Cooperative Extension Service

WEEKLY OUTLOOK

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SOYBEANS: OLD CROP SUPPLIES ARE ABUNDANT, BUT WHAT ABOUT NEW CROP?

It has been noted on a number of occasions that soybean price increases have not kept pace with the increases in the prices of the major grain commodities. The reasons are fundamental — more abundant world supplies of soybeans and other oilseeds and more moderate demand. Recently, the pace of soybean use has slowed dramatically. A seasonal decline is normally experienced as the South American crop is harvested and marketed, but the decline in recent weeks has been larger than normal.

For the three weeks ending May 23, soybean export inspections averaged 11.4 million bushels per week. For the year, the USDA expects exports to reach 825 million bushels, just 13 million less than exported last year. Through May 23, exports were lagging last year's level by 34 million bushels. Exports to Asia and Mexico are larger than exports of a year ago, but shipments to Europe are down sharply. To reach the USDA projection for the marketing year, exports need to average 9.3 million bushels per week for the next 14 weeks.

New export sales of soybeans for delivery this marketing year continue to be relatively large. As of May 16, 131.5 million bushels of soybeans had been sold for export this marketing year, but had not yet been shipped. Outstanding sales to Japan and the European Union were relatively large. The total of shipments (691 million bushels) and outstanding sales accounted for 99 percent of the USDA's projection for the year. Based on such large sales with 14 weeks left in the marketing year, it appears that exports will easily reach, or perhaps exceed, the USDA projection. However, it is common for sales to exceed shipments and for the excess to be rolled into the new marketing year. It will be more important to monitor the rate of export shipments than the rate of export sales to judge if the USDA projection will be reached by August 31.

Domestically, the soybean crush was extremely large early in the 1995-96 marketing year but has tailed off as the year has progressed. The slow down reflects a slow rate of exports of both meal and oil. As of May 16, commercial shipments of meal and oil were down 20 and 70 percent, respectively, from the level of a year ago. The first quarter crush was a record 351.3 million bushels, 1.5 percent above the previous record of last year. The second quarter crush was 3.5 percent below the record of the second quarter last year. The crush during March and April was 8 percent below the level of a year ago. Weekly data for May indicate that the domestic crush is still running about 7.5 percent below the rate of a year ago. For the most recent week (ending May 22), the crush was down 13 percent, or 3.35 million bushels, from the crush of the same week last year. To reach the USDA projection, the weekly crush for the last 14 weeks of the year needs be within about 800,000 bushels of last year's weekly crush. Those weekly crush reports are released on Thursday afternoon.

It is too early to reach a conclusion, but it appears that soybean use could fall short of the USDA projection. If so, year ending stocks would be a little more abundant than the 190 million bushels now projected.

The focus in the soybean market is now on new crop prospects. With the South American crop now harvested and old crop supplies apparently rationed, prices are now a function of the prospects for the 1996-97 supply and demand balance. If tightness is to develop, it will likely be next year, rather than this year. The near term focus is on the North American oilseed crops. Canada has made plans to reduce canola plantings and late planting may be threatening U.S. soybean yield potential. As the same time, lateness in planting corn and spring wheat may result in more oilseed acreage than earlier intended. Acreage of soybeans, canola, and sunflowers could all exceed intentions. With favorable summer weather, a reasonable oilseed crop could still be harvested. Weather uncertainties will provide good forward pricing opportunities for the 1996 soybean crop. For the near term, the market may find resistance at the contract high of $8.10 for November futures. The new crop pricing strategy should probably be one of moving slowly and taking small steps. That is, more than one pricing opportunity will likely occur so that early sales should be in small increments.

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