



WEEKLY OUTLOOK

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SOYBEAN PRICES TO REFLECT SOUTH AMERICAN CROP, CHINESE DEMAND, AND U.S. ACREAGE

Soybean analysts continue to debate the potential size of the 1997 South American soybean crop. The size of that crop is extremely important due to the current record rate of consumption of U.S. soybeans and the likelihood that year-ending stocks in the U.S. will be low. The USDA will update its consumption and carryover projections on February 12. Carryover stocks are currently projected at 155 million bushels, or a meager 6.4 percent of projected consumption. Many analysts believe that consumption will exceed the current projection and that year-ending stocks could be reduced to as little as 125 million bushels. Stocks at that level would represent less than a three week supply. The projection of the domestic crush is the prime candidate for increase. With five months of the marketing year completed, the pace of the crush is running well ahead of the USDA projection. Exports and export sales are also running ahead of the USDA projection, but are more subject to decline in the last half of the marketing year. Projections may not be changed in the USDA's February 12 report, but eventually changes are expected.

The 1997 South American crop will be large, currently projected at 1.525 billion bushels by the USDA. That estimate is 8.2 percent larger than the 1996 harvest and 1.8 percent larger than the record crop of 1995. Compared to last year's production, the largest increase is expected in Brazil. Dry weather in parts of southern Brazil and excessive moisture in some more northern areas has kept the market in doubt about potential crop size. Recently, private estimates of the potential size of the South American crop have generally been getting larger. Some estimates now exceed 1.6 billion bushels. The USDA will also update its estimate on February 12.

In addition to the size of the South American crop, analysts are also debating the likely timing of that crop entering the world market. Delays in the availability of the crop would prolong the rapid rate of consumption of U.S. soybeans. The rate of U.S. soybean exports will be most directly affected by the timing of the South American crop availability. Once that crop is available, weekly shipments from the U.S. will slow dramatically. A review of the past five years indicate a dramatic slow down in U.S. export shipments beginning as early as late March and as late as late April. The difference of three to four weeks could be very important this year. The impact of the availability of the South American crop should be immediately detected in the USDA's weekly export inspections report.

The impact of the availability of the South American crop on the rate of domestic crush is not as dramatic as the impact on the rate of exports. However, a review of the past five years suggests that the timing of the impact is more predictable. Figures from the National Oilseed Processors Association indicate a slowing of the weekly crush rate beginning in May of each year. In the case of both exports and crush, a recovery in the weekly rate of use does not occur until after the U.S. harvest in the fall of the year. Those who currently expect further soybean price increases tend to have the smaller estimates for the size of the South American crop. In addition they tend to expect a later rather than earlier impact of that crop on the rate of use of U.S. soybeans.

Two other factors will be extremely important for soybean prices — the rate of purchases of soybeans and soybean products by China and prospective soybean acreage in the United States in 1997. Analysts are also divided in their opinion of these factors. Some believe that Chinese purchases are complete for the time being, pointing to reports of the back-up of commodities at Chinese ports. Others believe additional purchases are likely. Forecasts for U.S. soybean acreage in 1997 vary widely — from 64 to 67 million acres. With a trend yield, that range reflects a difference of about 120 million bushels in the prospective size of the crop. When interpreting acreage forecasts, one should consider the source of the forecast and also make sure all of the U.S. acreage is accounted for. Some recent forecasts of acreage by crop have left three to four million acres not accounted for.

Soybean prices have been trading in a range of about \$7.30 to \$7.55 for the past month. Continue in that range or break out to either side, depend very much on the factors outlined here.



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