Cooperative Extension Service

WEEKLY OUTLOOK

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SOYBEANS: OIL USE DECLINING, BUT DRY WEATHER CONCERNS PERSIST

The higher soybean prices being experienced during the 1993-94 marketing year have been supported, for the most part, by higher soybean oil prices. Soybean oil supplies have been reduced due to a combination of a small 1993 soybean harvest and two consecutive years of low oil yield from the U.S. soybean crop. The 1991 crop yielded a record 11.4 pounds of oil per bushel of soybeans. The yield from the 1992 crop dropped to 10.8 pounds. To date, the oil yield from the 1993 crop has also averaged 10.8 pounds per bushel. The low oil yield is associated with extremely wet growing conditions in the Midwest in both 1992 and 1993.

While oil supplies have been reduced, consumption remains very high. During the first six months of the 1993-94 marketing year, about 7.4 billion pounds of soybean oil were consumed (domestic use plus exports). That is an increase of about 2 percent from use during the same period last year. Oil exports were down slightly, 839 million pounds versus 853 million pounds last year. Apparent domestic use of soybean oil during the first half of the 1993-94 marketing year was running about 2.6 percent above the record pace of a year ago.

The combination of smaller supplies and increased consumption reduced soybean oil stocks to extremely low levels. Month ending stocks at mills and warehouses from November 1993 through March 1994 were extremely stable, at 1.4 billion pounds. Stocks at the end of March were at the lowest level in eight years. The USDA projects stocks at the end of the marketing year (September 30, 1994) at 925 million pounds, the lowest level in nine years .

The estimate of soybean oil stocks at the end of April, released on May 26, stood at 1.57 billion pounds. That figure was also at an eight year low, but was larger than expected. That stocks estimate implies that only 990 million pounds of soybean oil were consumed during the month of April. That is 7 percent less than apparent consumption during April 1993 and the lowest figure for that month in eight years. The official Census Bureau estimate of exports for April is not yet available, but apparent domestic use of soybean oil during April was down from that of a year ago.

The larger than expected April stocks figure pushed soybean oil prices lower. Some analysts believe that rationing of oil consumption has begun and domestic use during the last half of the marketing year will be less than during the same period last year. One month does not necessarily indicate a change in the trend. The preliminary April stocks estimate will be revised this week. In addition, as we have indicated before, there is considerable noise in the monthly estimates of use as so called "invisible" stocks (stocks not at mills or warehouses) can vary from month to month. It will require the May figures to confirm a change in the trend. We have been of the opinion that domestic use to date had been overstated because of a likely increase in invisible stocks.

Even if soybean oil use is being reduced and year ending stocks exceed current projections, soybean prices are not expected to decline significantly in the short run. As discussed in this letter for the past three or four weeks, the predominant factor in the soybean market is the potential size of the 1994 crop. While soybean acreage is up from that of a year ago and much of the crop has been planted, yield is still to be determined. Midwest rainfall during the last weekend of May was once again less than expected. The National Weather Service 6 to 10 day outlook through June 9 calls for below normal rainfall in most of the Midwest. The 30 day outlook for June released on May 30 calls for normal to below normal rainfall in the Midwest.

Soybean futures opened higher by the daily permissible limit of $.30 on May 31. The extremely volatile prices of the past two weeks will probably continue into June. How much higher prices go is strictly a function of the weather and therefore not very predictable. The dry weather and small crop of 1980 pushed November futures to a high of $9.305 in November 1980. Similarly, November futures peaked at $9.685 in September 1983 and at $10.46 in June 1988. With the extremely small inventories this year, there is considerable upside potential in soybean prices if dry weather persists.

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