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WHEN WILL SOYBEAN PRICES MOVE ABOVE THE LOAN RATE?

The spot cash price of soybeans in central Illinois dropped below the Commodity Credit Corporation (CCC) loan rate during the first week of August 1998. Prices moved above the loan rate in late November and early December, but have been below the loan rate since then. On August 20, the average cash price for old crop soybeans was about \$1.00 under the loan rate and the average bid for harvest delivery of the new crop was about \$1.05 under the loan rate.

The most important price factor for the next few months is the size of the 1999 U.S. harvest. The USDA's weekly report showed further deterioration in crop condition during early August. Based on the report released on August 16, only 51 percent of the crop was rated in good or excellent condition. That compares to 67 percent on the same date last year. In late July, when the USDA measured yield potential, crop conditions were declining rapidly. In the report released on July 26, 65 percent of the crop was reported in good to excellent condition. The August 2 report showed that only 57 percent of the crop was in those two categories. Crop conditions since the July 26 report have remained stable in Iowa and improved in Minnesota. The greatest declines in crop condition have occurred in Alabama, Georgia, Kentucky, South Carolina, and Tennessee.

Recently, the most concern has been about the crop in the southeast, although some areas received beneficial rainfall last week. Southern growing areas accounted for only about 10 percent of the USDA's August production estimate. The actual size of the 1999 soybean crop is likely smaller than estimated in August. It would be surprising if the September estimate is down more than three or four percent. If so, crop size would still be larger than the projected level of use during the 1999-00 marketing year, leading to a further build-up in stocks.

Beyond crop size, price will be influenced by the rate of use of U.S. soybeans and soybean products. Soybean export sales for the 1999-00 marketing year have started slowly. As of August 12, 77.6 million bushels had been sold for export, about 14 percent less than on the same date last year and about 45 percent below the average of the past three years. For the upcoming year, the USDA projects a 15 percent increase in exports.

The size of the South American harvest in 2000 will have a significant influence on the demand for U.S. soybeans and soybean products. Beginning in October, the market will

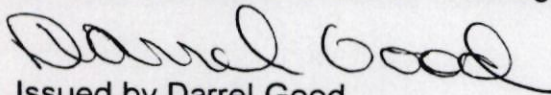
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react to reports of planted acreage and growing conditions there. Six weeks ago, there was considerable discussion about the likelihood of reduced soybean acreage in both Brazil and Argentina due to the low prices of soybeans relative to other commodities. Private sources were suggesting as much as a 5 percent reduction. Since then, November futures have advanced about 15 percent. There is now less chance of acreage declines. If acreage is maintained, adverse weather will be required to reduce the size of the South American harvest.

Finally, prospects for the U.S. crop in 2000 will eventually be a major price factor. If CCC loan rates are not adjusted, it is expected that soybean acreage will remain large in 1999, if crop prices in general remain low. There is some discussion, however, of adjusting loan rates to remove the incentive to plant more soybeans at the expense of other crops. Even without an adjustment, market prices of other commodities would eventually adjust upward to be competitive with the soybean loan rate, if shortages of those crops developed.

Based on current prospects for U.S. and South American production, the spot cash price of soybeans may remain below the loan rate for an extended period of time. If so, marketing strategies for the 1999 crop will be centered around the use of loan deficiency payments (LDP's) or the use of the marketing loan program. Those producers who bump up against payment limitations for these programs (currently set at \$75,000) may want to store soybeans in anticipation of forfeiture to the CCC if price remains below the loan rate. Gains from forfeiture do not count against the payment limitation.



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