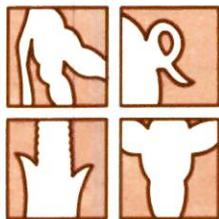




Cooperative
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University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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April 10, 1985

PRICING NEW CROP SOYBEANS

NEW CROP CORN PRICING was discussed last week. As a footnote to that discussion, we need to point out that the bids for harvest-delivered corn are reflecting a very strong basis in some areas. Producers may want to capture that basis, with a basis contract for example, even if new crop sales are not being made.

This week we turn to a discussion of new crop soybean prospects. First we look at production prospects. In February, producers indicated that they intended to plant 64.4 million acres of soybeans, 3.3 million less than in 1984. The reduction apparently reflected the low price of soybeans at that time. Several factors suggest that acreage could exceed intentions. A high rate of participation in the feed grain set-aside program will limit the switch from soybeans to corn. The lower cost of production for soybeans will also be important to many producers. Soybean acreage may be only slightly less than last year's 67.7 million acres. If 67 million acres are planted, about 65.7 million will be harvested.

Over the past nine years, the U.S. soybean yields have shown no trend change. Yields have tended to be either good or poor. In the good years (1977, 1978, 1979, 1981, and 1982), the U.S. yield averaged 30.8 bushels per acre. In the poor years (1976, 1980, and 1983), the U.S. yield averaged only 26.3 bushels per acre. This past year produced the only in-between yield of recent years, 28.2 bushels per acre.

If we assume a good growing season for 1985 and that acreage will be near last year's level, the 1985 crop projects to 2.02 billion bushels. At the other extreme, if planted acreage is as low as indicated in February and yields are poor, the crop projects to only 1.66 billion bushels. The 1984 crop totaled 1.86 billion bushels, and the average of the past seven years is 1.94 billion bushels. Until planting or growing conditions suggest otherwise, we will continue to think in terms of a 2 billion bushel crop.

Demand prospects for 1985-86 are even more difficult to anticipate than for corn. The demand for soybeans is derived from the demand for soybean oil and soybean meal. Historically, soybean meal has accounted for the majority of the

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value of soybeans. For the crop years 1978-79 through 1982-83, for example, soybean meal accounted for an average of 64.6 percent of the value of soybeans. In 1983-84, however, meal accounted for only 57 percent of the value of soybeans, and so far in 1984-85 meal has accounted for only 49 percent of soybean value.

The small production of vegetable oil crop on a world scale in 1983 resulted in the strength in soybean oil prices that continues today. Stagnant or declining world demand for protein feed along with the strong dollar have resulted in the current depressed soybean meal market. The soybean meal price so far in 1984-85 has averaged only 1.3 times the price of corn, compared to 1.6 last year and the five-year average of 1.8.

As production and stocks of vegetable oil increase in 1985, soybean oil prices will likely decline from the current level of 32 cents per pound. Declines to the extremely low levels (19 to 20 cents) of 1981-82 and 1982-83 are not expected, however. A season's average price of 26 to 27 cents appears reasonable.

If oil prices decline as expected, meal demand and prices will have to increase to prevent a decline in soybean prices. At 1.8 times the price of corn, soybean meal prices would average \$170 per ton, resulting in an average soybean price of about \$6.50 per bushel. At 1.6 times the price of corn, meal would average \$155 per ton, making soybeans worth about \$6.15 per bushel.

As long as crop prospects are good and the dollar remains strong, we would tend to use the lower price figure in evaluating forward pricing opportunities.

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