



# WEEKLY OUTLOOK

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## SOYBEAN PRICES WILL REFLECT DEMAND

SOYBEAN PRICES HAVE BEEN EXTREMELY VOLATILE in recent weeks. The cash price of soybeans in central Illinois varied by more than one dollar per bushel during the month of September. In the futures market, prices moved the daily permissible limit on several occasions. On Friday, September 30, November futures closed at \$8.66 per bushel, \$1.02 below the contract high.

Much of the price volatility has been associated with supply uncertainty. The September Soybean Stocks Report revealed a carry-over supply that was about 64 million bushels less than expected. Early yield results, however, have been somewhat better than expected by producers in some areas. Confusion about total supply still exists. Some of the recent price fluctuations have also resulted from technical factors.

The fundamental question remains--are soybean and soybean product prices high enough to ration the available supply? Based on current estimates, the total supply of soybeans for the 1983-84 marketing year is 1.922 billion bushels. This supply consists of 387 million bushels of carry-over stocks and a 1983 harvest of 1.535 billion bushels. Assuming that a minimum level of carry-over stocks is 120 million bushels, the supply of soybeans available for use totals 1.802 billion bushels. Of this amount, about 90 million bushels will be accounted for by seed, feed, and residual uses. About 1.712 billion bushels of soybeans are available for domestic crush or export. During the 1982-83 marketing year, approximately 2.0 billion bushels were crushed or exported. Total soybean use, then, must be cut by 288 million bushels, or 14.4 percent from last year. In the short crop and high price years of 1974-75, 1976-77, and 1980-81, soybean use was cut 17.5 percent, 4.6 percent, and 12.8 percent respectively. The needed reduction in soybean use this year is large.

Available supplies will allow an average weekly use of 33 million bushels from September 1, 1983, through August 31, 1984. Typically, the rate of use is above average during the first part of the marketing year and below average during the last half, when the South American crop is harvested. During the first four weeks of the 1983-84 marketing year, weekly estimates for crush and export have averaged 32.5 million bushels.

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Although the rate of use early in the marketing year has not been large, there are a number of factors that suggest stronger demand. The rate of domestic crush has been relatively large, averaging almost 20 million bushels per week, yet the product basis remains relatively strong. The cash price of soybean meal at Decatur is running about \$4.50 per ton under the October futures, and the cash oil price is about three quarters of a cent per pound over October futures. At \$230 per ton, soybean meal is low priced, relative to corn. Livestock numbers are significantly higher than a year ago. Domestic soybean meal demand should be good. The current prices of soybean meal do not appear to be restricting the rate of use.

The cash price of soybean oil has declined about four cents per pound from the high of last week. Current estimates of world supplies of edible fats and oils suggest that the average rate of increase in world consumption will have to be cut in half this year. Almost all of that cut will come in soybean oil. Current prices are probably not high enough to force the needed substitution of other products for soybean oil.

Demand is clearly the key in determining the direction of soybean prices. The weekly rate of use should be watched closely to determine if the necessary rationing has occurred.

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