



# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**SEPTEMBER 9, 1996**

## **SOYBEANS — YIELD AND CHINESE DEMAND**

Corn and wheat prices have trended lower in recent weeks as prospects for larger world crops in 1996-97 have unfolded. In contrast, soybean prices have been relatively strong, with November futures closing at \$8.00 on September 6. The ratio of November soybean futures to December corn futures has increased to 2.4 to 1, up from about 2.1 to 1 earlier this summer.

Soybean prices have received support primarily from concerns about the 1996 U.S. crop. Overall, crop conditions have remained very stable since the last week of July, with 55 to 58 percent of the crop rated in good or excellent condition. As of a week ago, 57 percent of the crop was rated good or excellent, compared to 54 percent on the same date last year. The concern, however, is the lateness of crop. As the growing season comes to an end, the crop may not reach its full yield potential.

Last month, the USDA estimated the U.S. yield potential of the 1996 soybean crop at 36.3 bushels per acre, 1.4 bushels above the 1995 average yield. That estimate is a bushel or so below trend yield and 5.1 bushels below the record yield of 1994. Based on an harvested acreage estimate of 63.44 million acres, a crop of 2.3 billion bushels was anticipated in August. Private estimates have put the crop potential in a range of 2.1 to 2.275 billion bushels. Currently, U.S. soybeans are being consumed at an annual rate of about 2.325 billion bushels per year. Assuming that carryover stocks will not be reduced below 100 million bushels, a crop of less than 2.26 billion bushels would require some reduction in the current annual rate of consumption. Based on the harvested acreage estimate, an U.S. average yield below 35.6 billion bushels, then, would require rationing of soybean use. The magnitude of rationing required and the strength of demand will determine the price level of soybeans.

Due to the smaller world crops of other oilseeds expected in 1996-97, the demand for U.S. soybeans could be quite strong. In addition to the traditional buyers of U.S. soybeans and soybean products, China is expected to have a presence in the 1996-97 marketing year. With about one month left in the 1995-96 soybean meal marketing year, China had purchased nearly 90 thousand metric tons of U.S. meal, compared to no purchases in 1994-95. Those purchases from the U.S. were in addition to purchases from South America and India. China also purchased about 15.5 million bushels of U.S. soybeans

during the 1995-96 marketing year, compared to no purchases last year. In contrast, China has purchased only 135.5 thousand metric tons of U.S. soybean oil in the 1995-96 marketing year, down from 544.3 thousand last year.

It is generally agreed that China will import significant quantities of soybeans and soybean products during the 1996-97 marketing year. As of August 29, however, the USDA's *Export Sales* report showed no purchases of soybeans or products by China for delivery during the 1996-97 marketing year. The market will pay close attention to the weekly reports of soybean use — domestic crush as well as exports and export sales.

In many respects, the soybean market appears to be taking on the characteristics of the corn and wheat markets of a year ago. Production will fall short of its potential and perhaps below the current estimate of 2.3 billion bushels. Rationing of use will likely be required and demand prospects are generally good. That scenario resulted in record corn and wheat prices this past year. Record soybean prices will be much more difficult to obtain because of the magnitude of the southern hemisphere crop. With a large harvest in South America in the spring, it is more difficult to squeeze inventories. The other significant difference is that weekly statistics of soybean consumption are available. In the case of corn, feed use is revealed only quarterly. The soybean market will be able to monitor consumption very closely. Assuming a smaller crop is confirmed in September or October, soybean prices will remain strong as long as weekly consumption figures remain large.



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