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WEEKLY OUTLOOK

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

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SOYBEAN MEAL DEMAND

The cash price of soybeans increased about 80 cents per bushel from early March to early June: an increase of about 17 percent. During that 3-month period, soybean oil prices increased only 7 percent, while soybean meal prices were up nearly 28 percent. Cash meal prices at Decatur, Illinois, were approaching $190 per ton.

Soybean meal prices have been relatively high all season. The average price of soybean meal at Decatur has been about 3 times the price of corn (per ton) in central Illinois. That ratio has not averaged over 2 to 1 since 1981-82. Over the past four seasons, the ratio of soybean meal to corn prices has averaged only 1.7 to 1.

The high price of soybean meal in relation to corn partially reflects the extremely low price of corn. Huge surpluses, along with the availability of commodity certificates, have allowed corn prices to move well below the Commodity Credit Corporation (CCC) loan rate of $1.84 per bushel. From September 1986 through May 1987 the price of corn in central Illinois has averaged about $1.48 per bushel. The recent rally has brought the price up to between $1.75 and $1.80.

Relatively high soybean meal prices also reflects the high rate of soybean meal use so far this season. The domestic crush of soybeans during the first 8 months of the marketing year was a record 818 million bushels. The crush was up nearly 13 percent from a year ago and about 5 percent above the pace of the record crush year of 1979-80. The recent large crush is in response to soybean meal demand. The domestic use and export of soybean meal from September 1986 through April 1987 totaled 19.28 million tons. Use is up 2 million tons, or nearly 12 percent, from a year ago and up nearly 4 percent from the same period in 1979-80.

Through the third week of May, soybean meal exports were running about 25 percent ahead of last year's pace. The increases were distributed fairly evenly among the major importing countries. The increases reflected the small Brazilian harvest of 1986, some delays in harvesting the 1987 crop, and a small increase in soybean meal use outside the United States.

Domestic use of soybean meal is up about 6 percent from a year ago in spite of meal prices that are averaging 5 percent higher than a year ago. The number of cattle and hogs fed is also lower than a year ago. The higher rate of use apparently stems from the higher rates of feeding per animal and the 7-percent increase in poultry production. High livestock prices and low feed grain prices have generated large feeding margins, particularly for hogs.

What next? Soybean meal prices are expected to remain firm for the time being. Cash prices at Decatur could challenge the $200 mark. Soybean meal prices will be supported by the general bullishness in the soybean market that is associated with the dry weather. The surplus of soybean oil means that oil prices cannot be pushed much higher. Therefore, high soybean prices must be supported by high soybean meal prices. As long as livestock prices remain high and feed grain prices remain low, there will be little resistance to high soybean meal prices.

Beyond the next several weeks, soybean meal prices will be determined by 1987 crop prospects and livestock prices. An increase in soybean acreage and near normal crop development would allow soybean prices, and therefore soybean meal prices, to decline. A decline in livestock prices to the levels predicted by the futures market would reduce feeding margins considerably reducing the demand for soybean meal.

The June 30 *Hogs and Pigs* report will give some indication of future hog price levels. The July 9 *Crop Production* report will contain a revised estimate of soybean acreage. Although there is no immediate pressure for lower meal prices, prices are quite vulnerable to an improvement in crop prospects.

Darrel Good

Issued by Darrel Good
Extension Specialist
Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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