



WEEKLY OUTLOOK



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SOYBEAN PRICES FIND MORE SUPPORT

U.S. soybean production was relatively stable from 1997 through 2002, averaging 2.747 billion bushels in a range of 2.654 to 2.891 billion bushels. The larger world appetite for soybeans has been supplied by South America.

Brazilian production grew from 1.003 billion bushels in 1997 to 1.929 billion in 2003. During the same period, production in Argentina jumped from 412 million to 1.304 billion bushels. Those two countries accounted for almost 45 percent of world soybean production in 2003, up from 29 percent just 6 years earlier. It has been anticipated that the significant shortfall in U.S. soybean production in 2003 would be offset by another large increase in the size of the South American crop in 2004. The USDA surprised the market earlier this month with an even larger forecast of the Brazilian crop. That crop is now forecast at 2.241 billion bushels, 312 million larger than the 2003 harvest.

With production expected to be at 1.341 billion in Argentina and 165 million bushels in Paraguay, the 2004 South American crop is projected at 3.747 billion bushels, 360 million larger than the 2003 harvest. That increase would offset the 330 million bushel reduction in the size of the U.S. soybean crop in 2003 and contribute to a 5 percent increase in total world oilseed production this marketing year. However, expectations now being reported from the private sector are for the Brazilian crop to fall well short of the current USDA projection. Wet weather is reportedly adversary affecting harvest in northern areas and dry weather is hampering crop development in southern areas. Private expectations are generally 120 to 160 million bushels smaller than the current USDA forecast.

A smaller than expected South American crop could have significant longer term price implications. The rate of U.S. soybean exports and the rate of export sales have slowed significantly in recent weeks, partly in anticipation of the availability of South American supplies. Those supplies will still be very large and will satisfy world demand from April through September. However, if the world appetite for soybeans continues to increase, a large U.S. crop will be required in 2004.

The first indication of the potential size of the U.S. soybean crop will come with the USDA's *Prospective Plantings* report on March 31. In the February baseline projections, the USDA forecast a 400,000 acre increase in U.S. soybean plantings in 2004. At the annual Outlook Forum last

week, the USDA projected a 1.1 million acre increase in soybean plantings. Larger acreage of other crops is also expected. The February baseline projections indicated a 600,000 acre increase in Conservation Reserve Program (CRP) area and a 2.4 million acre increase in plantings of major field crops. Those magnitude of increases were also forecast at the Outlook Forum. There is no question that there is incentive to increase crop acreage in 2004 and that there is considerable acreage competition in regions that produce some combination of cotton, oilseeds, feed grains, and wheat. The March report of 2004 planting intentions will be important not only for indications of acreage of individual crops, but for indications of total crop acreage. Even with an increase in acreage, the U.S. average soybean yield will have to rebound significantly in 2004 to produce a crop in line with expected use.

For now, the soybean market will continue to react to expectations about the size of the South American crop and to the reported rate of consumption of U.S. soybeans. As indicated earlier, the pace of U.S. exports and export sales has begun to moderate. As of February 19, cumulative export inspections were 7 percent below those of a year ago. Just 5 weeks earlier, cumulative inspections were 5 percent larger than those of a year ago. As of February 12, unshipped sales of U.S. soybeans were 16 percent less than outstanding sales on the same date last year. For the year, the USDA projects a 14 percent reduction in U.S. exports.

Domestically, the USDA has forecast a 10 percent reduction in soybean crush due to limited supplies. Census Bureau estimates through December showed a cumulative marketing year decline (four months) of 0.6 percent. The January estimate is not yet available, but the estimate from the National Oilseed Processors Association for January indicated a crush near the level of a year ago. It is now the task of the market to find a price that will result in a significant slow down in the rate of consumption and attract a few more acres in the U.S. in 2004. With South American crop uncertainty and all of the U.S. growing season yet to come, price action could be extreme for an extended period.

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