Cooperative Extension Service

WEEKLY OUTLOOK

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SOYBEAN FUTURES SOAR...FOR NOW

From late January through April 27, soybean futures increased 65 to 70 cents per bushel. About 60 percent of that increase came in the last three days of that period. New crop futures were stronger than old crop futures. On April 27, May 1991 futures were 57 cents higher than May 1990 futures. The cash price of soybeans in central Illinois increased to $6.25 per bushel, 14 percent greater than late January prices. Soybean oil prices at Decatur, Illinois, were 27 percent higher and meal prices were up 11 percent. The cash crush margin increased by about 24 cents per bushel.

This increase in soybean and soybean product prices reflects a number of favorable developments. The rally was led by soybean oil in recognition of a record rate of domestic consumption and dwindling stocks. By the end of March, soybean oil stocks stood at 1.697 billion pounds, 40 percent less than the record level of stocks on the same date last year and the lowest level for that date in five years.

Lower than expected soybean yields in Brazil and harvest delays in both Brazil and Argentina improved the outlook for U.S. exports of soybean meal. A slow rate of selling by both South American and U.S. farmers helped push prices higher. Rumors of Soviet buying of U.S. meal in late April provided the spark for higher meal prices. Through April 19, soybean meal export sales, however, were running 23 percent behind the pace of last year's sales. Finally, prospects for temperatures much above normal in the Corn Belt in late April and early May raised concerns about a hot summer causing poor yields. Widespread speculative buying accounted for the surge in prices last week. All 1990 crop futures contracts moved to new highs.

With somewhat smaller world supplies than previously estimated and improved demand prospects, soybean prices must move to levels that will entice soybeans out of farmers' hands and into the market. In addition, soybean prices must ration the available supplies. Current supplies are relatively large--even in light of improved demand, so the immediate task is to encourage farmers to sell soybeans. Future supplies are unknown because of the uncertainty of the 1990 growing season in the United States.

If soybean acreage is near March intentions and yields are "normal" in 1990, the harvest will be near 1.95 billion bushels. Prospects of an early wheat harvest, adequate soil moisture, and rising soybean prices suggest that double cropping for soybeans following the soft red winter wheat harvest will exceed intentions. The 1990 harvest, then could be near 2 billion bushels with a normal growing season.

New crop soybean meal prices are near $200 per ton. The market is offering an average price of $6.60 for the 1990 crop of soybeans. Current prices are high enough to ration next year's crop. Fundamentally, higher prices will be required only if the 1990 crop is threatened by adverse weather. Current moisture conditions and the 90-day outlook by the National Weather Service imply at least average yields in 1990.

Additional price strength in the near-term cannot be ruled out. Increased speculative activity, particularly by the large funds, tends to push prices higher than expected based on market fundamentals. In addition, producers are preoccupied with field work and have become optimistic about prices. That combination could support further price advances. July futures could increase to the $6.75 level based just on technical indicators. But prices could decline sharply from the spring peak, whatever that peak is.

The current price rally offers producers an excellent opportunity to make additional old and new crop sales. A near-term price peak could be followed by a fairly sharp decline. The biggest risk for new crop sales is the potential of adverse weather in July and August.

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