ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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PRICE PROSPECTS FOR SOYBEANS

SINCE EARLY AUGUST THE SOYBEAN MARKET HAS BEEN A DISASTER FOR PRODUCERS AND TRADERS who thought prices would go up. By mid-December, prices had dropped by \$2 a bushel from the August high, and were at their lowest level in three years and below production costs.

The severe market break was due to several factors. First, the runup from \$5 to \$6.50 in July and August was not justified by Russia's short grain crops. Her moderate short-fall in sunflower seed could easily be filled by either the U.S. or Brazil. Second, world production of competing oil seed crops, including Brazilian soybeans, Malaysian palm oil, Indian peanuts, Philippine copra, Canadian flaxseed, and olive oil are all larger than last year.

As a result, recent prices of U.S. soybean oil have been depressed to 16 cents a pound, half of those a year earlier and the lowest in three years. Also, prices for soybean meal have been 15 to 25 percent below a year earlier. Even at these low prices, 1975-76 exports of U.S. soybeans and oil and meal are projected by USDA economists to be only moderately above last year's low levels and well below exports in 1973-74.

The world and domestic demand for U.S. soybean meal is stronger than for soybean oil due to improved economic conditions, higher livestock prices, and increases in livestock feeding. However, the gains in the usage of soybean meal are not likely to be large. Livestock feeding will not build back quickly to 1973-74 levels, and U.S. soybean meal will face keen competition in world markets.

A third bearish factor on soybean prices was the large 1975 U.S. crop of 1.5 billion bushels and the record 1.7-billion bushel supply of soybeans for 1975-76. With the anticipated rates of crush and exports, this supply would add 140 to 240 million bushels to the already large carryover stocks. Current USDA projections of 1975-76 soybean usage are for a crush in the U.S. of 750 to 800 million bushels, a seed and feed usage of 81 million, and exports of 450 to 500 million--making a total usage 1,281 to 1,381 million bushels. Based on these estimates, carryover stocks of soybeans prior to the 1976 harvest would be 325 to 425 million bushels. The prospects of a large carryover and the question of who would own them, along with the world's abundance of vegetable oils, have been the overriding bearish influence on soybean prices since the 1975 harvest.

At the same time, high rates of soybean crush and exports from September through December indicate that carryover stocks may not be as large as current USDA projections indicate. Soybean crushings in the U.S. for the four months September through December will likely total 275 million bushels, compared to 237 million a year earlier and 249 million in 1973. The September-December soybean exports were 194 million bushels, compared to 156 million in 1974 and 178 million in 1973.

If these rates of crush and exports continue through the rest of the marketing year, soybean usage would about equal the 1.5 billion bushels produced in 1975. Carryover stocks of soybeans, then, would not seem burdensome--especially if the 1976 soybean acreage is reduced, as seems likely. This, along with an improving demand for soybean meal, could turn the soybean market around, raising the Illinois farm price to $4.75 a bushel or better.

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