



# 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.

**OCTOBER 20, 1997**

## **SOYBEANS: MORE FOCUS ON THE SOUTH AMERICAN CROP**

Soybean prices have been volatile over the past three weeks, reflecting the record large U.S. harvest and the record pace of domestic crush and export sales. Concerns about the impact of the El Nino weather pattern on Asian palm oil production and South American fish meal production also contributed to the volatility. Over the past two years, palm oil production accounted for 26 percent of the world's edible vegetable oil production. On a 44 percent protein basis, fish meal production has accounted for nearly 7 percent of the world's protein meal production. Any significant shortfall in the production of either of those commodities would increase the demand for soybeans.

These factors will continue to be important to soybean prices as they become reflected in export sales. In addition, however, the progress of the South American soybean crop will become increasingly important in the price picture. South American soybean production increased from an insignificant 80 million bushels in 1971 to 1.5 billion bushels in 1997. South America captured one-third of the world's exports of soybean protein by 1980 and nearly 45 percent by 1996. The availability of South American soybeans has had a significant impact on price behavior in years of a short supply in the United States. Soybean prices have not been able to duplicate the extremely high levels of the early 1970s when South American supplies were not available.

Soybean plantings in 1996 increased by nearly 8 percent in Brazil, 4 percent in Argentina, and 9 percent in Paraguay. Late season dryness trimmed yields in Argentina. Yields averaged 33.5 bushels in Brazil, 27.5 in Argentina, and 33.3 bushels in Paraguay. For the current year, the USDA projects a further increase in planted acreage -- 7 percent in Brazil, 5 percent in Argentina, and 4 percent in Paraguay. Total soybean plantings in the three countries are projected at just over 50 million acres, about 3 million above plantings of last year.

The increase in acreage reflects at least three factors. The most important is the relatively high prices that producers received for soybeans at harvest in 1997. That crop was being harvested when U.S. prices exceeded \$8.00 per bushel. Second, the interior transportation structure in Brazil continues to improve, reducing the cost of moving soybeans to processors and to the ports. Third, Brazil removed the export tax on soybeans last year, effectively increasing the farm price of soybeans. The potential returns to soybean production have increased significantly in the past two years.

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With "normal" yields, the 1998 South American crop is expected to reach 1.65 billion bushels. The expected Brazilian crop accounts for 62 percent of the total. Even though the crop is expected to be 158 million bushels larger than the 1997 harvest, beginning stocks are expected to be down by 94 million bushels. Imports of soybeans by Brazil and Argentina during the upcoming marketing year are projected at 88 million bushels, double the imports of the current year. Exports of South American soybeans are expected to increase by only about 1 percent and soybean meal exports are projected to increase by less than 3 percent. At the same time, world soybean meal consumption is projected to increase by nearly 5 percent.

The large U.S. and South American crop would likely lead to some rebuilding of world soybean stocks. Those year-end stocks are now projected to increase from about 470 million this year to 670 million bushels next year. Even so, stocks would be below the 870 million bushels of two years ago.

The uncertainties of the planting and growing season in South America almost always provide volatility to the soybean market. Those uncertainties are magnified this year due to the presence sure of the El Nino weather pattern. There is some tendency for above normal precipitation in southern areas and below normal precipitation in northern crop areas in years of El Nino events. That pattern is present to some extent now. Near term forecasts are favorable for the start of the planting season.

There is no reason to believe that price volatility in the soybean market will decline much as the marketing year progresses. At times price movements are expected to be large, to occur quickly, and to be counter-seasonal. Both producers and end users will likely see several pricing opportunities, but should be prepared to move quickly as each window of opportunity may be fairly narrow.



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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