



# WEEKLY OUTLOOK

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## **SOYBEANS: DEMAND HOPE STILL ALIVE**

Soybean prices have declined sharply since the release of the USDA *Grain Stocks* report on September 30. That report, showing larger than expected September 1 stocks, was followed by the *October Crop Production* report showing a larger than expected production potential. The market quickly turned from discounting the USDA's September production estimate to expecting an even larger estimate in November. In 15 or the past 20 years, the November production estimate has equaled or exceeded the October estimate.

With soybean harvest entering the last half, attention will increasingly switch to the demand side of the market. With world production of nonsoybean oilseeds down in 1996-97 and growing livestock production in Asia, the need for U.S. soybeans should be quite high over the next several months. If soybean prices are to mount a post-harvest recovery, consumption needs to remain large into the winter months. Weekly reports of export sales, exports, and crush will provide the market with current information about the rate of consumption.

In its October report, the USDA's World Agricultural Outlook Board projected a 5 million bushel increase in both the domestic crush and exports of soybeans during the 1996-97 marketing year. For soybean oil, domestic use and exports are projected to increase by 0.7 percent and 63 percent, respectively. For soybean meal, domestic use is projected to remain about steady while exports are projected to increase by 2 percent.

The tight stocks and slow harvest resulted in a slow start to both the domestic crush and exports of soybeans in September. Weekly figures from the National Oilseed Processor's Association indicate that the crush rate accelerated during the first two weeks of October. Through the first seven weeks of the year, cumulative crush is down about 3 percent from the crush of a year ago, but catching up. Typically, the highest rate of crush is from October through February, reflecting the seasonality of meal demand and the availability of South American soybeans.

Cumulative soybean exports through the first seven weeks of the year were down about 16 percent from the exports of a year ago. All of the major buyers had imported fewer U.S. soybeans than a year ago. Export sales, however, have accelerated since mid-September. As of October 10, the USDA reported that nearly 300 million bushels had been sold for export, 5 percent more than on the same date last year. Japan, China, and Taiwan have increased purchases dramatically. It appears that China needs soybeans and soybean meal for immediate delivery. Product from their harvest will be available later this winter.



The market seemed to shrug off the recent figures showing a sharp increase in soybean consumption. The market is still fighting the seasonal pressure of harvest and expectations of a larger crop. In addition, the potential for good demand for U.S. soybeans has been well advertised for a long period of time. The shortfall in world oilseed production was apparent by early summer. As a result, an increase in consumption is not a surprise and the market must be convinced that consumption will remain high.

Another factor which may be tempering the impact of a higher rate of consumption is the favorable start to the South American soybean planting season. Increased acreage is expected in Brazil and a rebound in yields is expected in Brazil and Argentina. The USDA is projecting a 10 percent increase in South American soybean production in 1997, to a record 1.533 billion bushels. A crop of that size would be 35 million bushels larger than the previous record harvest in 1995.

South American production is expected to be 65 percent as large as the U.S. harvest. With the recent elimination of Brazilian export taxes, the world will have a competitive source of soybeans beginning in the spring of 1997. A problem with that crop may have to develop to produce a significant recovery in soybean prices. In the meantime, the market is looking for a level that will provide some support for the recent sharp decline. From the high of \$8.25 on July 12, November futures have declined about \$1.45 per bushel. Unless the crop estimate increases significantly, the seasonal low is expected to occur yet this month. Currently, expectations are that November futures will find technical and fundamental support near \$6.60.



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