Cooperative Extension Service

WEEKLY OUTLOOK

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WILL SOYBEAN PRICES RECOVER?

Soybean prices declined to new lows this past week. November futures traded as low as $5.52 per bushel, dipping below the previous low of $5.645 reached last fall. Price weakness reflects continued reaction to the large production estimate released two weeks ago and on-going concerns about the slow pace of exports. As of November 8, soybean exports stood at 70.5 million bushels, down 40 percent from exports on the same date last year. Export commitments (exports plus outstanding sales) stood at 188 million bushels, 23 percent less than commitments of a year ago.

The current low price of soybeans should generate some positive results over the next several months. First, low prices should insure that South American plantings are reduced. Private sources continue to forecast a 10 to 15 percent reduction in acreage in Brazil. The reduction reflects a combination of economic and financial problems in that country, as well as a shift in support for feed grain production at the expense of soybeans. Recently, some private sources are also reporting a likelihood of some acreage reduction in Argentina. The size of the 1991 South American harvest will be influenced as much by yield as acreage. Early season planting and growing conditions are generally very favorable. Lack of adequate financing in Brazil, however, is expected to lead to less than the optimum application of fertilizer and herbicides. Production prospects will be difficult to judge until after the first of the year. In its November *Crop Production* report, the USDA projected production potential in Argentina at 386 million bushels, 9 million bushels less than the record crop of 1990. The Brazilian crop was projected at 680 million bushels, down 19 million bushels from the 1990 crop and 172 million bushels less than the record harvest of 1989. Private sources are generally forecasting a larger reduction in the size of the South American crop.

The second potential result of lower prices is an increase in soybean consumption. The low prices should insure that the current record pace of domestic soybean meal and oil consumption continues. Soybean meal prices are $25 per ton lower than a year ago. Hog prices are $4 per hundredweight higher and cattle prices are up $5 per hundredweight. Broiler prices are up 2 cents per pound and numbers are increasing. Feed requirements are being trimmed somewhat by mild temperatures.

The low price of soybeans in combination with a lower-valued U.S. dollar is expected to stimulate export sales. It is believed that many buyers have been purchasing hand-to-mouth as the trend in both soybean prices and the value of the dollar has been lower. At some point, soybean values will be low enough that buyers will be willing to extend coverage. To tap the potential market in the USSR, export credits may be required. Credit apparently hinges on the extension of Most Favored Nation status, which in turn depends on the USSR changing its emigration laws. Rumors of a food aid package, however, were in the market last week.

The third result of low soybean prices is to limit the probable increase in soybean acreage in the United States in 1991. The potential for increased acreage stems from two sources -- reduced soft red winter wheat acreage and the triple base provision of the 1990 Farm Bill. The triple base provision reduces the acreage of program crops eligible for deficiency payment and allows that acreage to be planted to other crops. Initially, the market expected a significant switch from corn to soybean acreage in 1991. Current new crop prices, however, do not favor such a switch. At this time, it appears that planted acreage could increase to less than 60 million acres, up from the 57.7 million planted this year.

The old adage "the best cure for low prices is low prices" may be at work in the soybean market. Low prices are expected to encourage use and discourage production. Lower prices in the near term, however, cannot be ruled out. The market will require evidence of improved demand before turning higher. January futures could trade into the $5.50 to $5.60 range if exports remain sluggish and South American weather remains favorable. Recovery in soybean prices between now and planting time may also be limited by the threat of more acres next spring, unless corn prices also move higher. That threat, however, would tend to limit new crop prices more than old crop prices. An eventual recovery in July futures to the $6.50 area is expected.

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