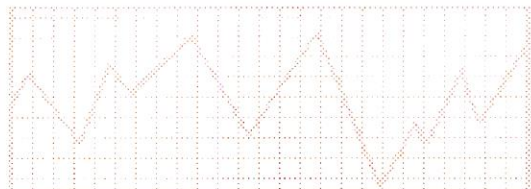




Cooperative
Extension
Service



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

SEPTEMBER 25, 1995

SOYBEANS: HARVEST PRESSURE VERSUS SMALLER CROP EXPECTATIONS

Soybean prices have moved higher for the past six weeks. During that period, November futures established a new contract high of \$6.725. Prices closed well off of that high on September 22, however, as the market removed some of the frost premium. The six week rally in prices was led by soybean meal. From the close on August 11 to the close on September 22, November soybean futures increased by 7.9 percent, October soybean oil by 0.6 percent, and October soybean meal futures by 9.3 percent.

The soybean market will now be pressured by increasing harvest progress, but supported by ideas that the soybean crop is significantly smaller than estimated earlier this month. Soybean harvest is occurring earlier than expected in many areas. The heat and dryness of August pushed the crop to maturity very rapidly. The widespread freeze of last week will also speed maturity of the crop. As a result, the harvest may occur in a much shorter period than projected earlier. The rapid harvest will put downward pressure on prices, particularly if farmer selling is brisk. Reportedly, pre-harvest sales have been light and cash prices above \$6.00 at harvest may encourage selling.

Soybean prices will continue to get some support from the generally accepted view that the crop is smaller than the 2.285 billion bushel estimate released by the USDA earlier this month. Ideas that the crop is smaller than estimated are based on a number of factors. These include yield models based on an index of crop maturity and crop condition; observation that seed size is well below normal in many areas; early yield results; ideas that last year's crop was over-estimated by about 1 bushel per acre; and the fact that the freeze of this past weekend dipped further south than what was being reported on Monday morning.

Ideas that the 1994 soybean crop was over-estimated are based on USDA quarterly *Grain Stocks* reports which showed smaller than expected inventories in December, March, and June. The estimate of year ending (September 1) stocks will be released on September 29. That report will provide further information about the size of the 1994 crop.

The USDA will provide an updated estimate of the size of the 1995 crop on October 11. That report will reflect conditions as of the last week of September and should capture information about seed size and reflect early yield results. That report, however, may not fully reflect the effect of freeze damage. Potential yield of damaged crops will be nearly impossible to judge.

The size of the soybean crop is especially critical this year. A smaller estimate could change the supply/demand balance from one of surplus to one requiring some modest rationing of use. That is, based on the current crop estimate soybean crush and exports could remain at the record level of this past year without reducing year ending stocks below 275 million bushels. On the other hand, a 2-bushel reduction in the average yield would reduce ending stocks below 200 million bushels, even with a 50 million bushel reduction in use as projected by the USDA.

Soybean prices may remain quite volatile during the harvest period, a time when prices typically move lower. This counter seasonal price pattern does offer an opportunity to price some of the 1995 crop. Some ownership should probably be retained, however, because of the importance of the South American crop. The potential size of that crop will unfold over the next several months. Any indication of a shortfall in the crop could be quite supportive, particularly to soybean meal prices. If prices do go higher based on South American concerns, producers may also want to take a look at pricing opportunities for the 1996 crop. The November 1996 futures contract has been carrying a slight premium to November 1995 futures. With a likely decline in soybean acreage in 1996, new crop prices could become quite volatile next summer. Pricing of that crop should proceed with some caution.



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