Cooperative Extension Service
University of Illinois at Urbana-Champaign

WEEKLY OUTLOOK

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December 11, 1985

SOYBEAN PRICES HINGE ON FARM BILL

A DECLINE IN SOYBEAN PRICES DURING NOVEMBER has been common in recent years. In four of the five years from 1980 through 1984, soybean futures declined from the first to the third week of November. The decline ranged from 30 cents to $1.00 per bushel.

The same pattern was followed in 1985. March soybean futures closed at $5.44 on November 5 and at $4.92 on November 25. The decline in cash prices was less severe, about 30 cents per bushel. The decline this year was associated with a proposal to change the provisions of the government program for the 1985 crop of soybeans. That proposal, included in the Senate version of the farm bill, would give soybean producers a direct cash payment as an alternative to using the Commodity Credit Corporation (CCC) loan program. The proposed payment is $35 per acre or $1.00 per bushel--depending on which compensation is higher. This payment is attractive enough that many producers will probably forgo the loan program and accept the direct payment if it is offered. This action would eliminate the loan price as a floor in the market.

By December 6, March soybean futures had regained about one-half of the decline, closing at $5.16 per bushel. The rebound was associated with statements by the administration that it would not support a farm bill containing changes for 1985 crops.

The farm bill issue will continue to be the most important factor in the soybean market until the question is resolved. The House-Senate conference committee began deliberations last week but made little progress. It may be after the first of the year before this issue is addressed. Odds now seem to favor no change in the provisions of the program for the 1985 crop.

No change in the program would result in a continued high rate of soybean entries into the CCC loan program. Such activity could result in an increase of 30 cents in prices because the market would have to compete with the loan program.

Other factors will also be important for prices over the next several weeks. Weather conditions in Brazil are one of those factors. Dry weather in the southern producing regions has caused significant delays in planting. Such delays could result in fewer acres, lower yields, or a late harvest next spring.

The rate of use of soybean products, particularly of soybean meal, will be important. A continued high rate of use would cause lower carryover stocks than currently estimated, but the impact on prices would be limited. Carryover stocks will still be record large.

The price for the 1986 crop of soybeans and, to a lesser extent, the 1985 crop will be influenced by the 1986 loan rate established in the new farm bill and by the level of soybean acreage in 1986. It seems likely that the loan rate for the 1986 crop will be lowered, perhaps by as much as 50 cents per bushel. This action would initially put additional downward pressure on 1986 crop futures.

If soybean stocks are to be reduced in 1986-87, it is important that soybean acreage not increase. Acreage will be influenced by the acreage reduction requirements for feedgrains, wheat, and cotton. It is likely that set-aside requirements will be increased for these crops. But participation in the programs for these crops will probably remain high because of the potentially large deficiency payments. The USDA is scheduled to release a *Prospective Plantings* report on February 18.

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