



UNIVERSITY OF ILLINOIS  
EXTENSION



# WEEKLY OUTLOOK



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## **ARE SOYBEAN PRICES LOW ENOUGH?**

Soybean prices have been under significant and consistent pressure since the late summer of 1998. Since that time, the average daily cash price of soybeans in central Illinois has ranged from \$3.875 (July 8, 1999) to \$5.795 (November 30, 1998). The average cash price from August 1998 through April 2001 was \$4.76 per bushel, nearly \$.70 below the Commodity Credit Corporation (CCC) loan rate in that area. The current cash price, at \$4.19, is near the lower end of the trading range over the past 33 months and about \$.80 below the highest price for the current marketing year established on December 19, 2000. The price for harvest delivery of the 2001 crop has slipped under \$4.00.

The primary reason for low prices over such a long period of time is consistently large supplies. The size of the U.S. crop has been large since 1997, in a narrow range of 2.654 to 2.77 billion bushels. South American production has been large and trending higher since 1996-97. That crop totaled 1.432 billion bushels in 1995-96 and is currently estimated at 2.373 billion bushels for the 2000-01 crop year. That estimate may get somewhat larger as harvest is completed. World production of all major oilseeds has grown from about 260 million tons in 1995-96 to an estimated 307 million tons for the current year. World palm oil production has increased by 22 percent in the last two years.

The job of the soybean market has been to price soybeans and soybean products at a level that would prevent a build-up in stocks. That is, prices had to be low enough that consecutive large crops would be consumed. In general, the market has been successful in preventing a significant accumulation of stocks. Current projections by the USDA indicate that the record 2000 U.S. soybean crop will be entirely consumed by September 1, 2001. The same scenario is projected for world consumption and stocks. The record 2000-01 crop of 6.257 billion bushels is expected to lead to only a 40 million bushel increase in ending stocks. Those stocks would represent 16.5 percent of projected annual soybean consumption, down from the stocks to use ratio of 16.7 percent for the 1999-00 crop. The one minor exception to the market clearing success of prices is the build-up in U.S. soybean oil stocks. Those stocks are projected at 2.12 billion pounds for October 1, 2001, up from 1.38 billion on October 1, 1998.

For the near term, it appears that the pressure of large supplies will continue. The record South American harvest is winding down and U.S. producers intend to increase soybean plantings by more than two million acres. There is some speculation that abandoned acreage of hard red winter wheat could lead to an even larger increase in soybean acreage. Generally, early

season weather patterns do not give much indication of potential U.S. average yield. Yields have been generally high since 1996, but well below the record of 1994, as regional weather problems have occurred. This year, the early focus on excessive moisture in the upper midwest has been redirected to generally dry conditions in parts of the eastern corn belt and southeastern states. With a trend yield of nearly 40 bushels, the 2001 crop would exceed 3 billion bushels, perhaps reaching 3.05 billion if acreage exceeds March intentions. The average yield of the past five years, 38 bushels, would produce a crop near 2.9 billion bushels, still more than 100 million larger than the 2000 crop.

Barring yield reducing weather in the U.S., the next opportunity for a supply reduction will come with the 2001-02 crop in South America. If current low prices persist, in combination with currency devaluation in Brazil, will there be some reduction in soybean acreage? or, will average yields decline from the recent high levels? A reduction in acreage may not be a realistic expectation, but the rapid expansion in soybean area in Argentina may cease, at least temporarily. There is little basis for speculating about the average yield of the 2002 crop.

After the sharp decline in soybean prices since the first of the year, the soybean market is showing some signs of reaching at least a temporary low, with July futures just above \$4.20. Speculator profit taking on short positions is likely to produce a bounce up in prices. Market fundamentals, however, do not point to a significant recovery right away. The key over the next four months will be the development of the U.S. crop. In the meantime, there is some chance that nearby futures could trade down to the 1999 low just above \$4.00, if the crop gets off to a good start.

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