Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

WEEKLY OUTLOOK

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

November 18, 1987

SOYBEAN PRICES TURN HIGHER

From September 1 through November 13, 1987, soybean prices increased about 50 cents per bushel. The cash price of soybeans in central Illinois increased from under $5.00 per bushel to about $5.45 per bushel. January futures jumped from $5.11 to $5.61 per bushel. About half of the increase occurred during the first two weeks of November.

Since September 1, soybean meal prices have been stronger than soybean oil prices. The price of 44 percent protein meal at Decatur, Illinois advanced from $165 per ton to $213 per ton, an increase of 29 percent. The price of soybean oil at Decatur increased from 15.04 cents per pound to 17.6 cents per pound, a gain of 17 percent. The rate of increase in soybean prices has not kept pace with the increase in product prices. Cash soybean prices in Illinois have increased by only 11 percent since September 1.

As a result of the differential rate of increase in prices, processing margins have increased sharply and now stand at very high levels. On September 1, the value of soybean products per bushel of soybeans (at Decatur) totalled $5.50, 67 cents per bushel more than the price of soybeans in central Illinois. On November 13, the value of products totalled $7.00 per bushel, $1.55 per bushel more than the price of soybeans. That margin has averaged about 50 cents per bushel over the past 3 years.

The large crush margins have made processors very aggressive bidders for soybeans. The persistence of large margins, however, is somewhat of an economic mystery. Processors have shown constraint in keeping the rate of crush in line with product demand so that margins remain large.

In addition to aggressive processor demand, recent price strength also reflects improved export prospects. As mentioned last week, the USDA has increased the projection of soybean exports for the year. The recent soybean meal purchases by the USSR total 600,000 tons, with many analysts expecting that the total will reach 1 million tons.

Although optimism abounds in the soybean market, some caution signs should be noted. Soybean meal prices are now quite high in relation to corn prices. On November 13, the price of a pound of soybean meal at Decatur was nearly 3.5 times the price of a pound of corn in central Illinois. That ratio was at an all-time high last year at 2.97. With a sharp decline in hog prices, the high price of soybean meal in relation to corn could begin to restrict domestic demand.

A second area of caution, and controversy, is the likely impact of higher soybean prices on the magnitude of planted acreage in the United States in 1988. We continue to believe that current prices, if maintained through the spring, will lead to a significant increase in acreage.

The current rally may take soybean prices even higher. Even if it stalls, an immediate decline is not anticipated. Producers generally remain optimistic as well, with entries of 1987 soybeans in the Commodity Credit Corporation (CCC) loan program increasing even as prices are 50 to 60 cents above the loan rate. In light of longer term market fundamentals, however, the current rally probably provides a good opportunity to add to old crop sales. In addition, some consideration should be given to pricing a small percentage of the 1988 crop. Options could be used to capture any significant rally later in the marketing year.

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

FIRST CLASS