UNIVERSITY OF ILLINOIS
EXTENSION

# WEEKLY OUTLOOK

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## SOYBEAN PRICES – HOW MUCH STRENGTH?

November 2002 soybean futures reached a contract high of $5.91 on September 11, declined to a low of $5.2225 on October 9, and then recovered to a high of $5.69 on November 1. The average cash price of soybeans in central Illinois established a harvest low of $5.01 on October 9 and rebounded to $5.565 on November 1 as the basis strengthened by $.105.

Several factors have likely contributed to the recent recovery in futures prices. The unchanged U.S. production forecast in the USDA's October *Crop Production* report confirmed the need to reduce consumption of U.S. soybeans during the current marketing year. Less than ideal weather conditions in some areas of South America has delayed plantings somewhat and raised questions about the potential size of the 2003 harvest. Two consecutive weeks of large export sales of U.S. soybeans were also price supportive.

For the year, the USDA has projected that the shortfall in U.S. production will play out in the form of reduced exports. At 850 million bushels, the projection of exports for the current marketing year is 20.2 percent less than the current estimate of exports during the 2001-02 marketing year. Through the first 9 weeks of the 2002-03 marketing year, cumulative export inspections are 15 percent less than during the same period last year, with almost all of the decline being in shipments to the European Union. As of October 24, however, unshipped sales of U.S. soybeans, totaled 307 million bushels, only 5 million (1.6 percent) less than outstanding sales of a year ago. Sales to the European Union are still relatively small, but sales to China and unknown destinations (perhaps China) are 39 percent larger than at this time last year. The recent jump in export sales of U.S. soybeans and the slow start to the South American planting season may be related.

Most of the recent increase in soybean prices has resulted from higher prices of soybean oil. On a close-to-close basis the December 2002 soybean meal futures price increased $5.60 per ton (3.4 percent) from October 9 to November 1. In contrast, the December 2002 soybean oil futures price increased by $.0265 per pound (13.8 percent). Compared to prices on the same date last year, the average cash price of soybeans in central Illinois on November 1 was 35 percent higher, the average price of soybean meal in central Illinois (rail, 48 percent protein) was 1.8 percent lower, and the average price of soybean oil (crude, central Illinois) was 50 percent higher. Soybean oil prices are continuing to recover from the 30-year low established in February 2001 as production of competing oilseeds decline and U.S. and world inventories of soybean oil are being reduced. The expectations of declining consumption of U.S. soybean meal this year, and the resulting smaller crush, should result in further reductions in soybean oil stocks.

The direction of soybean prices over the next few months will be dictated by the combination of the rate of U.S. export sales, the development of the South American crop, and the size of the USDA's November forecast for the U.S. crop. Low prices in the face of a smaller U.S. crop were based on the expectation that South America would be able to fill the gap left by the shortfall in U.S. production. While that may still happen, there is less certainty now than a month ago. The size of the shortfall in U.S. production is still uncertain. The USDA will release a new forecast of the size of the U.S. harvest on November 12. There is some expectation that the crop size will be increased in that report. In recent history, the November forecast has been above the October forecast about 65 percent of the time.

While it is not possible to predict how these price determining factors will unfold, the recent price strength has implications for producer marketing strategies. Three weeks ago, the cash price of soybeans was near the CCC loan rate. The recommended strategy where farm storage is available, was to store soybeans (even though there was no carry in the price structure), and to place soybeans under loan in order to generate cash flow. The loan price provided downside price protection and ownership allowed participation in higher prices. Now that the cash price is well above the loan rate (nearly $.40 in central Illinois, for example), the loan price provides less protection from lower prices. One alternative is to protect the current price of soybeans stored on the farm and under loan with the purchase of put options. Nearest-the-money March put options, for example, have a premium of about $.22. Owning the put options would still allow producers to participate in higher prices, but would provide protection from lower futures prices (in the form of increased premium). In addition, producers could collect marketing loan gains should the price drop below loan value. Another alternative is just to sell cash beans at the higher prices now being offered. To participate in higher futures prices, should they occur, call options could be purchased to replace the cash inventory.

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