



WEEKLY OUTLOOK

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SOYBEAN DEMAND PROSPECTS

Some private sector analysts are more optimistic about consumption of the 1997 U.S. soybean crop than was the USDA in its August *Supply and Demand* report. One firm reportedly is projecting stocks at the end of the 1997-98 marketing year at 190 million bushels, compared to the USDA's projection of 305 million bushels. The difference is thought to be mostly the result of differences in consumption projections, although some difference in expected crop size may also exist. In addition, there are differences of opinion about the level of old crop soybean stocks at the beginning of the 1997-98 marketing year (September 1, 1997). Those stocks will be revealed on September 30. That report has occasionally contained a surprise for soybeans. In 1994 and 1996, September stocks were larger than expected, resulting in a large, negative residual disappearance of soybeans in the summer quarter. Due to the difficulty of estimating on-farm stocks of soybeans, the September stocks estimate is thought to be the most accurate of the quarterly estimates since on-farm stocks are at the lowest level of the year.

Part of the optimism about soybean consumption during the 1997-98 marketing year is based on the early pace of export sales. As of August 21, 233.5 million bushels of soybeans had been sold for delivery during the next 12 months. That is an increase of 106 million from the level of sales last year. All major importers, except Japan, have purchased more soybeans than at this time last year. China had purchased 19 million bushels of soybeans, compared to none at this time last year. Commercial soybean meal sales totaled 1.4 million tons, compared to only 173,000 tons at this time last year. Early sales are not always a good indicator of total sales for the year. The timing of purchases varies based on price and price expectations.

The strong export demand, particularly from Asia, is expected to persist due to rapid expansion of pork and poultry production and another mediocre crop in China. In addition, South America may require larger than normal quantities of U.S. soybeans prior to the 1998 harvest due to aggressive exports of the 1997 crop. The USDA has projected soybean exports at a record 945 million bushels, an increase of 65 million bushels from exports for the year just ended. Larger exports would reflect a significant demand increase if the large 1997-98 world oilseed crop actually materializes. The USDA currently projects the 1997-98 foreign oilseed crop at a record 190.4 million tons, 4.4 percent larger than last year's crop and 13.1 percent larger than the crop of just four years ago. The foreign soybean crop is projected at 2.66 billion bushels, 8.4 percent larger than last year's crop and nearly 5 percent larger than the record crop of 1994-95. South American production is expected to expand due to increased acreage. The Chinese crop is

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projected at 496 million bushels for the third consecutive year, down from the record 1994 crop of 588 million.

The domestic soybean crush is expected to be supported by increasing pork and poultry production in the U.S. and by increased exports of both soybean oil and meal. The USDA has projected the crush at a record 1.485 billion bushels, 60 million larger than the record of the current year. Residual use is also projected at a very high level, accounting for 2.5 percent of total use.

While world demand is growing, some additional problems with the foreign oilseed crop in 1998 may be required for consumption to exceed the current USDA projections. Such problems cannot be ruled out, given the current concern about the strong El Nino weather pattern. The El Nino has been well advertised and is expected to result in a continuation of a very unsettled weather pattern. The magnitude, timing, and location of any adverse weather events will be extremely important, but difficult to predict.

What to do. Prices for the 1997 crop were quite volatile from late June through early August, with November futures trading at a low of \$5.77 and a high of \$6.75. Prices have traded in a much more narrow range for the past three weeks as crop conditions have gradually improved. Based on closing prices on August 29, the market is offering the central Illinois soybean producer an average price of about \$6.25 for the 1997 crop marketed throughout the upcoming year. Concerns about the impact of cool weather this week may push prices higher. November futures above \$6.50 would offer an opportunity for catch up sales. The significant uncertainty about demand strength and weather patterns suggests that ownership of a significant portion of the crop may be warranted. The current price structure just about covers the interest cost of storing soybeans.



Issued by Darrel Good
Extension Economist
University of Illinois

Return Service Requested

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

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