



# WEEKLY OUTLOOK

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**OCTOBER 7, 1996**

## **1996 SOYBEANS — THE CROP THAT WOULD NOT DIE**

The 1996 soybean crop was one of the latest planted crops on record. An estimated 55 percent of the crop was planted after June 2 and nearly 30 percent was planted after mid-June. The pattern was very similar to the 1993 crop year. The late planting raised concerns about crop maturity throughout the growing season. The prospects for a fairly widespread frost last week dissipated and it now appears that the vast majority of the crop will reach maturity without frost damage. Harvest accelerated rapidly last week.

The USDA will release an updated production estimate on October 11. That estimate was at 2.3 billion bushels in August and at 2.27 billion last month. Most analysts were convinced that the estimate would come down again in October. The most pessimistic were expecting a crop under 2.1 billion bushels. Estimates from three of the most-watched private sources (Sparks, FCC, and Leslie) now put the crop back to 2.3 billion bushels. Based on the USDA's estimate of harvested acreage, a crop of that size would require an U.S. average yield near 36.3 bushels per acre. By most calculations, the trend yield for 1996 (based on the past 20 years of yield data) is about 37 bushels per acre.

A crop of 2.3 billion bushels would allow soybean consumption to continue at about the same pace as the past two marketing years. However, year ending stocks would continue to be drawn down with that level of consumption. As harvest progresses over the next several weeks, the market will increasingly be looking to the demand side of the equation for price direction. As we (and others) have outlined previously, a convincing case can be made for strong soybean and soybean product demand over the next six months. That case is based on rapid consumption of the 1996 South American crop, reduced canola production in 1996, and prospects for large purchases from China.

Soybean consumption has actually been rather slow during the first five weeks of the 1996-97 marketing year. Based on figures from the National Oilseed Processors Association, the crush during the first five weeks of the year is running about 5 percent behind last year's pace. Export shipments through the first five weeks were 39 percent less than during the same period last year. Consumption has been slow partly due to the extreme tightness of supplies prior to harvest. New export sales of soybeans have been large the past two weeks, at 19.7 and 29.2 million bushels, respectively. Total sales are only about 5 percent behind the pace of sales last year. To reach the USDA projection, an average of about 12 million bushels need to be sold each week from now through August 1997. The domestic crush is expected to accelerate as harvest progresses and domestic livestock production expands. Crush margins improved on last week's price decline.

Increases in domestic meal consumption may be limited as livestock feeders are faced with a more abundant grain supply.

China has been a recent purchaser of U.S. soybean meal. They received 90,000 tons of U.S. soybean meal during the 1995-96 marketing year (with one week of data yet to be reported), compared to none during the previous year. As of September 26, China had purchased 75,000 tons of U.S. meal for delivery after October 1, compared to none at this time last year. Additional sales have occurred since the last official report, with delivery to occur early in the marketing year. Overall, new crop soybean meal sales are about double the level of a year ago. Soybean oil continues to be the weakest link in the soybean complex. Domestic stocks are at the highest level in about three years and export sales have started very slowly.

Recent price declines are expected to encourage end users, particularly importers, to become more aggressive in covering their needs for the 1996-97 marketing year. In addition, producers are expected to be slow sellers of the newly harvested crop at current price levels. That combination should result in some post-harvest recovery of soybean prices. Additional weakness over the next two or three weeks, however, cannot be ruled out. The extent of the recovery will depend on final crop size, rate of consumption, and prospects for the 1997 South American crop.



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