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SOYBEAN CONSUMPTION SLOWS, BUT SOUTH AMERICAN WEATHER IS A CONCERN

Recent developments in the soybean market have been a mixed bag. New export sales during the week ended November 26 were a marketing year low of 6.6 million bushels. Sales need to average well over 10 million bushels per week at this time of year if exports are to reach the USDA projection of 840 million bushels for the year. The rate of sales to Asia continues to be negatively influenced by the ongoing economic recession. The domestic crush for the week ended December 2, as reported by the National Oilseed Processors Association, was below the level of crush during the same week of last year. Crush has been below the level of a year ago in three of the last four weeks. Cumulative crush over the last 8 reporting weeks was slightly smaller than crush during the same period last year. The likely liquidation in the hog industry suggests a slow down in domestic meal consumption during the last half of the 1998-99 marketing year.

The slightly negative news on the consumption side has been offset by dry weather concerns in southern Brazil. While the expansion in soybean production in Brazil has been in northern growing areas, the two largest production areas are in the south. The two states of Rio Grande do Sul and Parana account for an estimated 45 percent of the soybean acreage. Dryness extends to parts of Argentina as well. It is still relatively early in the growing season so that there is ample time for average yields and production in South America. The concern, however, is that the current La Nina weather pattern may result in below normal precipitation for parts of Brazil and Argentina for the remainder of the growing season.

The ultimate size of the Southern Hemisphere soybean crop will obviously be important for the demand and price of U.S. soybeans and soybean products. For the 1997-98 marketing year, South America produced 1.93 billion bushels of soybeans, or 33.6 percent of the world total. South American soybean exports are estimated at 519 million bushels, or 35.3 percent of the world total. Exports of South American soybean meal, however, are expected to account for 54.6 percent of the world trade of meal. South American soybean oil exports are expected to account for 49 percent of the world trade of soybean oil.

For the 1998-99 marketing year, the USDA has already projected a 7 percent decline in South American soybean production and a 3 percent decline in soybean exports, but a 5 percent increase in soybean meal exports and a 7 percent increase in soybean oil exports. A further decline in production resulting from dry weather would suggest a further decline in soybean exports and a likely year-to-year decline in soybean product exports.

Since it is early in the growing season and the South American weather pattern is unsettled, the soybean market will likely proceed cautiously. Choppy trading with an upward bias is expected as long as weather concerns persist. In the near term, January futures may have some difficulty moving above the $6.00 mark. Persistent dryness, however, could result in a test of the late summer trading area of $6.25 to $6.30.

The timing and magnitude of any soybean price increases will be important for pricing decisions for the 1998 and 1999 crops. Higher prices during the winter and/or early spring months would likely result in another significant increase in U.S. soybean acreage in 1999. Some increase is already anticipated due to the attractiveness of soybeans relative to other crops in many areas of the country.

The USDA will update its U.S. and world supply and demand projections on December 11. large changes from November projections are not anticipated, but the direction of any adjustments will be important. More comprehensive information will be available in the series of reports to be released in early January. More will be known about South American production prospects at that time as well. January and February are shaping up as important decision times for soybean producers.

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