



WEEKLY OUTLOOK

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SOYBEAN PRICES TAKE THE LEAD

For several months it has been noted that soybean prices have lagged the increase in corn and wheat prices. The sluggish soybean market reflected the more abundant supply of soybeans. The 1995 South American crop was record large and the 1995 U.S. crop was only 13 percent smaller than the record harvest of 1994. In addition, sales of 1995 crop soybeans into the export market got off to a very slow start, particularly in comparison to the rapid start for corn export sales. Since Thanksgiving, however, soybean prices have had a solid rally. January soybean futures have increased by \$.33, closing at \$7.105 on December 8. Cash prices have increased a similar amount, with elevator bids exceeding \$7.00 in many eastern corn belt locations.

The increase in soybean prices has been led by soybean meal. January futures have increased nearly \$16 per ton, or about 7.5 percent, in less than 2 weeks. Over the same period, soybean oil prices declined fractionally. Meal prices have been driven by two major factors. First, is the ongoing strong domestic demand for soybean meal. The demand for meal has shifted as a result of substantially higher feed grain prices. As we pointed out in an earlier newsletter, meal prices had become very low in relation to grain prices, making soybean meal an attractive feed ingredient. Even now, the price of soybean meal remains low relative to grain prices. As of December 8, the price of a pound of soybean meal (44 percent protein) in Decatur, Illinois was about \$.105. The average price of corn at country elevators in central Illinois was about \$.06 per pound. The price ratio of 1.75 to 1 is low by historic standards. Soybean meal is attractively priced to the livestock feeder.

The second factor supporting soybean meal prices has been dry weather in parts of the Brazilian soybean producing areas. Dry weather has been a problem in the two largest soybean producing provinces, and has significantly delayed planting progress in some areas. It is admittedly early in the growing season, so that ample opportunity for adequate rainfall still exists. However, no significant rainfall is forecast for the dry areas this week. The impact of a production shortfall in Brazil could be significant. Brazil is the largest exporter of soybean meal, with annual sales in excess of 10 million metric tons, nearly 75 percent larger than U.S. sales. In a world of tight grain supplies, demand for U.S. soybean meal could increase sharply with a small Brazilian soybean crop in 1996.

Another consideration in the soybean market is the likelihood of a small decline in U.S. acreage in 1996. While planted acreage will depend heavily on price relationships and weather conditions next spring, current conditions suggest that it will be a struggle to increase soybean acreage. Planted acreage of winter wheat is up. High prices will encourage more acres of spring wheat, corn, and sorghum. Cotton acreage may slip a little, even with attractive prices, due to production problems experienced in 1995. Soybean acreage was supported in 1995 due to a late, wet spring. At 62.58 million acres, soybean plantings were 1.13 million above March intentions and 900,000 larger than plantings of a year ago. November 1996 soybean futures have increased nearly \$.25 per bushel in the past two weeks.

It is difficult to judge the potential for further soybean price increases. Not only is South American weather important, but the uncertainty of the 1996 U.S. growing season is still to come. If corn prices remain firm, soybean meal prices could advance another \$25 per ton and still remain competitively priced. Such an increase could add another \$.60 to the price of soybeans, if soybean oil prices remain firm. Weakness in oil prices could limit the gain in soybean prices by \$.10 to \$.15 per bushel. A move to \$250 meal and \$7.60 soybean futures would equal the 1993 highs in those markets.

The uncertainty in the soybean complex may result in more than one window of opportunity to price additional quantities of the 1995 crop and start pricing the 1996 crop. The current South American weather concerns appears to be opening the first such window.



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

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