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WEEKLY OUTLOOK

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SEVERAL HURDLES TO HIGHER SOYBEAN PRICES

Soybean prices have traded in a wide range so far in 2000. November 2000 futures traded to a high of just under $6.00 per bushel in early May on concerns about a dry summer and small production. Unexpectedly large imports of U.S. soybeans by China also supported the rally. The price of that contract dropped to a low of $4.45 in early August on the basis of improved crop ratings and prospects of a 3 billion bushel crop. Prices did not sag as low as a year ago when prospects of a 3 billion bushel crop pushed November 1999 futures to a low of $4.05. Last week, November 2000 futures moved up to $5.15 on the basis of deteriorating crop conditions and prospects for a smaller USDA crop estimate. Such wide price swings are typical for the soybean market.

In the September *Crop Production* report, the USDA reduced the estimated size of the U.S. soybean crop from 2.989 billion to 2.9 billion bushels. The reduction was less than generally expected by the market. Initially, the USDA's disclosure that NASS would resurvey harvested acreage intentions in some of the states most affected by dry weather provided some support to prices. The market assumed the USDA would reduce the estimate of harvested acreage, yield, and production in the October report. Unless the production estimate is to be reduced by another 100 million bushels, however, the 2000 crop will still exceed the projected level of use during the 2000-01 marketing year. The USDA now projects year ending stocks at 365 million bushels, up 100 million from the expected level of stocks on September 1, 2000. The official estimate of September 1 stocks this year will be released on September 29. November futures traded under $4.90 this past week as harvest progressed.

For soybean prices to move higher, there will need to be some indication that use will exceed production so that stocks will be reduced. A sustained rally to significantly higher prices will require an indication that the rate of soybean use has to be reduced. Current USDA projections indicate that world soybean use will increase by 161 million bushels during the year ahead and that world stocks will rise by 69 million bushels. The need for rationing does not appear to be on the horizon.

One important factor in determining price direction for the next few months is the size of the Chinese soybean harvest. The USDA currently estimates that crop size at 551 million bushels, 26 million larger than last year's crop. Chinese imports of soybeans from all sources are projected at 266 million bushels. That is 65 million fewer than imported last year, but 25 million more than imported two years ago when the crop was estimated at 557 million bushels. Consumption of soybean meal is expected to continue to increase in China this year. The drop in imports of soybeans is expected to be partially offset by a small increase in soybean meal imports and a decline in domestic stocks by year end. If, as some private source have estimated, the Chinese crop is 40 to 70 million bushels larger than the current USDA projection, U.S. exports could be a bit smaller than the one billion bushels currently projected.

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A second important price factor over the next six months will be the prospective size of the South American crop. Based on expectations of a small increase in acreage and trend yields, the USDA has projected at 4 percent (84 million bushel) increase in production in 2001. In spite of a larger crop next year, the USDA projects that South American soybean exports during the period from October 2000 through September 2001 will be 59 million bushels less than during the previous 12 months. Meal exports are expected to grow only 2 percent (600,000 short tons). South American exports of both soybeans and soybean meal are expected to be limited by increasing domestic use of meal and oil.

A smaller than expected South American crop would obviously increase the demand the U.S. soybeans and result in smaller U.S. and world stocks than now projected. Such a development would be supportive for prices. The current concern, however, is that increases in soybean acreage may be larger than projected by the USDA. Some private forecasts in South America suggest that a recovery to trend yields in 2001 could result in a 10 percent increase in production. That is an additional 120 million bushels that could be exported or added to inventory. As always, South American crop development will be closely watched.

A major hurdle to a near term increase in price is the abundance a vegetable oils. World production of major oilseeds increased 1.5 percent last year and the USDA projects an additional 2 percent increase this year. Most of that increase is soybeans, with rapeseed production expected to decline by 9 percent. Year ending oilseed stocks are expected to remain large. World production of major vegetable oils increased by 5 percent last year and is expected to grow another 1.4 percent this year. Even with a 4 percent increase in world vegetable oil consumption, stocks will remain abundant. With an abundant supply of competing oils, the price of soybean oil will have difficulty breaking out of the slump of the past two years. History is very clear, however, sometime in the next 10 months, soybean prices will likely trade well above the current level. The increase will likely be driven by crop concerns.

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