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WEEKLY OUTLOOK

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ARE HIGHER SOYBEAN PRICES AHEAD?

Wheat and corn futures have moved to 15-year highs. Cash corn prices have moved to all time highs in some markets. The reasons behind the current high prices have been reviewed a number of times. At the same time that these high prices have occurred, soybean prices have languished. With soybean prices dropping to near record lows in relation to corn prices, some analysts have become optimistic that soybeans will rally to catch up to corn prices. The fundamental difference in the corn and soybean markets were outlined in some detail last fall [Weekly Outlook, September 5, 1995]. Those differences remain, and in fact have become more exaggerated over the past month.

On the supply side, the differences date back to the southern hemisphere crops of last year. The 1995 South American soybean crop was record large while the South African corn crop and the Australian wheat crop suffered through drought conditions. The U.S. corn crop declined by 27 percent in 1995 as both acreage and yield declined from the levels of 1994. The U.S. soybean crop declined 14.5 percent from the record level of 1994. The small supply of corn has required price rationing, while such rationing has not been required in the soybean market. The 1996 South American soybean crop is expected to be about 8 percent smaller than the record harvest of 1995, but will be the third largest crop on record. South African corn production has rebounded, but the Brazilian crop is estimated to be down 16 percent due to adverse growing conditions.

The differences between the corn and soybean markets have been extended to the demand side. The rate of soybean crush declined sharply in the second quarter of the 1995-96 marketing year. The domestic crush was a record 351.3 million bushels during the first quarter of the year, exceeding last year's record by 5.1 million bushels. Compared to last year's rate, however, the crush declined 2.9 million bushels in December 1995, 4.5 million in January, and 9.6 million in February (based on weekly figures from the National Oilseed Processors Association).

The decline in the domestic crush reflects a slowdown in the export demand for soybean meal and oil. For the period October 1, 1995 through February 22, 1996, commercial exports of soybean meal were 20 percent smaller than during the same period last year. Unshipped sales on February 22 were 24 percent below the level of sales on the same date last year. For the same period, commercial exports of soybean oil were down 63 percent and outstanding sales on February 22 were down 82 percent.

Even though domestic use of meal and oil remain large, the decline in exports has resulted in some increase in meal and oil stocks, even with the slow down in the crush. At the end of January, meal stocks at mills stood at 302.4 thousand tons, the highest level for that date in three years and 53 percent larger than the extremely low level of a year ago. Oil stocks were reported at 1.51 billion pounds, also the highest level for that date in three years and 35 percent above the level of a year ago.

Without some improvement in export demand, the domestic soybean crush may fall short of the 1.38 billion bushels currently projected by the USDA. Soybean exports and export sales are right on pace to reach the USDA projection of 810 million bushels. If crush falls short of the projection, year ending stocks may exceed the current projection of 190 million bushels.

Soybean prices may rally from current levels, but not just because the current old crop price is low in relation to corn. The role of old crop prices is to allocate available supplies so that soybean prices can remain low in relation to corn prices for an extended period of time.

New crop prices are a different story, however. As suggested last week, the role of new crop prices is to attract the "appropriate" acreage in 1996. To attract sufficient soybean acreage, soybean prices may have to increase in relation to corn prices. That would be accomplished with new crop prices. At the close of trade on March 1, November soybean futures were priced 2.34 times higher than December corn futures. That ratio can be increased with higher soybean prices and/or lower corn prices. With reports of expanded corn acreage in the southeast and the possibility of replacing failed wheat acres with feed grains this spring, new crop corn prices may be as likely to decline as soybean prices are to rise.

Higher soybean prices, if they do occur, are more likely to be generated by new crop considerations than old crop fundamentals. Those higher prices could come in an attempt to buy more acres; as a result of insufficient acres; or as a result of adverse weather during the growing season.

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