



# WEEKLY OUTLOOK

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## **SOYBEANS — ANY MORE UPSIDE POTENTIAL?**

The focus in the crop markets is now mostly on soybeans. Corn and wheat inventories are modest, but demand is tempered by large world crops. Domestic corn consumption may also be tempered by the slow growth in livestock and poultry production. On the other hand, soybean consumption remains strong and dryness persists in some growing areas in South America.

The Census Bureau estimated the December 1996 soybean crush at a record 138.2 million bushels, exceeding the previous record crush (November 1996) by 5.1 million bushels. The domestic crush of soybeans during the first four months of the 1996-97 marketing year totaled 498.9 million bushels. That is 22 million more than during the same period last year and nearly 25 million more than two years ago, when crush for the year was record large. The extremely large crush has materialized in spite of a slow start last September, when supplies were scarce and prices high. Weekly figures from the National Oilseed Processors Association indicate that the high rate of soybean crush continued during the first three weeks of January.

Soybean meal production during October, November, and December 1996 totaled 9.41 million tons, 6.8 percent more than during the same period last year. The crush during those three months was 7.9 percent larger than during the same period last year. The average meal yield from the 1996 crop has been about one-half pound lower than from the 1995 crop and very similar to the yield from the 1994 crop. The increase in soybean meal production has apparently not resulted in any build-up of meal stocks. Stocks at processors were estimated at 293.2 thousand tons at the end of December 1996, down about 100 thousand tons from stocks of the previous year. No estimate of stocks at other locations is available.

The high rate of domestic soybean crush has been generated by the increased consumption of soybean meal. That increase has been almost entirely in the export market. As of January 16, meal exports were 533,000 tons larger than shipments of a year ago. China had imported 360,000 tons, compared to none last year.

Soybean oil production during October, November, and December totaled 4.305 billion pounds. That is an increase of 5.1 percent from the same period last year, even though the crush was up 7.9 percent. The average oil yield has declined from 11.1 pounds per bushel last year to 10.8 pounds this year. The yield has been similar to that of the 1992 and 1993 crops. In spite of the modest increase in soybean oil production, oil stocks are accumulating. Warehouse stocks at the end of December totaled 2.025 billion pounds, compared to 1.409 billion on the same date last year. Stocks were at a four year high for that date. Soybean oil exports are running well ahead of last year's pace. Commercial shipments

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through January 16 were 2.7 times larger than shipments of a year ago. The increase, however, is not enough to offset the increase in oil production generated by the high rate of crush.

Soybean exports are also progressing at a record pace. Shipments through January 23 (21 weeks into the marketing year) stood at 490 million bushels, 19 percent more than on the same date last year. For the year, the USDA projects only a 6 percent increase in soybean exports. To reach the USDA projection, weekly shipments will have to average 13 million bushels per week from now through August. The average weekly rate to date has been 23.7 million bushels.

The rate of U.S. soybean exports will decline dramatically once the South American crop is harvested and available to the market. The size of that crop, however, will be extremely important. With U.S. soybean stocks already projected to be quite small (155 million bushels), any shortfall in production in South America could result in price increases in an attempt to slow the rate of world soybean consumption and/or to encourage additional acreage in the United States this spring. It appears that the South American crop will be large, and perhaps exceed the record 1995 harvest of 1.5 billion bushels. The USDA currently projects production potential at 1.525 billion bushels. Some dry areas in southern Brazil, however, pose some threat to that projection. Even a small decline could be important. A 20 million bushel reduction in the estimated size of the U.S. crop on January 10 pushed prices about \$.50 higher.

Until the outcome of the South American crop is determined, soybean prices are expected to be well supported. March futures appear to have excellent support at \$7.30 for the time being. Right now, the \$7.50 to \$7.55 area is proving difficult to penetrate. If consumption remains large and/or South American weather remains a problem, prices could make a run at the pre-harvest levels of \$7.70 to \$7.75. From a marketing standpoint, downside price risk appears small for the time being, offering producers the luxury of waiting. Widespread rain in southern Brazil or a slow down in the rate of consumption would be a signal to advance old crop sales.

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