UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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SOYBEAN PRICE PROSPECTS IMPROVE

Since August, corn and soybean futures prices have been relatively volatile, but often moving in opposite directions. Soybean prices rallied in August, while corn prices remained about flat. Corn futures moved higher in October while soybean futures declined. Now in November, soybean prices are moving higher and corn prices have stalled once again. The see-saw price pattern reflects changing expectations about supply and consumption prospects. With the passing of the USDA's November *Crop Production* report, the major focus will now be on the pace of consumption and prospects for southern hemisphere crops.

For corn, there is growing concern about the slow pace of exports and export sales. Through the first 12 weeks of the 2000-01 marketing year, cumulative export shipments are about 8 percent less than shipments of a year ago. Total export commitments – shipments plus outstanding sales – are 15 percent less than at the same time last year. The decline in exports in widespread in terms of destination, but the most concern centers around Japan. Sales to Japan have been disrupted by the concern about StarLink in the supply chain. There is time for U.S. exports to recover, particularly with smaller supplies available from China. The rate of sales will need to improve early in the new calendar year,however, to convince the market that exports for the year can increase by 17 percent, as projected by the USDA.

Domestically, corn consumption prospects may be improved by escalating soybean meal prices. The relatively low price of corn, in relation to protein meals, may result in some substitution of corn for soybean meal in livestock rations. Rising feed prices in general, however, may slow the expansion plans of hog and broiler producers. If so, feed use of corn during the last half of the marketing year could be less than projected. The first reading on the rate of domestic feed and residual use of corn is still several weeks away. The rate of use will be revealed by the USDA's final production estimate and December 1 inventory estimate to be released on January 11.

For soybeans, the prospects for consumption have improved with the likely decline in consumption of meat and bone meal in Europe. The concern that the so-called “mad cow” disease may be spread by the feeding of meat and bone meal has led to restrictions on consumption in a number of countries. Some believe the ban could spread to all western European countries. Such a ban would provide unexpected demand for soybean meal and the U.S. is in position to capture that demand.

The potential increase in consumption of soybean meal is likely to increase soybean processing by several million bushels and reduce the magnitude of year ending stocks in the U.S. The potential size of the decline is being widely debated. The increase in soybean consumption will be influenced by the extent of European demand, but will also be influenced by whether or not meat and bone meal finds a market somewhere else in the world. If alternative markets are found, some substitution for soybean meal would be expected in those markets. Longer term, the demand for U.S. soybeans will be influenced by the production response in Europe. There is increasing pressure to allow more oilseed plantings in the European Union as a result of the ban on meat and bone meal feeding. An increase, if it occurs, would provide alternatives for U.S. soybeans and meal by the fall of 2001.

For now, the prospects for improved soybean meal demand is likely to continue to support soybean meal and soybean prices. Prices have already risen in anticipation of improved demand. There is some danger that the market will over react, resulting in a peak in the price rally even before the increased consumption materializes.

For those who own soybeans for which the loan deficiency payment has been established, this early rally provides an opportunity for some pricing as cash prices are likely to exceed the early September high. Ownership of some of the crop in anticipation of a weather rally this winter (South American crop) or next spring (U.S. crop) still appears prudent.

Corn prices are expected to be more stable through the end of the year. Basis weakness is anticipated after the first of the year as movement from the farm and from county elevators accelerate. Price improvement may have to wait on larger export sales or spring weather concerns.

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