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SOYBEAN PRICES STILL TOO HIGH

The USDA's monthly *World Agricultural Supply and Demand Estimates* report released on April 9 contained a bit of a surprise for soybeans. The projection of "residual" use of soybeans for the year was increased by 50 million bushels. As a result, the projection of year ending stocks was reduced by 40 million bushels to 430 million. The projection of exports was reduced by 10 million bushels.

The large increase in the projection of residual use was based on a surprisingly small estimate of March 1, 1999 stocks released on March 31. The small stocks really implies that the 1998 soybean crop was overestimated, but probably not by 50 million bushels. The World Agricultural Outlook Board has to show the discrepancy as residual use until more information is available. In the past, the discrepancy has been rectified by either a change in the crop estimate or finding more soybeans in later stocks surveys.

Based on prospects for large year ending stocks and more soybean acreage in 1999, soybean prices have declined to very low levels. The average monthly price in central Illinois was $4.60 per bushel in March, the lowest since April 1975. The lowest daily price of the marketing year to date was $4.37 on February 26. That is the lowest price since December 1975. Even so, prices appear to still be too high. At a time when U.S. soybean consumption needs to be increasing, it is actually declining.

For the year, the USDA now projects soybean exports at 770 million bushels, the lowest level in 5 years and 100 million bushels less than exported last year. As of April 1, export commitments (shipments plus outstanding sales) were 114 million less than on the same date last year. With a large South American harvest now pretty well assured, the current projection of U.S. exports may still be a little too high. While the USDA lowered its estimate of the 1999 South American harvest by 11 million bushels, it is still expected to be only 1.3 percent smaller than last year's record crop.

For the year, the USDA projects the domestic crush at 1.56 billion bushels, 2.3 percent below the crush of a year ago. A year-to-year decline in the domestic crush when supplies are abundant is extremely rare. Crush during the first half of the marketing year was only 2 percent less than the crush during the same period last year. Crush has been steadily declining, however, from that of last year. Estimates from the National Oilseed Processors Association indicate that the crush during the six weeks ended April 7 was 4.7 percent less than during the same six weeks last year. As in the case of exports, the current USDA projection of crush appears to be a little high. Depending on how the stocks discrepancy is resolved, year ending stocks may be between 450 and 480 million bushels.

Assuming planted acreage is about 500,000 larger than intentions reported in March and that the 1999 average yield is near the 10-year linear trend value of 40 bushels per acre, the 1999 crop will be near 2.9 billion bushels. A crop of that size would add to carryover stocks by September 1, 2000, almost regardless of price. Those stocks could easily exceed 700 million bushels. While a large build-up in stocks is anticipated, the price for the 1999 crop is premium to the price for the 1998 crop ($.52 premium of May 2000 futures over May 1999 futures). The premium reflects a carrying charge market since year ending stocks are expected to be so large. Higher prices for next year's crop can only be maintained if: 1) poor summer weather reduces average yields, 2) South America reduces production in 2000, or 3) the Administration finds a way to reduce U.S. soybean acreage in 2000. At a minimum, a favorable growing season this year will force new crop prices down to current levels. While extremely low, current prices are not "clearing the market". Stocks are building rapidly.

For unpriced old crop soybeans for which a loan deficiency payment (LDP) has been received, there is still downside price risk. Pricing inventory sooner rather than later appears prudent. For new crop, there is some temptation to recommend forward pricing even though the price is below the loan level. However, it is not prudent to risk receiving a price below the loan rate. The reverse strategy, taking the LDP in the fall of 1998 and holding beans into the spring of 1999, has not worked well.

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