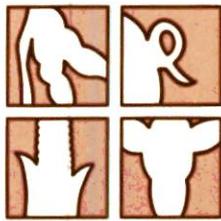




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

Department of Agricultural Economics
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SOYBEAN PRICES TO REMAIN VOLATILE?

Soybean prices have moved sharply higher from the lows of early August. March 1988 futures have advanced from \$5.10 to a high of \$6.38 in January. The high price for that contract is \$6.42 1/2 and was reached during last spring's weather scare. As of January 29, the price of that contract stood at \$6.09 1/2. November futures started trading in August at the \$5.00 level. That contract moved as high as \$6.56 in January and closed at \$6.30 1/2 on January 29.

The higher prices reflected several friendly developments. The USDA's September 1, 1987 *Grain Stocks* report showed a surprisingly low inventory of soybeans, forcing a downward revision in the estimated size of the 1986 crop. The Soviet Union bought unexpectedly large quantities of soybeans and soybean meal in November. Most of the increase in old crop prices occurred during that month. The USDA's December *Grain Stocks* report also contained a surprisingly low inventory figure for soybeans, forcing a 55 million bushel downward revision in the estimated 1987 crop size. Revised supply and demand estimates in January showed a carryover projection of only 295 million bushels. Ideas that soybean acreage would have to be increased in 1988 pushed 1988 crop futures to new contract highs after that report.

Opinions on the direction of soybean prices are divided, but the majority of analysts appear to expect further strength during the 1988 calendar year. The case for higher prices is based primarily on the expected sharp reduction in soybean stocks during the current marketing year. Based on current projections, use of soybeans during the 1987-88 marketing year will exceed the 1987 crop by 141 million bushels. A continuation of that trend into 1988-89 would result in extremely low carryover stocks on September 1, 1989. Such prospects could push soybean prices sharply higher and result in expanded production outside of the United States. To avoid that situation, U.S. producers need to be encouraged to plant more soybean acreage in 1988. Because of expected high levels of participation in set-aside programs for program crops and the Conservation Research Program, an increase in soybean acreage will not come easily. It is argued that higher prices will be required to encourage more acreage.

A second part of the case for higher prices is the expectation of lower average yields in 1988, following three consecutive years of above average yields. Lower yields would require an even larger increase in acreage to maintain inventory levels. Assumed in the case for higher prices is a continuation of soybean use in excess of 2 billion bushels per year.

Skeptics of higher prices have a valid case as well. Current projection of soybean use during the 1987-88 marketing year may be too high. Soybean meal exports are extremely disappointing, running about 30 percent below a year ago. Soybean meal prices much above \$200 per ton (basis Decatur, Illinois) will likely restrict domestic use. The sharp increase in soybean oil

exports represents highly subsidized sales and weather problems in Asia. Those conditions may not persist. Prospects for a record soybean crop in South America could also trim U.S. export sales of soybeans and meal during the late spring and early summer. That crop is currently estimated to be about 100 million bushels larger than the 1987 harvest, with many expecting an even larger crop.

A lower rate of use would reduce the pressure for increased soybean acreage in the United States in 1988. In addition, it is argued, there is plenty of opportunity to increase soybean acreage at current prices. Soybeans are very attractive for those producers not participating in the feed grain program. The 1.5 million acre increase in soft red winter wheat seedings in the eastern Corn Belt and the Southeast also offers expanded double cropping opportunities. Current prices might also result in some soybean plantings on idle acres in the South.

The stage is set for a volatile soybean market during spring and summer 1988. The key factors will be size of the South American crop, magnitude of planted U.S. acreage, and U.S. weather conditions. Soviet buying patterns and prospects for the size of competing oilseed crops will also be important. Depending on how these factors unfold, soybean prices could move above the much heralded \$7.00 level, back to the \$5.00 level, or both.



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