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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.

JUNE 9, 2003

WHAT IS SUPPORTING SOYBEAN PRICES NOW?

Soybean prices have declined modestly from the highs in mid-May, but remain more than \$1.00 higher than prices of a year ago. Higher prices have persisted even as some market fundamentals have turned a little more negative. The pace of U.S. exports, for example, has slowed enough that it now appears that shipments for the year will be near the current USDA projection. The USDA projection will be reached with an average of 4.5 million bushels of exports per week for the last three months of the marketing year. Shipments for the week ended May 29 were reported at 3.4 million bushels.

In addition to the slower export pace, the pace of the domestic crush is such that the cumulative crush for the year could be 5 to 10 million bushels less than the current USDA projection. The cumulative crush for May through August needs to be about 5.5 percent less than that of a year ago for the marketing year total to reach the USDA projection of 1.615 billion bushels. For the period January through April, 2003, the crush was 7 percent less than during the same period last year. A continuation of that pace would result in a crush of 1.607 billion bushels. The large inverses in both the soybean meal and soybean oil markets discourage end users from accumulating inventories and provide incentive to delay purchases as much as possible until the new crop year.

South America has just harvested a record soybean crop and early indications suggest another significant increase in acreage for harvest in 2004. China has reportedly expanded soybean acreage in 2003. In addition, some delays in unloading soybeans in China are reported as a result of a slow down in paperwork to approve receipt of GMO soybeans.

While far from a perfect planting season, it appears that most of the 2003 U.S. crop will be planted in a timely fashion. As of June 1, the USDA reported that 74 percent of the crop had been planted, compared to 67 percent planted on the same date last year and only 3 percentage points behind the 5 year average planting pace. On a state wide basis, delays were most significant in Indiana, Kentucky, Louisiana, North Carolina, and Tennessee. Emergence and early growth of the crop were also delayed by early season weather conditions, but most agree that yield potential has not yet been significantly reduced.

Indications that the rate of consumption of U.S. soybeans has been reduced sufficiently and that the 2003 crop is not in serious trouble resulted in July futures slipping nearly \$.50 from the extreme

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high of \$6.58 on May 20 to a low of \$6.10 on Tuesday and Wednesday of last week. November 2003 futures declined about \$.35 during the same period. Those declines, however, were followed by a late week price rally. The rally appeared to be the result of renewed weather and crop concerns.

Reports that dry weather in parts of China might result in a smaller soybean crop in 2003 than in 2002 even with increased acreage keeps the demand story alive. A production decline would presumably keep Chinese imports at a very high level for another year. In addition, and perhaps more importantly, concerns about summer weather prospects in the U.S. intensified. Discussion of the developing La Nina weather pattern and the potential impact on summer weather conditions moved closer to the front page. Finally, predictions of the infamous "ridge of high pressure" began to surface last week. Some began calling for such a ridge to develop by mid-month, bringing dry conditions to important growing areas. With U.S. stocks at such a low level, anything less than a trend yield for the 2003 crop means that supplies could remain very tight for another year.

A weather market and resulting higher prices have larger implications for pricing new crop than pricing old crop soybeans, since the majority of the 2002 crop soybeans have already been sold. Assuming that weather and crop concerns persist, what are reasonable price targets for November 2003 futures? Potential price strength obviously depends on timing, severity, and duration of crop threatening weather. Spring and/or summer weather rallies over the past 6 years have pushed November futures to a high ranging from \$5.91 (2002) to \$7.50 (1997). It is interesting to note that the contract highs were lower every year from 1996 through 2002.

Using options to manage summer price risk is one alternative since there is potential for much lower prices should a favorable growing season unfold. Option premiums, however, are relatively large. In addition, ownership of options does not eliminate the soybean pricing decision. That is, even if prices move higher, producers with options will eventually have to decide when to price soybeans. Another approach is to spread sales during the summer growing season to at least capture the average price on a portion of the crop.

Issued by Darrel Good
Extension Economist
University of Illinois