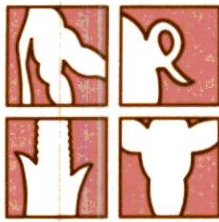




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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SOYBEAN PRICES--WHAT IS THE POTENTIAL?

The 1987 soybean harvest is rapidly picking up pace as early varieties mature in the Corn Belt. There are a number of factors that make soybean price prospects a little more optimistic than a year ago. The 1986-87 marketing year is ending with a flurry of exports. Through August 27, weekly export inspections totaled 765 million bushels. With 4 days left in the marketing year, it appears that shipments will exceed 770 million bushels: 30 million more than a year ago and 30 million bushels above the USDA projection made earlier in the month.

As a result of the large exports, carryover stocks will be smaller than expected. Those stocks may total only 475 million bushels, compared with beginning inventories of 536 million. That level of stocks would still be large, but well below the 600 million bushel figure expected just a few months ago. Prospects for the size of ending inventories remain somewhat confused due to the apparent over estimate of the 1986 crop. The USDA will release its September 1 *Grain Stocks* report on September 30.

As of August 1, the USDA estimated the potential size of the 1987 crop to be about 2 billion bushels, or equal to the 1986 harvest. Weather conditions in Illinois since August 1 may have resulted in some loss of yield potential, particularly in the southern half of the state. A smaller U.S. crop estimate on September 10 would likely strengthen prices.

The higher Commodity Credit Corporation (CCC) loan rate for the 1987 crop (\$4.77 per bushel compared with an effective \$4.56 last year) puts a higher floor in the soybean price structure. With all of the production eligible for the CCC loan program, there is little incentive to sell soybeans at prices under the loan rate, particularly if on-farm storage is available. It appears that producers will harvest the crop, put it in storage, and be tight holders as long as price is much under \$5 per bushel.

The strong demand picture also adds some optimism to price prospects. Domestic soybean meal use is expected to increase about 3.5 percent from the record level this year due to increased numbers of hogs and poultry. Domestic soybean oil consumption is expected to be up nearly 4 percent from this year's record. Oil exports are expected to recover from the extremely low level of this past year because of expanded PL480 sales and because of smaller oilseed crops in India.

The most uncertainty centers around soybean and soybean meal export prospects. In its August *Supply and Demand* report, the USDA projected a decline in exports of beans and meal. The decline reflects prospects for a larger rapeseed crop in the European Community and the Soviet Union and prospects for an increase in exports of soybeans and meal from South America. Many analysts believe that export demand will exceed those projections.

Potential for price increases in the soybean complex should be kept in perspective. Even if demand exceeds expectations and the 1987 crop is less than 2 billion bushels, stocks at the end of the 1987-88 marketing year will still be quite large, probably above 400 million bushels. In addition, the availability of CCC-owned soybeans will likely limit price rallies in the short run. The national average resale price as of September 1 is \$5.14 per bushel. The resale price is calculated as 1.05 times the CCC loan rate plus 13.2 cents handling charge. The resale price varies by county, depending on the county's loan rate. The resale price increases by 5.55 cents per month through May 1988, to reflect carrying costs. As of August 1, the CCC owned about 260 million bushels of soybeans. The location of those soybeans will determine the level of price required to make them available to the market.

The other limiting factor on soybean prices would be the likely acreage response in 1988 to substantially higher prices over the next 6 months. Soybean acreage has declined significantly since 1979, with potential for a sharp increase with the appropriate price incentive.

Storing the 1987 soybean crop with price protection from the CCC loan rate is probably a prudent strategy. However, price expectations should not be set too high. A major surprise will have to occur to push prices much above the CCC resale price as the year progresses.



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