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BEANS BOUNCE BACK

From September 1986 through March 1987, the average monthly price of soybeans in central Illinois ranged from $4.67 to $4.80 per bushel, with an average price of $4.77. On a daily basis, prices ranged from about $4.50 to a high of $5.00. Beginning in early April, soybean prices turned higher, rallying about 40 cents per bushel by the first of May. Cash prices in central Illinois exceeded $5.20 per bushel.

This recent rally reflects a number of generally unexpected developments. A firmer tone was established with the revelation in the USDA's March 31 *Prospective Plantings* report that producers intended to plant only 56.9 million acres of soybeans in 1987. A rain-delayed harvest in South America has supported U.S. soybean exports longer than expected. Domestic soybean meal demand remains very strong, at least partially supported by high livestock feeding margins. Soybean prices have been supported by the general rise in commodity prices associated with indications of renewed inflationary pressure. The rally has been fueled by a slow rate of selling on the part of producers. Prices above $5.00 per bushel have not generated as much selling as anticipated. Finally, a generally dry spring in the major producing areas of the U.S. has raised concern about yield prospects for 1987.

Price prospects for soybeans depend upon several short- and long-term factors. For the short-term, the rate of soybean use during the last four months of 1987 will be important. Carryover stocks as of September 1 are expected to be a record 610 million bushels. However, a reduction of that estimate to under 600 million bushels would give the market a psychological boost.

Obviously, weather conditions during the growing season will be important. Even though it is very early in the season, the market is already quite sensitive to weather forecasts. The anticipation of some adverse growing conditions is already reflected in the market.

The level of Commodity Credit Corporation (CCC) stocks will also be important. As of mid-April, the CCC owned about 375 million bushels of soybeans. Another 310 million bushels were under regular 9-month loan. Because CCC stocks account for a larger share of the carryover, the release price becomes important. A short crop and good demand situation for the year ahead could keep the market price above the release price. The current formula for determining the release price is the loan rate times 105 percent plus carrying charge. Based on that formula, the release price for May through August is $5.58 per bushel. Beginning in September, the release price will be determined by the 1987 loan rate and schedule of carrying charges.

Over the long-term, soybean product prices will adjust to market fundamentals. Soybean meal prices will be influenced by both the price of competing feeds and livestock feeding profitability. In that context, current soybean meal prices are quite high. During the first eight months of the 1986-87 marketing year, soybean meal prices at Decatur have averaged nearly three times the price of corn in central Illinois. The "typical" relationship is for meal prices to average 1.8 times the price of corn. Prospects for lower livestock prices could trim domestic meal demand and prices, even though demand outside the United States will most likely remain strong.

Soybean oil remains in surplus with stocks at the end of March reaching a record 2.35 billion pounds. Currently, oil prices are well below their long-term average, which reflects the surplus. Oil shortages tend to occur periodically, but only two have occurred in the past 20 years. Continued improvement in oil prices is likely, but a major rally is not.

It is difficult to reach a conclusion from the preceding list of price-directing factors. Soybean prices are trending higher and the market psychology is bullish. Further rallies, particularly those based on weather conditions, are certainly possible. However, with a normal crop some price concerns are evident, particularly for soybean meal. A prudent marketing strategy suggests forward pricing some of the 1987 crop on current and prospective summer rallies.

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