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SOYBEAN PRICES MOVE HIGHER

SOYBEAN PRICES HAVE ADVANCED SHARPLY since mid-October. The cash price bid to farmers in central Illinois, for example, was near the Commodity Credit Corporation (CCC) loan rate of $4.56 on October 15. On November 14, that price was about $4.95. November futures increased 31 cents per bushel during that period. The deferred futures contracts, however, were not as strong. January futures were up 22 cents and July futures increased by only 11 cents. The November futures contract was priced 1 cent higher than the January contract on November 14.

Soybean product prices did not advance as much as soybean prices. The price of 44 percent protein meal at Decatur, Illinois, increased by $5 per ton, while the price of soybean oil increased by less than 1 cent per pound. While soybean prices advanced by 39 cents per bushel, the value of the products increased by only 23 cents per bushel.

The strength in cash soybean prices reflects the recent increase in the rate of soybean use and a slow rate of selling by producers. Soybean exports during the last week of October and first week of November averaged 30.5 million bushels per week, three times the average rate of the previous eight weeks. During those same two weeks, the National Soybean Processors Association estimated that the domestic soybean crush averaged 22.4 million bushels, 25 percent higher than the average of the previous eight weeks.

Even though soybean prices are well above the CCC loan rate, entries into the loan program continue to be large, reported at almost 20 million bushels for the first week of November. Farmers are reluctant to sell as long as prices are increasing and the loan provides a source of cash.

Deferred futures contracts have not strengthened as much as cash prices because of the overall supply and demand picture for soybeans. As reported last week, new USDA figures still point to an increase in soybean stocks by the end of the marketing year.

Further advances in soybean prices should be limited by several factors. Large supplies of competing products will probably continue to keep the prices of both soybean meal and soybean oil in check. If so, narrowing crush margins will result in some decline in soybean demand. In addition, producers are expected to increase the rate of selling as the cash price approaches $5 per bushel. Furthermore, CCC stocks of soybeans will be available to the market if cash prices reach the resale level. The resale price is $5.25 for November, $5.31 for December, and $5.36 for January.

While substantially higher prices are not expected, an immediate decline is not likely. Export demand for U.S. soybeans and soybean meal should remain brisk because of the lack of competition from South America. The 1986 soybean crop in South America totaled 782 million bushels, 17 percent less than the 1985 harvest. Rapid exports from South America have depleted the available supply. Planting of the crop to be harvested in 1987 is now underway. A good growing season would result in a 1987 crop in excess of 900 million bushels.

The development of the South American crop may be one of the most important market factors for the next several weeks. A good crop could put renewed pressure on U.S. soybean prices later in the year, with a retreat back to the CCC loan rate possible. Weather problems could provide additional support, at least up to the CCC resale value.

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