



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

August 27, 1980

WILL SOYBEAN PRICES MOVE HIGHER?

THE PRODUCTION AND SUPPLY OF CORN AND SOYBEANS are both expected to be significantly smaller than a year ago. However, compared to August estimates of a year ago, the projected supplies of both corn and soybeans are unchanged. During the third week of August, December corn futures traded about 20 percent higher than a year ago. At the same time, November soybean futures were running only about 6 percent above the year-ago figures. Chicago cash corn prices were about 20 percent above the levels a year ago, while soybean prices were about 1 percent lower.

Unlike corn, soybean prices have not been able to hold the peak levels. Part of the reason is the general expectation that the prospects for soybean yields in the Corn Belt improved following August rains, more than compensating for yield deterioration in producing areas in the South. The years 1977 and 1979 are most often cited as examples of yield improvements resulting from August rains.

The USDA's September estimate of soybean production will reveal the extent of yield improvement. However, in the parts of the Corn Belt that were dry all summer, the August rains came later than in either 1977 or 1979. Also, July weather was much more severe than in either of those years; and there is a possibility that production prospects have not improved since August 1.

Another explanation for the relative weakness in soybean prices may be the rather bleak demand picture being painted for 1980-81. In the August 1 supply-demand estimates, the USDA projected a reduction of 4 percent in the consumption of U.S. soybeans during 1980-81. Domestic crush is expected to decline by 7 percent and exports, by nearly 2 percent. The USDA believes domestic soybean oil use will increase marginally, with a small reduction in exports. The estimates for the domestic consumption of soybean meal show a decline of 6 percent, while exports of soybean meal are expected to be 8 percent below the level recorded in 1979-80.

The weakness expected in the export market stems primarily from large supplies of soybeans in South America. This year's large crop in Brazil has not yet been marketed. When it is, the demand for U.S. soybean meal may decline.

The estimated drop in the domestic use of soybean meal reflects declining livestock numbers, particularly hogs. The rather small increase projected in the

domestic consumption of soybean oil reflects the expectation of larger imports of lower-priced palm oil. In addition, the consumption of all food fats and oils may be adversely affected by the current recession.

If the projections outlined here materialize, 1980-81 would be the first time in recent history that the consumption of U.S. soybeans has declined from the previous year in the face of abundant supplies.

The United States has had a history of under-estimating the world demand for soybeans. For example, record world production of competing oilseeds did not reduce U.S. exports in 1979-80. World deficiencies in protein feeding still abound. The consumption of edible oils is still showing a trend increase. In addition to potentially strong demand, the size of the 1981 oilseed crops outside of the United States is still unknown. The soybean crop in South America will be particularly important.

Current soybean prices seem to be low in relation to grain prices and to historic levels. The potential for further declines is small. Circumstances favor higher prices.

Darrel Good

Darrel Good, Extension Specialist, Prices and Outlook

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

Official Business
Penalty for private use, \$300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101

