Cooperative Extension Service

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.

JUNE 2, 1997

THE SOYBEAN MARKET HAS NINE LIVES

On three occasions this spring, the soybean market has shown signs of topping. Each time, however, price weakness has proven to be temporary. The turnaround of this past week was the most dramatic of the three. July futures had traded to the "magic" level of $9.00. That level appeared to be sufficient to meet technical demands of the market. In addition, the level appeared high enough to ration available supplies. The domestic crush rate declined under 22.5 million bushels, weekly export inspection dropped to 5.5 million bushels, and weekly export sales dropped to 5.4 million bushels. July futures dropped by more than $.70, to a low of $8.304.

Consumption figures did not remain low for long. For the week ended May 22, export inspections totaled 11.5 million bushels. Only 7.8 million bushels per week are required to meet the USDA projection. For the week ended May 29, the domestic crush rate increased to almost 25.5 million bushels. A crush of only 22.8 million bushels per week is needed to reach the USDA projection.

July futures recovered to a high of $8.86 on May 30. Basis levels tended to increase with the price recovery. The average central Illinois bid to farmers on May 30 was $.03 under July futures. The basis had narrowed to about $.01 at mid-week. Crush margins narrowed significantly last week, as the increase in product values failed to keep pace with the increase in soybean prices.

New crop soybean prices also recovered this past week. November futures declined to a 5-month low of $6.63 on May 28, but recovered more than $.20 by the end of the week. Support came from two sides. First, the weekly export sales report showed 12.7 million bushels of soybeans sold for delivery in the 1997-98 marketing year. Total new crop sales now stand at about 50 million bushels, equal to the level of a year ago. Sales of soybean meal for export during the 1997-98 marketing year have reached 330 thousand tons, up from just 39 thousand tons on the same date last year. No oil sales for delivery next year have been reported.

Large new crop sales of soybeans to Argentina were reported. Sales support the argument that South America will sell out of the high priced soybeans early this year and import larger than normal quantities of U.S. soybeans later this year and in early 1998. The shortfall in South American production also suggests that other buyers will turn to U.S. supplies earlier than normal this fall.

The second area of support for new crop soybean prices was weather related. While the rate of soybean planting has challenged the record pace of 1987 and 1988, plant emergence and growth has been slow. The slow start, due to cool temperatures, has taken some of the edge off yield expectations. It is probably a little early to worry about soybean yields, particularly in light of last year's performance. However, the market will remain very nervous because of the tightness in supplies and expectations of continued strong demand. Some flooding in Ohio and Indiana this past weekend will contribute to that nervousness.

The focus in the soybean market will be mostly on old crop for the next several weeks. With rationing apparently not complete, the question is once again -- how high must prices go? July futures closed at a premium of $1.96 over November futures on May 30. The large discount for new crop prices will increasingly motivate end users to live from hand to mouth and to delay consumption as much as possible. However, new crop U.S. supplies will not be available for another three months. That is a long time to delay consumption.

Many market participants are now anticipating a quick, sharp rally to new highs in order to complete the rationing process. Nearby futures have already traded to the highest level since August 1988. A move above the most recent high of $9.02 would likely generate substantial speculative buying interest, making $9.50 a possibility. A failure to exceed the recent highs would suggest another modest retreat in prices. Fundamentally, the weekly estimates of exports and crush will be the most important information. In addition, the USDA will release updated use and carryover projections for the year on June 12. A lowering of the carryover estimate is being anticipated. The June 1 stocks report, to be released on June 30, will be extremely important as it will confirm the magnitude of supplies available for use in the last quarter of the marketing year.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

CES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801

FIRST CLASS