



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801

May 9, 1979

SOYBEAN PRICES LOOKING FOR DIRECTION

SOYBEAN PRICES HAVE DEMONSTRATED a definite lack of direction during recent weeks. The market has been characterized by alternating days of ups and downs. Several factors have contributed to the present market situation.

The availability of large deliverable stocks of soybeans put some pressure on the May, 1979 future prices. The result was a widening of the May-July price spread, to about 19 cents. The market has now absorbed the rather large soybean deliveries, and the May-July spread should return to a normal range of 6 to 10 cents.

The latest USDA soybean balance sheet also contributed some bearish sentiment to the market. The report showed an increase in estimated soybean use for the year. It also recognized the likelihood that the size of the 1978 crop was underestimated by about 20 million bushels. The market had already accepted this possibility, but the "official" recognition was still somewhat bearish.

Farmers' intentions to increase soybean acreage by about 7.4 percent this spring has been another negative factor in the market. Again, an increase was anticipated, but the size of the increase was at the high end on the range of expectations. The delays in corn planting have also fueled expectations of an even-larger increase in soybean acreage. In fact, a review of the recent history of farmers' planting intentions and the actual planted acreages suggests that 1979 soybean plantings might exceed the April 1 intentions. The next USDA acreage estimate will be released on June 28.

The major bullish factor in the soybean market has been the rapid use rate for the 1978 crop. Exports continue to run well ahead of last year's pace. The USDA's estimate of 800 million bushels exported by the end of August now seems within reason. Soybean crushings from October, 1978 through March, 1979 were 11 percent greater than during the same period last year. Weekly reports indicate that the rapid pace is continuing. Exports of soybean meal and oil are running about 20 percent ahead of last year. The domestic consumption of soybean products has also been increasing, running about 3 percent ahead of last year.

The bottom line on the 1978-79 crop year is one of small, but probably not restrictive, carryover supplies. Whether the carryover stocks turn out to be somewhat

larger or smaller than the USDA's estimate of 140 million bushels is not as significant as the size of the 1979 crop.

With the April 1 planting intentions and assuming average yields, the 1979 soybean crop would be slightly over 1.9 billion bushels. We are currently using soybeans at an annual rate of nearly 1.9 billion bushels. The 1979-80 crop year is shaping up as one of tight supplies. Any problems during the planting and growing season might well result in further price strength.

In the meantime, the downside potential for soybean prices still appears to be slight. The prices of soybean meal and oil are not high in an historic context, inflation included. Furthermore, farmers have been ready sellers and do not own an unusually large percentage of the crop. Recent market behavior, particularly the rapid decline in open interest in soybean futures, suggests that price strength is still possible. However, a run-away market is not expected.

D. L. Good

D.L. Good, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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