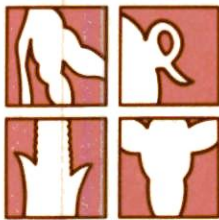




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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

December 9, 1987

SOYBEAN PRICES AND POLICY

Soybean prices in central Illinois averaged \$5.46 during November--32 cents above the October average. That pattern is consistent with recent patterns, which have shown November prices above October prices in four of the past six years. During the other two years, November prices were equal to October prices one year and lower one year. The increase in November prices this year was about equal to the increase in three previous years (1982, 1985, and 1986). The advance in prices in 1987 was demand based, reflecting large sales of soybean meal to the Soviet Union. What can be expected now?

In three of the past five years, prices have been lower in December than in November by an average of 3 percent. Prices were unchanged in 1982 and up 2.5 percent in 1985. Current conditions point to stable or lower soybean prices during December and January. Major importers of U.S. soybeans and meal are thought to have already purchased the majority of their requirements through February. Only surprise business from the Soviet Union would alter the seasonal pattern of declining exports. With prospects for record crops in South America, importers will look to Brazil and Argentina to meet much of their 1988 spring and summer needs.

Aggressive processor buying of Commodity Credit Corporation (CCC) soybeans has left processors with relatively large inventories, estimated to be equivalent to two months' crush requirements. Processors may not be bidding aggressively for soybeans during January when farmer deliveries and sales are traditionally heavy.

While near-term prospects are not especially optimistic, price advances later in the marketing year are still possible. In four of the past five years, prices during the spring (April, May or June) have been above the November average. Several factors could result in a spring rally in 1988. These factors include production problems in South America, unexpected export demand, weather problems in the United States, and reduced soybean acreage in the United States.

The last factor, U.S. soybean acreage, is the focus of much industrial and Congressional interest. Some in the industry are concerned that U.S. soybean producers will not be able to plant more acreage in 1988 in response to more attractive prices due to the rigidity of acreage programs already in place. A lack of response, it is argued, would encourage more acreage in competing areas of the world, resulting in a loss of market share for the United States.

Congress is being urged to accommodate the current situation by changing the rules for the feed-grain acreage reduction program. Three proposals are being offered: (1) allow producers to plant soybeans on feed-grain base acres without the loss of base for future programs, (2) allow producers to plant soybeans on set-aside or diverted acres for current programs, and (3) expand the current acreage reduction program for feed grains by 5 percent and allow producers to plant

soybeans on additional acreage. History suggests that soybean acreage responds to economic incentives. 1987 is an example. Planted soybean acreage exceeded intentions by 1.8 million acres due to the spring price rally. No change in government programs was required.

In addition to changes in the set-aside program, Congress is also again considering the issue of a marketing loan. With market prices well above the CCC loan rate, the merits of a marketing loan are not very clear. As pointed out in the *Weekly Outlook* on August 5, 1987, the soybean industry has benefited from a lack of direct government intervention in the soybean market. A push toward more government involvement is somewhat surprising. Pressure for assistance also invites more control.

Considerable uncertainty remains in the soybean market. Farmer marketing strategies should still be based on selling rallies. The spring rally was a good forward-pricing opportunity. The November rally represents an opportunity to add to sales for both the 1987 and 1988 crops.



**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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