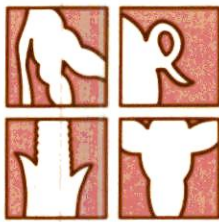




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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SOYBEANS: EXPORT AND ACREAGE PROSPECTS

SOYBEAN PRICES IN FALL 1987 have been higher than anticipated. After declining to under \$5.00 per bushel in early August, November futures moved above \$5.40 in October. Cash prices in central Illinois have been in the \$5.10 to \$5.20 range since mid-September. The relatively strong prices have reflected a smaller-than-expected inventory of 1986 crop soybeans on September 1, tight farmer holding of the 1987 crop, and strong processor demand for soybeans as a result of large crush margins. The higher-than-expected price has raised price expectations, with forecasts of \$6.00 and even \$7.00 not uncommon.

Although several factors will determine the direction of soybean prices over the next 10 months, two stand out as very important: export demand for U.S. soybeans and soybean products, and the magnitude of soybean acreage in the United States in 1988.

In its October *Supply and Demand* report, the USDA projected that soybean oil exports would increase by 300 million pounds (27 percent) to 1.4 billion pounds during the 1987-88 marketing year. Soybean exports are expected to decline by 60 million bushels (8 percent) to 700 million bushels, and soybean meal exports are projected to be unchanged at 7.3 million tons. The increase in oil exports reflects the low level of exports last year and the prospects for increases in subsidies for oil exports this year. Domestic use of oil is expected to increase by 400 million pounds. Even so, carryover stocks of oil are projected to increase to a record 2.24 billion pounds, 400 million pounds above the level of beginning stocks. It is unlikely that soybean oil demand will be strong enough to reduce surplus stocks to a level that would result in a significant rally in soybean prices.

The smaller soybean export projection reflects expectations of a larger South American soybean crop in 1988, larger supplies of competing protein meals, particularly in Europe, and a slow-down in the rate of growth of world protein meal consumption. All of the decline in the demand for U.S. soybean protein is expected to come out of soybean sales, not soybean meal sales. Through September, however, export sales for the 1987 crop of soybeans was running well ahead of last year, and soybean meal sales were down sharply.

The decline in demand for U.S. soybean protein may come more from reduced meal sales than the USDA is anticipating. Last year, an unusually high percentage of U.S. soybean protein exports was in the form of soybean meal and a relatively low percentage was in the form of whole beans. It appears that sales will revert to a more normal distribution of meal and whole beans. If so, the USDA may have underestimated soybean export potential and slightly overestimated the domestic crush of soybeans.

For soybean protein exports to be large enough to spark a soybean price rally, large sales to some nontraditional customers will be required. The most promising candidate may be the Soviet Union. The other source of unexpected demand for U.S. soybeans would be a production shortfall in South America. That crop is just approaching the planting stage.

As pointed out in our letter of April 22, 1987, soybean acreage in the United States has declined sharply since 1979. That decline has been in the mid-South and southeastern section of the United States in response to low prices and, to some extent, low yields. The Conservation Reserve Program has also taken some land out of soybean production in 1987.

Soybean producers, however, will make planting adjustments in response to price incentives. In 1987, for example, planted acreage of soybeans exceeded March planting intentions by 1.8 million acres. The increase was in response to a rally in soybean prices. The implication is that the change in soybean plantings in 1988 will depend on the price of soybeans in the spring. High prices will result in more acreage and therefore limit the long-term price rally. Low prices could result in a further reduction in acreage and prolong the price rally into 1989.



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