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PROSPECTS FOR SOYBEAN PRICES

A statement heard with some regularity in recent weeks is, "With corn prices at $2.75, soybean prices should be near $7.00." While seldom heard, it could also be stated that "With soybeans at $6.00 per bushel, corn prices should be near $2.40." Both statements are based on the notion that soybean prices are typically about 2.5 times the price of corn. In the short run, however, the ratio of those prices can vary significantly, reflecting different market fundamentals. Currently, market fundamentals are more supportive for corn than soybean prices.

The difference is primarily on the supply side of the price equation. Consumption of both crops is proceeding at a record pace. In fact, it appears that both the domestic crush and exports of soybeans during the marketing year that ended on August 31 were slightly larger than the last USDA projection. Even if confirmed, however, the larger figures do not necessarily mean that September 1 stocks of soybeans were less than the current projection of 380 million bushels. Changes in unexplained or residual use of soybeans may be reflected in the September inventory report. The differences that do exist on the demand side are primarily in the export market. U.S. soybeans have had to compete with three consecutive record crops in South America. Corn exports have been supported by a small South African crop and a dramatic change in the Chinese export balance.

On the supply side, the difference between corn and soybeans is in planted acreage for 1995. Planed acreage of corn in 1995 is estimated at 71.3 million acres, down 7.85 million acres, or 10 percent, from the acreage planted in 1994. The decline reflects the USDA's Acreage Reduction Program (7.5 percent in 1995, zero in 1994) and the late, wet spring which resulted in some switching of corn acres to other crops and some increased enrollment in the 0/92 program. Acreage of corn harvested for grain is projected at 64.682 million acres, down 8.235 million (11 percent) from that of a year ago.

In contrast, planted acreage of soybeans is projected at 62.585 million acres, an increase of 645,000 (1 percent) from the acreage planted last year. Harvested acreage is expected to increase by a similar amount. With a 1995 soybean harvest in excess of 2.12 billion

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bushels, consumption could continue at the current rate without completely depleting stocks before the 1996 harvest. In contrast, corn consumption clearly has to be reduced during the year ahead.

The short term question for the soybean market is whether or not the 1995 harvest will exceed 2.12 billion bushels. Based on the harvested acreage projection of 61.716 million acres, the U.S. average yield will have to exceed 34.4 bushels per acre to produce a crop in excess of 2.12 billion bushels. The USDA's estimate of last month was 36.4 bushels per acre. Late season problems have likely reduced the yield potential. If that yield has dropped below 34 bushels, the recent strength in soybean prices could continue towards the contract high of $6.61 for November futures.

Longer term, the potential size of the 1996 South American crop will be extremely important to U.S. soybean prices. The crop there has been record large for the past three years. Only one poor growing season has been experienced in the past seven years. Some observers believe that acreage will be reduced in Brazil this year due to the lack of production credit and increases in the acreage of feed grains. Areas of dry weather continue to persist in Argentina. A shortfall in production in South America could propel soybean prices higher than anticipated at this time. Another large crop would keep prices at a relatively low level for another year.

Production uncertainty in the U.S. and South America should keep soybean prices well supported for the near term. The seasonal price pattern could be much different than that for corn. Corn prices are expected to be high early in the marketing year to ensure rationing of the small crop. Prices could then decline during the last half of the marketing year on the basis of prospects for a large 1996 harvest. Unless the U.S. crop estimate declines significantly, soybean prices could show a more uniform price pattern throughout the marketing year. Again, unless the U.S. crop is much smaller than anticipated, the best chances for a significant rally in soybean prices would come later in the year on the basis of South American crop problems.

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