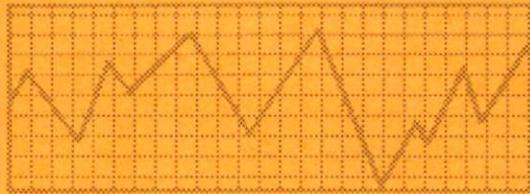




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# WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

May 30, 1990

## SOYBEAN PRICES - WHAT NEXT?

**The spring rally in soybean prices** carried July futures to a high of \$6.715 per bushel and November futures to a high of \$6.82 on May 1. As indicated in the first newsletter of this month, the rally was stimulated by a sharp reduction in domestic soy oil stocks, harvest delays in South America, and lower estimates of the size of the Brazilian soybean crop.

In the three weeks following the May 1 highs, futures prices declined by about 60 cents per bushel. The majority of the decline came in the 10 days following the USDA's *Supply and Demand* report released on May 10. That report failed to reduce the projection for the level of stocks at the end of the current marketing year and projected a further build-up in stocks next year. In addition, harvest has been completed in Brazil and progressed rapidly in Argentina.

Earlier this month, the USDA projected the Brazilian harvest at 716 million bushels, down 16 percent from the record harvest of last year. The Argentine crop was estimated at a record 386 million bushels. Many private analysts expect that the actual size of the Brazilian crop is smaller than the current USDA estimate and that the Argentine crop is larger by about an equal amount.

The likely rate of marketing of the South American crop, particularly the Brazilian crop, is still uncertain. Exports from Brazil have reportedly been quite large the past two weeks. Unrest among dock workers and a strike at one large port adds to the uncertainty. A decision by the Argentine government to lower export taxes should ensure a rapid pace of exports from that country. The seasonal downturn in U.S. soybean exports has begun. Weekly export inspections have been in the single digits for the past two weeks. To reach the USDA projection of 610 million bushels for the year, exports need to average 5.5 million bushels per week for the last 15 weeks of the marketing year. That is an increase of 13 percent over the average during the same period last year. To date, exports have exceeded the level of a year ago by 14.5 percent.

The rapid rate of use of both soybean meal and oil in the domestic market has provided support for prices of those products. For the period September 1989 through March 1990,

domestic meal consumption totaled almost 13 million tons, up 10 percent from last year and equal to the record level of use of two years ago. Preliminary figures indicate that consumption during April was record large for that month.

Apparent domestic soy oil consumption totaled a record 7 billion pounds from September through March, an increase of 20 percent from a year ago. Preliminary figures for April, however, show a decline in consumption from the level of last year. That pattern may persist for the remainder of the marketing year as domestic consumption for the period April through August last year was record large.

Prospects for the 1990 soybean crop remain uncertain because of excessive moisture and late planting in some areas. The market alternately interprets the late planting as friendly and unfriendly for soybean prices. Continued delays could result in yield loss, but acreage might increase as some switching from corn to soybeans occurs. The two most recent experiences with late soybean planting were 1978 and 1981. In 1978, soybean acreage exceeded spring intentions by 1 million acres. Plantings in 1981 were 2.3 million acres less than intentions. The average U.S. yield was near 30 bushels in both years. The record yield for that period was 32 bushels in 1979. At this juncture, prospects for a large 1990 harvest are still in tact.

Fundamentally, it is difficult to make a case for significantly higher soybean prices over the next several months. Normal growing conditions would allow prices to drift erratically lower into harvest. Opportunities to forward price additional new crop soybeans may be limited. Better pricing opportunities will likely occur after harvest. Current prices are low by historic standards so that the risk of ownership is relatively low.

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