



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.

FEBRUARY 9, 2004

SOYBEAN RATIONING

The mantra in the soybean market is “still no rationing”. That is, the market continues to react to indications that soybean and soybean product use is progressing at a rate that cannot be sustained by available supplies. Crush margins remain large and interior soybean basis levels have been strengthening. In central Illinois, for example, the average farm level basis strengthened from \$-0.11 on February 2 to \$-.075 on February 6.

First, a look at the numbers. For the year, the USDA projects U.S. soybean exports at 900 million bushels, almost 14 percent less than shipped last year. The difficulty comparing the rate of exports to date this year with that of last year is that there was a large discrepancy between USDA export estimates and Census Bureau estimates, and even between the two sources of USDA estimates. That difference narrowed as the year progressed, but USDA estimates still exceeded Census Bureau estimates by 10 to 20 million bushels by year end. Through the first quarter of the 2003-04 marketing year, the Census Bureau export estimates exceed that of a year ago by nearly 22 percent, but USDA estimates showed an 8 to 12 percent increase. By February 5, 2004, the USDA cumulative export inspection estimate was actually 3 percent smaller than the inspection estimate of a year ago. Unshipped sales of U.S. soybeans as of January 29, 2004 were reported at 188 million bushels, 22 percent less than on the same date last year. The rate of U.S. soybean export commitments is clearly slowing. However, shipments to date plus outstanding sales account for about 92 percent of the 900 million bushel export projection. Based on USDA export inspection estimates, U.S. soybean export shipments during the last 29.5 weeks of the marketing year need to be 32 percent less than during the same period last year. On the surface, it appears that exporters are selling soybeans that may not be available. Some of those sales will have to be cancelled, or more likely, rolled into the 2004-05 marketing year.

For the current marketing year, the USDA projects a 62 percent decline in exports of U.S. soybean oil and a 29 percent decline in exports of U.S. soybean meal. The USDA *Export Sales* report shows commercial exports of oil through January 29 to be down 50 percent and combined shipments plus outstanding sales to be down 58 percent. For soybean meal the declines totaled 14 percent and 16 percent for shipments and total commitments, respectively.

For the current year, the USDA projects the domestic soybean crush at 1.455 billion bushels,

almost 10 percent less than crushed last year. Through the first four months of the marketing year (September through December 2003) the Census Bureau reported the U.S. soybean crush at 564.2 million bushels, only 0.6 percent below the crush during the same period last year. The December 2003 crush, however, was down 3.6 percent from the December 2002 crush. Crush during the final 8 months of the marketing year needs to be 15 percent less than during the same period last year.

The rate of consumption of U.S. soybeans will slow significantly over the next few months. Limited supplies allow no alternative other than to import larger quantities of soybeans or products. The question is, what will cause the rate of use to slow? Three things will likely contribute to the decline. First, higher prices should lead to a slow down in use as end users search for alternatives and/or reduce total consumption of protein meals and vegetable oils. Second, the upcoming large South American soybean harvest will contribute to a slow down in the export rate for U.S. soybeans, oil, and meal. The size of that harvest will be important. The most concern has been about dry areas in Argentina, but it appears that combined production in Argentina and Brazil will be significantly larger than the crop of 2003. A third potential factor for slowing consumption of U.S. soybeans and soybean products is an array of nonprice factors. These might include such things as an increase in the value of the U.S. dollar or reduced animal numbers. The current focus is on the latter factor, with an outbreak of avian influenza in Asia and a strain of the same influenza reported in Delaware. Some Asian countries have at least temporarily banned imports of U.S. poultry and some Asian countries have slaughtered large numbers of poultry. The immediate impact of the decline in poultry numbers is perhaps more psychological than fundamental, but it is a reminder that factors other than price of soybeans influence consumption.

The most important questions continue to be whether or not prices have to go higher in order to sufficiently reduce the rate of consumption and, if so, how much higher? Longer term uncertainties also center around the potential size of the 2004 U.S. soybean crop. There was only one other year (1986) in the past 30 years in which the average cash price in central Illinois peaked in January, as has been the case so far this year. Spot cash prices have not had a peak in February or March and have peaked in April only once in the past 30 years. While interesting, historical price patterns may have little to do with patterns in a year as unique as the current one. However, there appears to be enough uncertainty to keep prices well supported and new highs are a strong possibility.

Issued by Darrel Good
Extension Economist
University of Illinois