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SOYBEAN OIL LEADS THE PRICE RALLY

Since the first of the month, January soybean futures have advanced $.57 per bushel, or 8.4 percent. The cash price in central Illinois has increased $.74, or 12.4 percent, as the basis strengthened by $.17 per bushel. The increase has been led by higher soybean oil prices. December oil futures and the cash price at Decatur, Illinois are up 15.4 percent since November 1. In contrast, December soybean meal futures and cash meal prices advanced 7.3 percent from November 1 through November 26.

Soybean oil prices are 2 cents per pound above the summer high and at the highest level since 1988. The latest rally has been fueled by smaller than expected stocks and a continuation of a high rate of consumption. The small stocks were revealed a month ago, when the Census Bureau released its September estimates of soybean crush and month-ending stocks of soybean meal and oil. The estimate of stocks of oil at the end of September (also the end of the 1992-93 marketing year) had been projected at 1.7 billion pounds by the USDA. Those stocks, however, totaled only 1.557 billion pounds. Stocks on that date were smaller only once in the previous 7 years.

Soybean oil consumption during the 1992-93 marketing year was a record 14.461 billion pounds, up 4 percent from the previous record of 1991-92. Domestic oil consumption exceeded 13 billion pounds, up 6.5 percent form the previous record established in 1991-92. Soybean oil consumption remained relatively high during the first month of the 1993-94 marketing year. Based on the Census Bureau's October crush report, total disappearance of soybean oil during October totaled about 1.35 billion pounds. The figure was probably slightly higher because of imports of a small quantity of soybean oil. In any case, total use during October was down about 3 percent from the record use of October 1992. It should be noted that monthly estimates of soybean oil use can be in error due to fluctuations in "invisible" stocks of oil, that is stocks held at various points in the processing and distribution channel. Apparent consumption in October 1992 was extremely large. Another month of data is needed to determine how this year's consumption is progressing relative to that of a year ago. The continuation of a high rate of soybean crush, as estimated by the National Oilseed Processor's Association, implies that consumption remains high.

The Census Bureau's October soybean crush report also revealed a continuation of a low oil yield per bushel. The average oil yield in October was 10.8 pounds per bushel of soybeans crushed. Presumably, a significant portion of the October crush represented 1992 crop soybeans. The average oil yield during the 1992-93 marketing year was 10.81 pounds, well below the record 11.4 pounds of the 1991-92 marketing year and the 5-year average of 11.2 pounds. The USDA is currently projecting an average oil yield of about 11.2 pounds for the 1993-94 marketing year. If the yield falls short of that projection, supplies will be even tighter than projected. The USDA currently projects stocks at the end of the marketing year at an 8-year low of 1.125 billion pounds.

The question facing the soybean market now is, are oil prices high enough to ration the 1993 crop? Part of the answer depends on USDA export subsidy programs. A high percentage of U.S. exports are subsidized, so that exports can be "managed" to some extent. Rationing of soybean oil can also occur by substitution of other oils. Soybean oil prices are currently high in relation to other oils, particularly imported oils. Supplies of canola oil from Canada are abundant. Some substitution is occurring, but public data is not readily available to estimate the rate of substitution on a timely basis.

In addition to the rate of consumption of oil and meal, the market will be increasingly sensitive to development of the South American soybean crop. Recent heavy rainfall has apparently required some replanting in isolated areas of Brazil.

After the sharp run-up in prices which has occurred this month, soybean prices are vulnerable to at least a modest set-back. There is enough uncertainty about the South American crop and the 1994 growing season in the U.S., however, that a collapse in prices is not expected any time soon.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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