



WEEKLY OUTLOOK



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SOYBEAN MARKET STILL LOOKING FOR SIGNS OF RATIONING

Soybean prices continue to march higher as the market looks for signs that the rate of soybean and soybean product consumption is declining in line with available supplies. Soybean prices advanced about \$.30 last week, with nearby futures trading over \$8.00.

The Census Bureau soybean crush report for September 2003 reported a monthly crush of 127.3 million bushels, nearly 5 million above the level of crush during September 2002. The average crush margin was extremely large in September 2003 as product prices advanced more sharply (14 percent) than soybean prices (about 9 percent). Even with a larger crush this year, reported stocks of both soybean meal and soybean oil at the end of September were smaller than stocks of a year ago. Mill stocks of soybean oil were at the lowest level since December 1998. Apparent use of soybean meal during September 2003 was nearly 5 percent larger than use in September 2002. Apparent consumption of soybean oil was 2.6 percent larger.

Export sales of soybeans also remain extremely large. New sales for the week ended October 23 totaled almost 60 million bushels. Unshipped sales as of October 23 were reported at 399 million bushels, compared to 307 million on the same date last year. Additional large sales were reported last week in USDA's daily reports of sales exceeding 100,000 tons. The USDA's weekly export inspection report shows cumulative shipments through October 30 of 180 million bushels, 1.5 percent more than cumulative exports of a year ago. For the year, the USDA has projected a 170 million bushel (16 percent) decline in U.S. exports due to the smaller available supply.

Much of the increase in U.S. soybean export activity so far this year is increased business with China. As of October 23, China had imported or purchased for import 163 million bushels of U.S. soybeans, double the commitments on the same date last year. Nearly 31 percent of U.S. soybean export commitments to date are to China. However, all major buyers of U.S. soybeans, except Indonesia, have made larger purchases than at this time last year.

The rally in soybean prices last week was led by soybean meal. December 2003 meal futures advanced nearly 5 percent while December 2003 oil futures declined about 2 percent. A review of the most recent USDA world oilseed production forecasts suggests that rationing will have to occur more in protein meal consumption than in vegetable oil consumption.

U.S. soybean production in 2003 is forecast to be 7.65 million tons less than produced in 2002. World cottonseed production is expected to be 2.87 million tons larger due to larger crops in China and India. World peanut production is projected to be 2.66 million tons larger due to a large increase in crop size in India. World sunflower production is expected to be 2.99 million tons larger due to larger crops in Russia, Ukraine, Argentina, and Central Europe. Finally, world rapeseed production is expected to be 5 million tons larger than the 2002-03 crop due to increased production in India, China, and Canada. In total, world production of non-soybean oilseed crops in 2003-04 is projected to be 14.1 million tons larger than production last year. That increase is 84 percent larger than the decline in U.S. soybean production. If South American soybean production in 2004 reaches the current USDA projection of 101.25 million tons, an increase of 9.35 million tons from 2003 production, world oilseed production this year will be 17.9 million tons (5.4 percent) larger than production of a year ago.

Based on current 2003-04 world oilseed production forecasts, there appears to be an abundance of world vegetable oil. The USDA forecasts a small increase in year ending stocks of all vegetable oils outside of the U.S. In fact, foreign meal stocks are expected to increase slightly as well.

The \$3.00 increase in soybean prices over the past three months seems rather large in the face of rising world oilseed production. The market has focused on the extent of the soybean supply problem in the U.S. and the large increase in purchases by China. In addition, of course, the South American crop is still a long way from harvest. Until there is solid evidence of a decline in the rate of consumption of U.S. soybeans, prices are expected to be well supported. When a decline is detected, prices could begin to erode, particularly if South American crop prospects remain large.

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