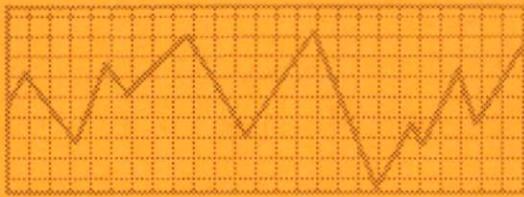




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# WEEKLY OUTLOOK

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## SOYBEAN USE EXPECTED TO EXCEED RECENT PROJECTIONS

In last week's letter we reported on changes in USDA's supply and demand projections for soybeans. The domestic soybean crush is projected at 1.185 billion bushels, up 3.4 percent from last year and exports are projected at 580 million bushels, down 6.9 percent from last year. Both projections were 10 million bushels less than projected last month.

The magnitude of the domestic crush will depend on the demand for soybean meal. The USDA has projected a 2 percent increase in domestic meal use and a 4.5 percent increase in meal exports. During the first two months of the 1990-91 marketing year, domestic meal use exceeded year ago levels by 3.7 percent. Domestic use for the remainder of the year will be supported by an increase in poultry production, a slight expansion in hog numbers, generally profitable livestock prices, and low feed prices. Use for the year will be at least 2 percent larger than last year, probably more.

Through January 10, soybean meal exports exceeded last year's level by only 2.8 percent. The magnitude of soybean meal sales not yet delivered exceeded last year's level by 20 percent. Export commitments (shipments plus outstanding sales) accounted for 49 percent of the USDA projection, for the entire year. Last year, commitments on the same date represented 46 percent of actual shipments. Actual shipments of soybean meal will depend partly on whether or not the USSR makes additional purchases of U.S. meal. The market believes future sales will be small at best. Based on forecasts of a smaller South American soybean harvest this spring, the USDA's projection of meal exports may be conservative by at least 200,000 tons. Combined domestic use and exports of meal could be 300,000 to 350,000 tons above the current projection.

The other factor that will support the domestic crush rate is the apparent lower yield of soybean meal from the 1990 soybean crop. During the period September through November, an average of 47.4 pounds of meal were produced for each bushel of soybeans crushed. During the same period last year, the average yield was 47.6 pounds. While the difference is small, a persistence of that difference could add 4 to 5 million bushels to the crush.

The small soybean export projection for the year reflects the slow pace of exports to date and the expectation that exports for the remainder of the year will be very near the level of a year ago. The slow pace of exports to date (down 22.5 percent from a year ago) is somewhat deceiving. Almost all of that reduction was in the month of October. For the past 8 weeks, exports have been only 5 percent less than during the same period last year. As of January 10, 117 million bushels of

soybeans had been sold for export, but not yet delivered, about the same amount as a year ago. Another small but important observation is that USDA weekly export inspection figures continue to understate exports as reported by the Census Bureau. Through November, the difference was 10 million bushels.

One of the major factors that will determine the level of U.S. soybean exports is the size of the South American harvest this spring. The USDA currently projects the Brazilian harvest at 661 million bushels, 6.8 percent less than last year's crop, and the Argentine crop at 378 million bushels, 4.3 percent less than last year's crop. If acreage cuts were as large as advertised earlier, crops could be much smaller than currently projected, particularly given the past three weeks of dry weather in southern Brazil.

Soybean use could easily be 15 million bushels, and more likely 25 million bushels, larger than currently projected by the USDA. If so, stocks at the end of the year will be near 280 million bushels rather than the 300 million currently projected. Stocks at such a level would still be more than adequate.

Another factor important to soybean prices will be the magnitude of planted acreage in the United States this spring. Late last year, when the flexibility provisions of the new farm bill were announced, many analysts immediately reported expectations of a large increase in soybean acreage in 1991. Current soybean prices (new crop) certainly do not favor soybean planting at the expense of feed grains or cotton. One widely watched private crop forecaster recently projected no increase in soybean acreage in 1991. We expect some increase, but do not expect acreage to exceed March intentions of a year ago of about 59.4 million acres. The results of a special USDA planting intentions survey will be released on February 11.

If the above analysis of soybean demand, South American production and U.S. planting intentions are correct, a modest rally in prices can be expected by spring. That rally might carry prices 50 to 75 cents above current levels.

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