



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

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SOYBEAN PRICES TOO HIGH TOO SOON?

THE PRICE OF 1978-CROP SOYBEANS HAS RALLIED ABOUT 50 CENTS PER BUSHEL since the crop report was released on August 10. In early August, the situation looked fundamentally bullish and sell-hold decisions were easy. The answer was to hold. However, the rapid rise in prices recently calls this strategy into question. There are two reasons: First, part of the anticipated rise has been realized, so that there is less room on the upside and greater risk of losing. Second, a continuation of high prices through the fall quarter of the year may reduce the rate of use so that supplies will be more than adequate.

The price of November soybeans, the best general measure of new crop prices, was about \$5.60 in January when the first planting intentions were announced. November soybeans rose to around \$6.50 in March and April, when the reduction in Brazilian production became known, and then rose to a peak of \$6.80 in early June as the U.S. planting season was delayed. The decline to \$6 was associated with excellent weather during the summer.

At present, the situation is one of an abundant but not burdensome supply. The crop was estimated at 1,765 million bushels on August 1. The carryover will be about 130 million. Seed, residual uses, and minimum carryover total about 185 million bushels, leaving 1,710 million for crush and export during the 1978-79 marketing year. The crush and export during 1977-78 will be about 1,635 million, up from 1,354 million in the shortage period of 1976-77 and up from 1,420 million bushels in 1975-76 when supplies were abundant.

Export demand will be strong during the first half of the marketing year. Brazil is virtually out of soybeans since the 1978 crop was short, and will provide little competition during the first half of our crop year. U.S. exports during the second half of the crop year will depend on the size of the 1979 Brazilian crop.

If the U.S. crop materializes as indicated on August 10, a crush of 975 million bushel and an export total of 735 million will be possible. The chances of exporting such an amount are quite good and will not be materially affected by price. The weakness of the dollar in relation to Japanese Yen and European currencies makes soybeans quite cheap in those countries.

A crush of 975 million bushels will produce 10.6 billion pounds of soybean oil and 23.2 million tons of soybean meal. The domestic use of soybean oil during the current year will be about 8.2 billion pounds, perhaps reaching 8.4 billion next year, leaving 2.2 billion available for export. This slight increase from the 2.1 billion figure for 1977-78 and should be accomplished.

Soybean meal exports during 1978-79 may total 6.4 million tons, leaving a domestic availability of 16.8 million. Disappearance during the current year will be about 16.3 million tons, up from 14.1 million in 1976-77.

Soybean oil prices may average 26 cents a pound during the year ahead. With oil at 26 cents, it takes \$170 per ton for meal to make soybeans worth \$6.50 per bushel at the Illinois farm level; and \$190 for \$7 soybeans.

During the 1977-78 crop year, the meal price has averaged \$163 a ton. However, the average price during October-December of 1977 was \$151. That relatively low price helped to develop a large usage base. If prices are high during the fall quarter of 1978, a small usage pattern may set in and could persist all year. The result could be more than a minimum carryover a year from now.

If soybean prices continue to rise and remain strong through the rest of 1978, the peak could be reached early and prices may decline in 1979.

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