

WEEKLY OUTLOOK

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SOYBEAN PRICES CONTINUE TO RECOVER

Soybean prices generally declined from the second week of November 1997 through the first week of January 1998. March futures declined nearly \$.80 per bushel and the cash price in central Illinois dropped about \$.75. November 1998 futures declined about \$.50. The decline followed the unusual October/November rally driven by concern about planting delays in Brazil and general optimism about soybean demand. The two month price drop reflected favorable growing conditions in South America and economic problems in some Asian countries. During that period, the cash price of soybean meal at Decatur, Illinois declined 21 percent, while the cash price of soybean oil lost only 6.5 percent.

Since January 8, the cash price of soybeans in central Illinois has rebounded \$.20, March 1998 futures are up \$.23 and November 1998 futures have rallied \$.24 per bushel. The increase in prices has been lead by soybean oil prices. The recent turnaround in prices has been fueled by several fundamental factors. These include: stabilization of Asian and U.S. stock markets; prospects for reduced competition from palm oil exports; ongoing purchases by China; continuation of a high rate of domestic crush; late season weather problems in South America; and renewed concerns about the prospects of El Nino related weather problems during the upcoming U.S. growing season.

Indonesia has announced that it will extend the export ban on palm oil through March. At the end of January, China had purchased 280,500 metric tons of U.S. soybean oil, an increase of 21 percent from the purchases of a year ago. While the purchases of soybean meal by China are down 27 percent, recent purchases have been large. Outstanding sales as of January 29 were 65 percent larger than on the same date last year.

For the year, the USDA projects the domestic crush of soybeans at 1.5 billion bushels, an increase of 4.5 percent from the crush during the 1996-97 marketing year. Through the first four months of the marketing year, the Census Bureau reported a 9.6 percent increase in the crush. Figures from the National Oilseed Processors Association indicate that the crush over the past five weeks was 8.6 percent larger than crush during the same period last year. To reach the USDA projection for the year, the crush during the remainder of the year needs to be only about 2 percent larger than the crush of a year ago.

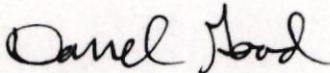
Last month, the USDA projected the South American soybean harvest at 1.738 billion bushels, 16 percent larger than last year's record harvest. During January, some areas experienced less than

ideal growing conditions – too dry in some areas and too wet in others. The longer term forecast also raised concerns about the wet areas remaining wet, suggesting some harvest delays. The South American crop will be large, but it may not be getting larger due to the late season weather problems. The USDA will update it's production estimate on February 11.

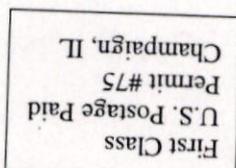
Prospects for the 1998 crop in the U.S. will be increasingly important for soybean prices. Soybean acreage is expected to increase again as acreage of other crops decline. Winter wheat producers reduced seedings by 1.75 million acres, cotton acreage will likely decline by at least 500,000 acres, and spring wheat seedings are expected to decline by at least that amount. Acreage in the Conservation Reserve Program (CRP) is down by 3 million acres. It appears that acreage of feedgrains and oilseeds could increase by a minimum of 4.5 million acres in 1998. Most observers have been conservative in estimating the increase in soybean acreage, suggesting from 250,000 to 1 million additional acres. While planting decisions will depend on a number of factors, including price and weather, it appears that soybean acreage could increase by as much as 2 million acres in 1998, opening the door for a crop of 2.9 billion bushels. The USDA will release a *Prospective Plantings* report on March 31.

Forecasters tend to be divided on their opinion about growing conditions this spring and summer. Given the mixed nature of other fundamental factors, weather and ultimate yield levels will determine if prices need to move significantly in either direction.

What to do? The current recovery in soybean prices is once again being driven by speculative buying and is being lead by soybean oil. The timing does not appear right for a move to sharply higher prices. Strength in soybean prices will also be limited unless meal prices can recover. The current rally appears to be an opportunity to add to old crop sales and make the first increment of new crop sales. Spring/summer weather scares are expected to provide additional opportunities.



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