



WEEKLY OUTLOOK



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SOYBEAN PRICE PROSPECTS

Soybean prices have made a modest recovery since establishing new contract lows on April 24 and 25. The recovery in cash prices and nearby futures, however, has been larger than the recovery in new crop prices. The average cash price of soybeans in central Illinois established a marketing year low (on an overnight basis) on April 25. At \$4.145, that low was \$.83 below the marketing year high established on December 19, 2000. The overnight cash price recovered to \$4.515 by May 17, an increase of \$.37. On a close-to-close basis, July futures increased by \$.285 from April 25 to May 17. The basis strengthened by \$.085 during that three and one-half week period. In contrast, November 2001 futures advanced by about \$.18 during the same time period.

The advance in prices since late April has been led by soybean meal prices. The average cash price of 48 percent meal at Decatur, Illinois has risen by \$14 per ton during that time, while soybean oil prices have been about unchanged. Meal prices have been supported by a high rate of consumption, both in the domestic market and the export market. Domestic consumption has been surprisingly strong given the modest increase in livestock numbers and the continued high price of meal in relation to feed grain prices. Meal exports have been supported by the continued ban on meat and bone meal feeding in the European Union. The slow down in the rate of domestic crush during April also tightened meal supplies somewhat. Chinese buying of U.S. soybeans have slowed, but total imports by China continue to be large.

Longer term, there are indications that the pace of world soybean consumption will remain large. The sharp decline in rapeseed and sunflower production should be supportive for soybean meal demand. A return to more normal palm oil yields during the year ahead might give some long-awaited support to soybean oil consumption. From the supply side, it is generally believed that China will make a modest reduction in soybean production during the year ahead. Of most portance, however, will be the size of the 2002 South American crop of soybeans. The rapid rise in production and recent record crops there have been thoroughly discussed. South American soybean acreage has increased by about 11 percent over the past two years, with the largest increase (nearly 21 percent) in Argentina. The market will be eager to see if that expansion is slowed next year, assuming prices remain low into the last quarter of the calendar year. Average soybean yields in South America have been large since 1997 and were especially large in 2000. A return to "normal" yields would result in some decline in production even with a modest increase in acreage.

While a friendly picture for soybean consumption seems to be unfolding, a continued price increase in the near term will likely have to be driven by supply concerns. More specifically, the potential size of the 2001 U.S. crop will be the dominant price factor for the next three months. At least one prominent private analyst believes that planted acreage of soybeans this year will exceed March intentions by several hundred thousand acres. History supports an increase from March intentions, as does delayed corn and spring wheat planting in a few areas of excessive moisture. In addition, some abandoned acres of winter wheat may be seeded to soybeans. Finally, there may have been some under-counting of total crop land acres in the March *Prospective Plantings* report, opening the door for more soybean acres to be reported later. The USDA will release its *Acreage* report on June 29.

While acreage will make some difference in the size of the 2001 crop, average yields could be more important in determining the final size of the crop. A difference of a million acres in area harvested results in about a 40 million bushel change in crop size, at trend yields. A 2 bushel difference in the national average yield would produce a 150 million bushel difference in crop size. Planting progress is running ahead of the normal pace, particularly in the eastern corn belt and generally adequate moisture levels exist for the early part of the growing season. The National Weather Service outlook through August shows potential for normal precipitation in most growing areas. The exceptions include part of the southern and far eastern growing areas. In short, there is little reason for concerns about the 2001 crop at this early stage of the growing season.

The recent rally in soybean and soybean meal prices will be difficult to sustain. The significant strengthening of the basis offers an opportunity to move old crop supplies. New crop sales still do not appear attractive, with prices buried well below the loan rate.

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