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SOYBEAN PRICES HINGE ON SOUTH AMERICAN WEATHER AND EXPORT CREDITS

Soybean prices continue to trade in a relatively narrow range that has persisted since the middle of October 1991. March futures have traded between \$5.50 and \$5.85 per bushel during that time period. In general, soybean prices have traded in an extremely flat pattern since the summer of 1989. Nearby futures have sagged to the \$5.20 to \$5.40 area under harvest pressure and have rallied to the \$6.40 to \$6.60 area during periods of concern about weather and/or crop conditions. Prices are currently closer to the low end of that range than to the upper end. For the next several weeks, prices will take direction from weather and crop developments in South America and from any new information concerning export credit allocations to the Commonwealth of Independent States (CIS).

South American soybean production reached a peak in 1990. Combined production in Brazil, Argentina, and Paraguay totaled 1.2 billion bushels that year. Production declined sharply in 1991 due to poor growing conditions in Brazil. The Brazilian crop totaled 570 million bushels, 24 percent smaller than the previous crop and 33 percent smaller than the record harvest of 1989. Production in Argentina in 1991 was record large, at 404 million bushels. Production in the three countries combined totaled 1.022 billion bushels in 1991, 15 percent smaller than the 1990 crop. As pointed out last week, that decline has helped push U.S. soybean exports sharply higher so far in the 1991-92 marketing year.

The size of the 1992 crop in South America will influence the rate of U.S. soybean and soybean product exports during the last half of the current marketing year and the first half of the 1992-93 marketing year. The 30-cent improvement in soybean prices during January was associated, in part, with dryness in parts of the Brazilian soybean belt. Recent rainfall has alleviated much of that concern, at least for the time being.

In its January production report, the USDA projected a larger 1992 harvest in Brazil and Paraguay and a reduction in the size of the Argentine crop. Combined production was projected at 1.088 billion bushels, only 6.5 percent larger than last year's harvest and 9.3 percent smaller than the 1990 crop. A crop of that size would be supportive for U.S. exports over the next 15 months. The critical part of the growing season is now here, so that precipitation over the next 4 to 6 weeks will determine yield potential.

On December 2, 1991, the USDA announced additional export credits for the CIS. Of the \$1.25 billion of credit, \$600 million was allocated immediately and \$650 million was to be available in three monthly increments beginning in February. Of the latter total, initial indications were that \$101.5 million would be allocated for protein meal, \$45.5 million for soybeans, and \$22.5 million for vegetable oil. Now that it is time to allocate those credits, there are indications that the distribution among commodities could be changed. In addition, there have been rumors that the CIS would like all the \$650 million in credits allocated in February. Finally, Secretary Madigan and members of Congress have indicated that additional credits could be allocated if the CIS continues to make timely payments. A strong case could be made for increased allocations for soybeans and soybean products since supplies are more abundant than corn and wheat supplies.

Soybean prices may continue the recent choppy pattern, but will likely remain in the long standing trading range, keeping March futures between \$5.60 and \$5.90 per bushel. Longer term, U.S. weather conditions will become the focus of the market. The history of the past two years suggests that there will be enough uncertainty about crop prospects to briefly push July futures into the \$6.30 to \$6.60 range. Higher prices would require serious crop problems.

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