UNIVERSITY OF ILLINOIS
EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

November 25, 2002

SOYBEAN PRICE RALLY STALLS

January 2003 soybean futures have managed a significant increase since the early October low. From a settlement price of $5.29 on October 9, that contract moved to $5.7575 at the close of trade on November 20 and settled at $5.7175 on November 22. The average cash price of soybeans in central Illinois moved from a marketing year low of $5.01 on October 9 to $5.66 on November 20 and finished last week at $5.605. The central Illinois basis strengthened from $-.28 in early October to $-.055 on November 8 and then weakened to $-.1175 on November 22. Since early October, the structure of soybean futures prices has changed from a small carry to an inverse. On October 4, for example, July 2003 futures were $.03 higher than January 2003 futures. At the close on November 22, July 2003 futures were $.17 lower than January futures.

Higher soybean prices and the move to an inverted price structure have been driven primarily by the strong export pace for U.S. soybeans. As of November 21, the USDA reported that 294 million bushels of U.S. soybeans had been inspected for export since September 1, 2002. That total is only 6.4 percent less than the total during the same period last year, even though the USDA projects a 16.3 percent decline in exports for the entire marketing year. While shipments to the European Union are down about 29 percent from exports, of a year ago, shipments to China are about 69 percent larger than shipments of last year. Unshipped sales of U.S. soybeans as of November 14 were nearly 16 percent smaller than outstanding sales of a year ago. Unshipped sales to the European Union were off by nearly 60 percent, but outstanding sales to China were nearly double those of a year ago.

In addition to the higher than expected pace of exports, soybean prices have received support from a relatively slow space of sales by producers and some level of concern about the progress of the South American crop due to stressful weather conditions in some areas. The slow sales pace by producers contributed to the strengthening of the basis and the inverse in the futures market.

So far during the month of November, January 2003 soybean futures have traded to $5.75 or higher on seven days, but have been unable to move above the high of $5.795 reached on November 5. The price increase that began in early October appears to have stalled. The weakness in the interior basis last week suggests that producers have responded to higher prices with increased sales. The market may also be taking a time out waiting to see if large Chinese purchases of U.S. soybeans continue and/or weather concerns persist in South America.

The range in the average daily cash price of soybeans in central Illinois since October 11 has been $.65. Since the beginning of the 2002 marketing year on September 1, the trading range for the spot cash price has been $.885. The high prices of early September, however, reflected bids for old crop soybeans. Even so, history would suggest that the trading range of cash prices will be expanded before the 2002-03 marketing year is over. The marketing year range has been as small as $.915 (1991-92) and as large as $5.03 (1987-88). Over the past four years of large crops and low prices, the trading range has varied from $1.055 to $1.955. If $5.01 is the lowest price for the 2002-03 marketing year, history would suggest that the spot cash price will exceed $6.00 sometime during the 2002-03 marketing year. On the other hand, if a new low in that price series is to occur, history would suggest that it will likely occur in the spring/summer of 2003. The market will continue to take direction from three major factors over the next six months. These are the rate of use of the 2002 crop; prospects for the 2003 South American crop; and, later on, prospects for the 2003 U.S. crop.

The changing level and structure of soybean prices have implications for producer marketing strategies. In early October, low prices and a small carry in the market suggested that storing soybeans under the Commodity Credit Corporation (CCC) loan program was a sound alternative. Higher prices in late October suggested protecting the price of stored soybeans with put options. Now, the even higher prices and substantially inverted market suggest that soybeans should be sold in the spot cash market. The potential of higher prices could be captured with basis contracts, owning futures, or owning call options. Owning call options is the most expensive of the three alternatives, but has the advantage of capping the risk of lower futures prices.

Issued by Darrel Good
Extension Economist
University of Illinois