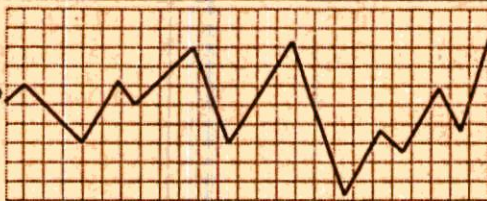




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WEEKLY OUTLOOK

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SOYBEAN PRICE CORRECTION -- NOW WHAT?

Soybean futures staged a rally in excess of \$1.00 per bushel in the first half of October. Since then, prices have been volatile, but in a generally sideways pattern. January futures have traded from a low of \$6.87 on October 30 to a high of \$7.48 on November 11. This past week, January futures traded under \$7.00 again, but appeared to find excellent support just above \$6.90.

The pace of soybean export sales is in line with the USDA's projection of exports for the marketing year. As of November 27, the *Export Sales* report indicated that 572.5 million bushels of soybeans had been sold for export during the current marketing year. That figure represents 58.4 percent of the USDA's projection of 980 million bushels for the year. That is in line with last year's pace, when sales accounted for 59.4 percent of the total for the year. The five year average level of sales for that date is 53.3 percent, in a range of 42.6 to 60.9 percent. There is, however, some difference in the estimates of the magnitude of exports so far this year. The *Export Sales* report shows 340.8 million bushels exported as of November 27, while the USDA export inspections report shows inspections of 365.8 million bushels as of November 27. There is typically some difference in these estimates, but the current difference is unusually large. The Census Bureau estimate of exports ultimately becomes the official export figure.

The rate of domestic crush of soybeans remains above the rate projected for the year. The USDA currently projects the crush for the year at 1.5 billion bushels, 4.5 percent above the crush of last year. As of December 3, the figures from the National Oilseed Processors Association indicated that the cumulative crush was 7.8 percent larger than the crush of a year ago. The domestic crush is proceeding at an annual rate of 1.548 billion bushels. The USDA releases new supply and demand projections on December 11. The projection of domestic crush is likely to be increased and the projection of year ending stocks reduced from the November projections.

The rapid pace of consumption will provide underlying support to soybean prices, but probably cannot stimulate a price rally on its own. The USDA's January 13 *Crop Production* report will contain the final estimate of the size of the 1997 U.S. crop. The four estimates of the size of the crop released beginning in August have varied by only 24 million bushels, or less than 1 percent. A significant change in January is not expected. However, a reduction that would push the year ending stocks projection under 200 million bushels would be very supportive to soybean prices.

The most significant development for soybean price prospects over the next several weeks will be the progress of the South American crop. After getting off to a shaky start, planting of that crop is being completed in normal fashion. Weather conditions over the next three months will be extremely important. The USDA currently projects the 1998 South American crop at a record 1.7 billion bushels, 220 million bushels larger than last year's harvest. Last year's crop was trimmed by late season dryness. Currently, some dry conditions are being reported for central and southern growing areas in South America. In past El Nino weather events, those areas have typically received above average precipitation during the growing season.

The significant volatility in soybean prices of the past two years may persist into 1998. Even with a record U.S. harvest in 1997, soybean stocks are not expected to accumulate to price depressing levels. Uncertainty about 1998 northern hemisphere growing conditions will most likely contribute to price volatility.

For the near term, there appears to be minimal downside potential for soybean prices. Both commercial and speculative buying surfaces at the low end of the recent price range. The potential for higher prices persists, suggesting that ownership of some of the 1997 crop is still warranted. The soybean market continues to show very little carry, with the January to July spread trading at only \$.09 to \$.10. The lack of carry makes storage expensive in comparison to the alternatives of owning futures or using basis contracts.

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