Cooperative Extension Service

WEEKLY OUTLOOK

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SOYBEAN OIL GETS A CHANCE

Soybean oil prices were somewhat volatile, but trended lower from May 1994 through August 1997. On a weekly basis, nearby futures traded above $.25 per pound on only six occasions from September 1996 through September 1997. The average monthly price (bulk, Decatur, Illinois) was less than $.25 for 17 consecutive months through October 1997. Soybean oil was generally in surplus from early 1996 through the summer of 1997, as soybeans were crushed to meet soybean meal demand. Month-end stocks at processing plants reached a 4 year high of 2.2 billion pounds in February 1997. While domestic soybean oil consumption continued a trend increase, exports were at a 5 year low of 992 million pounds during the 1995-96 marketing year.

Since February 1997, month end oil stocks have been on a slow decline, reaching a 20 month low of 1.52 billion pounds at the end of September 1997. Domestic oil consumption in the 1996-97 marketing year increased by an unexpectedly large 5.8 percent and exports rebounded to over 2 billion pounds. For the current marketing year, the USDA projects only a minor increase in domestic use, but a 350 million pound (17 percent) increase in exports. As a result, year ending stocks are expected to be about unchanged and the average price of oil for the marketing year is expected to be $.01 to $.04 higher than last year's average. As of November 6, commercial export sales of soybean oil totaled 597 million pounds, 35 percent larger than sales of a year ago. The bulk of the increase has been in sales to Hong Kong.

At least two broad factors will be important in how the soybean oil market unfolds. One is the average oil yield of the 1997 U.S. soybean crop. The average oil yield during the entire crop year has varied considerably over the past 10 years. The all time high was 11.42 pounds in 1991-92, while the recent low was 10.8 pounds per bushel in 1992-93. The yield last year was near the low end of the range, at 10.9 pounds. A number of factors influence oil yield, including growing season weather. There is some tendency for yields to be higher in dry growing seasons and vice versa, but the correlation is not perfect.

With the domestic crush projected at 1.5 billion bushels, a variation in yield of 0.1 pound per bushel affects soybean oil production by 150 million pounds. The USDA is projecting an average oil yield near the long term average of 11.1 pounds per bushel. The October Bureau of Census crush report is not yet out, but the October report from the National Oilseed Processors Association indicated that the average oil yield in October was .14 pounds above last year's October yield.

The second factor which the market will be watching closely is the level of world palm oil production. There is concern that dry weather in Indonesia and Malaysia will reduce production, shifting demand to U.S. soybean oil. Malaysia produces about 52 percent of the world's palm oil and Indonesia accounts for about 30 percent. The other major producer, Nigeria, accounts for only 4 percent of the world crop. Palm oil accounts for about 25 percent of the world's vegetable oil production. A 10 percent reduction in the southeast Asian crop, for example, would be equal to about 3 billion pounds of oil.

Some of the concern about the palm oil crop has been built into the current price structure. December futures have traded to a recent high of $.2685 per pound and most of the carry in the market has been removed. It appears that end users of soybean oil are not well covered, so that commercial buying now emerges on any daily decline in prices.

From a technical standpoint, analysts look for soybean oil prices to challenge the $.28 level achieved in the spring of 1996 and perhaps the $.30 level of early 1994. The 10-year high of $.34 reached in mid-1988 does not appear to be in the cards. Each $.01 increase in the price of oil, adds about $.111 per bushel to the price of soybeans, everything else being equal. A move from the current $.267 to $.30 (12.4 percent) would add about $.37 to the value of soybeans (5.1 percent). It takes a large move in oil prices to have a significant impact on soybean prices. For now, the strength in oil prices is being offset by lower values of soybean meal. A decline of only $16 per ton (6.5 percent) in the price of soybean meal would be required to offset the 12.4 percent increase in the value of soybean oil.

Soybean prices have had a significant rally since the first of October. November futures have traded from a low of $6.20 to a high of $7.48, challenging the contract high of $7.50. To establish new highs may require more than strength in soybean oil. The most likely candidate would be problems with the South American crop. Planting has been delayed modestly, but is expected to make significant progress and be normal by month's end.

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