WEEKLY OUTLOOK
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SOYBEAN PRICES COME UNDER PRESSURE

DURING THE WEEK ENDING SPETEMBER 26, SOYBEAN PRICES DROPPED nearly 60 cents per bushel. Futures prices declined sharply, and the country basis widened somewhat. The price decline was not percipitated by any apparent change in market fundamentals.

The basis for at least part of the decline may be that producers have been very ready sellers of their soybeans this fall. The harvest has progressed rapidly, and cash prices have been relatively high. Reports indicate that producers have been heavy sellers when cash prices approached $8 per bushel. The structure of the open interest on soybean futures tends to confirm this view. On August 31, the open interest for reporting short hedgers totaled 383 million bushels, an increase of 45 million bushels from July 31. A year ago, the open interest for the same category of traders was only 176.5 million bushels. The total open interest was 784.4 million bushels, 64 percent above August 31, 1979. If producer selling has been heavy, buyers may have covered most of their short-term needs. That situation may have set up the price decline of last week. Once the decline started, it probably was fueled by speculative selling.

LONGER-RUN OUTLOOK. To date, the pattern of prices for the 1980 soybean crop has been much like that for the 1976 crop. Like 1980, 1976 was a year of declining production because of reduced acreage and a dry growing season. The previous crop had been large, and prices had been low. Prices rose sharply in the summer of 1976, declined rapidly in September, and remained steady through November. During the first 3 months of the 1976 marketing year, soybean use remained high. It became apparent that supplies were not large enough to maintain that rate of use. Prices rose rapidly from December through April, reaching a top of about $10.50 per bushel. The price rise was enhanced by a short soybean crop in Brazil.

If the pattern for the 1980 crop continues to follow the one for 1976, prices may decline further this fall. After that, prices will be a function of demand, particularly for soybean meal. Although soybean oil prices currently are relatively low, only minimal price strength can be expected because of large stocks of soybean oil.

The domestic availability of soybean meal will be reduced compared to last year. The size of the reduction will depend on the export demand for soybeans and for soybean meal. Again, if we follow the 1976-77 pattern, soybean exports will be larger than the year before, and exports of soybean meal exports will be smaller. Using 1976-77 as the base, the availability of domestic soybean meal may total only 17.4 million tons, down nearly 9 percent from last year's use. What price for soybean meal would be required to cut consumption by 9 percent? Livestock numbers will be smaller, but prices will be higher. The supply of competing protein feeds will be smaller. Based on past relationships, soybean meal prices at Decatur, Illinois, project to about $270 per ton. The market price is currently well below that.

IMPLICATIONS. The current cash price of soybeans is not high by historical standards. Further declines may be possible through the harvest season. After the harvest, soybean use will determine the price direction. Weekly export rates point to larger exports than last year and a continued strong demand for soybean meal. So higher prices would be required to ration the smaller suppy of soybeans. After the first of the year, the size of the South American crop will become important.

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