



WEEKLY OUTLOOK



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SOYBEAN PRICES CONTINUE TO RETREAT

Soybean futures traded to contract lows on January 2, 2002, rallied by nearly \$.40 by January 17, then declined by \$.25 by January 25. The average cash price of soybeans reached a harvest low of \$3.985 on October 22, rallied to \$4.40 on January 16, and declined to \$4.20 on January 25. The higher prices in the first half of January were the result of a record pace of consumption, concerns about dry weather in parts of South America, and a reduction in the estimated size of the 2001 U.S. soybean crop.

The rapid pace of consumption of the 2001 U.S. crop continues. Based on the USDA's weekly estimate of export inspections, shipments of U.S. soybeans from September 1, 2001 through January 24, 2002 totaled nearly 607 million bushels, 17 percent more than during the same 21 week period last year. Unshipped sales on January 17 were reported at 276.4 million bushels, nearly 15 percent larger than outstanding sales on the same date last year. For the year, the USDA has projected only a 1.2 percent increase in U.S. soybean exports.

The U.S. Census Bureau reported that nearly 153 million bushels of soybeans were crushed in December 2001. The crush was 10.7 million larger than during December 2000 and about equal to the record December crush established in 1997. Crush during the first four months of the 2001-02 marketing year totaled 580.6 million bushels, 3.1 percent larger than the crush of a year earlier. The pace is slightly faster than the 2.1 percent increase projected by the USDA for the entire marketing year. The large December crush did lead to a modest increase in month ending stocks of both soybean meal and soybean oil. At 2.873 billion pounds, oil stocks were nearly 23 percent larger than the record December inventory established last year and almost identical to the record inventory at the end of September 2001.

While consumption is currently maintaining rapid pace, the market is concerned about a slow down in the pace of exports. The rate of U.S. exports typically declines beginning in April and May as the South American crop becomes available. This year, there is additional concern about exports to China due to new regulations relative to GMO soybeans to be implemented in March. It appears that Chinese importers have accelerated purchases of U.S. soybeans so that receipts will occur before the new regulations go into effect. It is believed that the new regulations will result in a larger than normal seasonal decline in exports. The market will be monitoring the rate of export sales, particularly to China, to confirm the expected slow down.

In addition to concern about Chinese export demand, weather conditions in some of the dry areas of South America have recently improved. Some yield loss has likely already occurred, but recent rainfall should limit the losses. South American production is still expected to be record large. It is unclear how the new Chinese regulations will impact the demand for Brazilian soybeans. Officially, Brazilian soybeans are GMO free, but unofficially it is known that GMO soybeans are produced in parts of Brazil.

There is now some danger that soybean futures could retreat to new contract lows over the next few weeks. March 2002 futures traded within \$.10 of the contract low of \$4.1575 in early trading on January 28. Cash prices are expected to remain above the harvest lows, but perhaps not by much. Assuming the South American harvest reaches the record level projected by the USDA, the next opportunity for higher soybean prices may be in the spring/summer months. Higher prices at that time could be generated by concerns about the 2002 U.S. soybean crop. Early forecasts by the private sector are for stable soybean acreage in 2002. Prospective plantings will be reported by the USDA on March 28. Without an increase in acreage, average yield becomes a little more important. It is obviously too early to anticipate growing season weather, but forecasts will become increasingly common over the next several weeks. If another large U.S. crop materializes in 2002, prices would obviously remain under pressure, with new lows in the cash price possible in July or August.

The risk for producers holding soybeans which are still eligible for marketing loan gains is limited to the cost of storing the soybeans. There is additional risk for producers holding soybeans for which marketing loan benefits have already been collected. Now is the time to decide what portion of those soybeans to carry into a potential weather market later this year.

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