

WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

December 5, 1994

SOUTH AMERICAN SOYBEAN PRODUCTION PROSPECTS

The rapid increase in South American soybean production over the past 15 years has dramatically altered the seasonal pattern of U.S. soybean exports. Exports of U.S. soybean during the period April through September are typically only half as large as during the period October through March. The availability of large South American supplies has also tended to dampen the price effect of short crops in the United States. The 1993-94 marketing year was the most recent example of that effect. The 1993 U.S. crop was the smallest since the severe drought of 1988 and it was expected that year-ending stocks would be reduced to minimum pipeline levels. At the peak of the crop concerns, November futures rallied to only \$7.57 per bushel. Cash prices during the 1993-94 marketing year barely managed to move above \$7.00 and averaged only \$6.40 per bushel.

One of the major factors that kept soybean prices in check last year was the prospects for, and ultimate harvest of, a record South American crop. The 1994 Brazilian crop was a record 900 million bushels. Harvested acreage (28.2 million) was 6 percent smaller than the record of 1989, but the average yield was a record 32 bushels per acre. Similarly, the Argentine crop was a record 430 million bushels. Harvested acreage was a record 13.1 million acres, but the average yield (32.8 bushels) was nearly 9 percent below the record of 1991.

Once again, the potential size of the 1995 South American crop will be influential for U.S. soybean prices. In September, as the planting season approached, many analysts thought that the combination of dry weather and low prices would result in a reduction in planted area this year. In addition, the lack of public credit for production inputs in Brazil suggested lower input levels and the potential for lower average yields. It is now believed that the early dry weather resulted in a reduction in corn acreage and that recent rainfall will result in a slight increase in soybean acreage. In addition, private sources of credit in Brazil were available to finance the purchase of inputs.

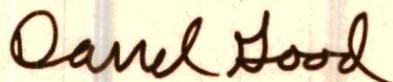
A slight increase in acreage in both Brazil and Argentina, a rebound in Argentine yields and a slight decline in Brazilian yields, point to a 1995 crop equal to or slightly larger than the harvest of 1.33 billion bushels in 1994. It is obviously still too early in the season to

be confident about yield potential. As long as weather prospects remain favorable, the expectation of a large harvest will likely keep a lid on U.S. soybean prices by limiting foreign demand for U.S. soybeans for delivery after March 1995.

The very rapid pace of export sales of U.S. soybeans in September and early October has given way to more normal weekly sales. New sales during the week ended November 24 totaled only 11.3 million bushels, the smallest weekly figure of the year. Cumulative exports plus outstanding sales as of November 24 stood at 504 million bushels, or 65.5 percent of the 770 million bushels the USDA expects to be exported during the current marketing year. It appears that importers have covered much of their needs well into 1995.

Soybean prices continue to be supported at a higher level than we expected due to very high soybean oil prices. Export demand for oil remains very strong, as Malaysian palm oil production declines seasonally. In addition, the oil content of the 1994 U.S. soybean crop is slightly less than expected. Based on figures from the Census Bureau, the average oil yield in September and October was about 11.1 pounds per bushel. That is well above the 10.88 pound average of last year and the 10.8 pound average of two years ago, but below the record 11.4 pound yield of the 1991 crop. There is a tendency for the oil yield to be lowest in November or December and to increase after that.

The excellent demand for soybean oil continues to support the domestic crush at a very high level. The National Oilseed Processors Association reported a record crush of 24.457 million bushels for the week ended November 30. That was 9.3 percent larger than during the same week last year. We continue to expect the crush rate to moderate as the marketing year progresses and high oil prices reduce the consumption of oil. Another move up in soybean prices will likely require a weather problem in South American or weather concerns in the U.S. next spring.



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