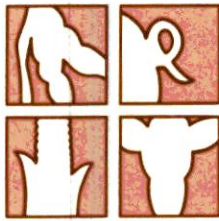




Cooperative
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University of Illinois
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WEEKLY OUTLOOK

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

October 9, 1985

SOYBEAN PRICE PROSPECTS

SOYBEAN PRICES HAVE DECLINED BY MORE THAN ONE DOLLAR per bushel since the seasonal peak in April. Prospects of a large crop and extremely poor export demand account for the decline. Although soybean acreage declined in 1985, excellent growing conditions resulted in prospects for a record average yield and a crop near 2.1 billion bushels. The USDA will release a revised production estimate on October 10. Total soybean exports for the year just ended, however, were estimated at 600 million bushels, the lowest in eight years. Soybean prices now appear to have bottomed out. Some additional pressure may be experienced before harvest is complete, but further declines will be limited by the reluctance of producers to sell when prices are at a significant discount to the Commodity Credit Corporation (CCC) loan rate of \$5.02 per bushel.

The magnitude of price recovery during the next two to three months will depend on the demand for soybean meal and soybean oil. Later in the year crop prospects in South America will become an important price factor.

Several factors point to some improvement in export demand in the immediate future. Because of the prolonged downtrend in prices, many importers have delayed the purchase of soybeans, oil, and meal. As of September 19, for example, sales of U.S. soybeans were about 20 million bushels less than sales a year ago. Sales of soybean meal for delivery during the year beginning October 1, 1985 were one-third less than sales a year ago. Soybean oil sales were practically nonexistent.

There is evidence that the export market for U.S. soybean products will be larger than the export market last year. Low protein meal prices have caused an increase in the worldwide consumption of meal. This trend is expected to continue for several months as is the decline in the availability of soybeans and meal from South America. *Oil World* magazine reports weather damage to oilseed crops in China, India, Canada, Eastern Europe, Spain, and Portugal. Malaysian production of palm oil this past summer was less than expected.

Although some of the current developments are favorable for the demand of soybean oil, limited price increases are expected. Stocks of vegetable oils worldwide are rebounding from the low levels of the past year. As of October 1 of the

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major vegetable oils, only palm oil stocks are expected to be smaller than stocks a year ago.

The burden for recovery in soybean prices, then, will fall to the soybean meal market. Soybean meal prices have already made a substantial recovery from the lows of early summer. While soybean and soybean oil prices have declined, cash soybean meal prices have increased \$25 per ton. The ratio of soybean meal prices to corn prices at Decatur, Illinois is now 1.6. This is closer to the long-term average than the extremely low level of the past year.

Based on current conditions, it seems unlikely that the ratio of soybean meal to corn prices will improve. Corn prices could be supported above the CCC loan level next summer. If the price ratio holds, soybean meal prices could improve another \$20 to \$25 per ton, adding 50 to 60 cents to the value of soybeans. July 1986 soybean futures are currently about 40 cents premium to November futures. Our conclusions are about the same as a month ago: some unexpected developments outside of the United States will be required to push soybean prices much above \$5.50 per bushel.

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