Cooperative Extension Service

WEEKLY OUTLOOK

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LOW SOYBEAN PRICES STIMULATE CONSUMPTION

November soybean futures have declined by more than $.50 per bushel since the September *Crop Production* report was released. Cash soybean prices in central Illinois have declined by more than $.60 per bushel. In addition, the carrying charges in the soybean futures market have increased. The November-July spread, for example, has increased by $.08. In short, the soybean market is behaving in a typical large-crop pattern. The decline in prices over the past month has been fueled by ideas that the record crop estimate will increase in October, a very rapid harvest rate, and an unexpectedly large September 1 inventory of soybeans reported on September 30. The USDA had projected September 1 stocks at 150 million bushels and the average trade guess was for an inventory of 160 million. The inventory actually totaled 209 million bushels.

The relatively low price of soybeans and the weakness in the U.S. dollar relative to European currencies have stimulated extremely large export sales of soybeans. As of September 29, 331 million bushels of soybeans ha been sold for export. Only 44 million bushels had actually been shipped. The 287 million bushels sold for export, but not yet shipped, compares to 90 million last year, 209 million in 1992, and 118 million in 1991. In fact, outstanding export sales are at the highest level for this date since 1979, the year of the previous record large U.S. soybean crop.

The large purchases of U.S. soybeans has been led by the European Union. Sales to that area are 5 times as large as a year ago and account for 36 percent of total sales of U.S. soybeans. Sales to Mexico have also been large, at nearly 26 million bushels compared to only 400,000 tons at this time last year. Brazil has bought about 11 million bushels of U.S. soybeans.

Export sales to date account for nearly one-half of the USDA's projected exports for the year. The actual export shipments of soybeans are running at a normal pace, although we are only 4 weeks into the marketing year. The implication is that foreign buyers, particularly the European Union, have been buying to cover needs well into the marketing year. Some European crushers have reportedly covered their needs into the spring of 1995, when the South American crop will be available.

Commercial sales of soybean meal and oil for the marketing year which began on October 1 are significantly larger than a year ago. Last year, however, sales started very slowly.

Domestically, the soybean crush is proceeding at a more rapid pace than a year ago. Based on estimates from the National Oilseed Processor Association, the crush since September 1 has been 4.5 percent larger than a year ago. This follows a very large crush in July and August and is apparently not leading to a build up in inventories of meal and oil. Stocks of both products were unexpectedly small at the end of August. Meal stocks were at the lowest level in 26 years and oil stocks were at an 8 year low. The implication is that domestic consumption is continuing at a record pace.

While the high rate of soybean consumption and sales has been in response to low prices, the large commercial buying has tended to support soybean prices at a slightly higher level than otherwise would have existed. The concern now is that the rate of export sales may slow as the size of the crop estimate increases, harvest reaches the last stages, and short hedging pressure emerges. That combination would allow soybean prices to drift somewhat lower in the very near term. November futures should find some support at the 1992 low of $5.245 and the 1991 low of $5.17. Whether prices go even lower will be determined primarily for the October and November estimates of the crop size.

Longer term recovery in soybean prices will require crop production concerns. The upcoming growing season in South America provides the first opportunity for such concerns. The U.S. growing season in 1995 will provide the next opportunity. It would be highly unusual if a weather market of sorts did not develop over the next 10 months. The questions being, how big will the rally be? and from what level?

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