit

Demand in the U.S. for soy-based meal and oil also is improving, compounding the erosion of inventories after the worst drought since the 1930s reduced domestic production for a third straight year. The Washington-based National Oilseed Processors Association said Jan. 14 that companies used 9.7 percent more soybeans in the four months ending Dec. 31, compared with a year earlier.

Archer-Daniels-Midland Co., the largest grain processor, said on Feb. 5 that operating profit in its oilseed unit more than doubled to $411 million in the fiscal second quarter that ended Dec. 31, as plants ran at record capacity. The company, based in Decatur, Illinois, will continue to benefit from improved soy margins, Kenneth Zaslow, an analyst at BMO Capital Markets in New York, said in a Feb. 6 report. He has an outperform rating on ADM.

The estimated profit to process soybeans in Illinois is
$1.47 a bushel, up 77 percent from a year earlier, USDA data show. Based on futures prices, crush margins will double from year-earlier levels in the second quarter and triple in the third quarter, Zaslow said.

'Behind Curve'

"Inventory levels are really tight right now," and there remains a risk that U.S. harvests in September and October may not be sufficient to revive supplies, said Kelly Wiesbrock, a portfolio manager helping to manage $1.3 billion of assets for Harvest Capital Strategies, a San Francisco-based hedge fund.

As of Jan. 29, the U.S. Drought Monitor classified 51 percent of nine Midwest states with soil-moisture levels below
20 percent of normal, including some at zero, with water shortages and crop damage likely. The region produces most of the nation's soybeans. A year earlier, 20 percent was in drought.

“We’re still behind the curve on moisture levels and a lot of guys are saying we’re setting up for another drought,” said Wiesbrock, who grew up on a farm in Illinois, where his brothers, father and grandfather still grow corn and soybeans on
3,000 acres. “We may get off to a good start and have trend- line yields and they’d be less tight, but you don’t rebuild inventories in one year and we don’t harvest until the end of the year.”

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