Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

WEEKLY OUTLOOK
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September 28, 1988

SOYBEAN EXPORT DEMAND IS SLUGGISH

With a small U.S. soybean harvest confirmed, soybean prices will continue to reflect demand prospects. Most of the adjustment to this year's small crop is expected to be made in the export market. The USDA expects that bean, meal, and oil exports during the 1988-1989 marketing year will be down 30 percent, 32 percent, and 33 percent, respectively. With such large reductions, cuts in domestic use will be minimal. Domestic meal use is expected to be down about 9 percent while the forecast for domestic oil consumption is unchanged. The rate of export sales in relation to USDA projections will be one of the most important price factors in the near term.

The 1988-1989 marketing year has started with a low rate of export sales. Actual shipments of soybeans during the first two weeks of the year totaled only 10.7 million bushels, about one-third the amount shipped by the same date a year ago. Outstanding sales of soybeans (soybeans sold but not yet delivered) totaled only 125.7 million bushels, compared to 211.3 million bushels on the same date a year ago. The combination of shipments and undelivered sales is 44 percent less than a year ago.

The soybean meal and soybean oil marketing years begin October 1. Outstanding sales for delivery during that year are well off the pace of a year ago, particularly sales of soybean oil. As of September 8, only 49.6 million pounds of soybean oil had been sold for export, down 64 percent from a year ago. Early export sales of soybean meal were down 15 percent from the level of a year ago.

Even though soybean oil use during the current marketing year is at a record high, stocks of oil remain large. Soybean oil stocks at the end of August were estimated at 2.246 billion pounds, 13 percent above the level of a year ago. Stocks of edible oils in other parts of the world are also larger than a year ago. Stocks of palm and palm kernel oil in Malaysia at the end of August, for example, were 13 percent larger than they were a year ago. These large stocks of oil have caused soybean oil prices to drop sharply since the first of September. Meal prices have remained relatively strong, but they could not offset the impact of declining oil prices.

Prospects of larger oilseed crops in other parts of the world also affect U.S. soybean export demand. The 1989 soybean harvest in South America is expected to be near 1.2 billion bushels, 13 percent larger than the 1988 harvest. World cottonseed production is expected to be 3 percent larger; production of groundnuts is forecast to increase 13 percent; and sunflower seed production is expected to be up 4 percent. Of the major oilseed crops, only the production of rapeseed is expected to be down; the 6-percent reduction reflects a drop in production in western Europe and China. Production of all major oilseeds outside of the United States is expected to be 4 percent larger than a year ago.

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The most likely source of a shortfall in world production is the South American soybean crop. Current production estimates are based on above-average yield projections. Rainfall has been below normal in both Brazil and Argentina. Argentina remains dry, although recent rainfall has improved soil moisture conditions in some parts of Brazil. Planting in these countries will get under way next month. Continued dry weather could result in less corn acreage and more soybean acreage, and persistent dry weather would adversely affect yield potential.

Based on early season projections of production and use, world stocks of the 10 major oilseeds are expected to be reduced to less than 10 percent of annual use. A weather-reduced soybean crop in South America would require more rationing than is now expected and would lead to a significant price rally. A return to normal weather in both South and North America during the months ahead would allow prices to drift lower.

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