



# WEEKLY OUTLOOK



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## **SOYBEANS: STILL LOTS OF UNCERTAINTY**

The 2003-04 soybean marketing year has just passed the half-way point. Historically, much of the uncertainty about demand and potential consumption of soybeans for the year has been eliminated at this juncture. That is not the case this year.

The pattern of U.S. soybean exports and export sales has been somewhat unusual this year. Extremely large sales and shipments early in the year were fueled by the Chinese buying binge. As of February 26, the USDA reported that China had imported 285 million bushels of U.S. soybeans during the current marketing year, 29 percent more than during the same period last year. Unshipped sales to China as of February 26, however, were reported at only 12 million bushels compared to outstanding sales of 38 million bushels on the same date last year. Net sales to all destinations for the last two reporting weeks totaled -1.2 million bushels.

Cumulative export inspections to all destinations through March 4 were reported at 715.7 million bushels, compared to 796.1 million bushels at the same time last year. Cumulative inspections 10 weeks ago were 10 percent larger than inspections of the previous year, but are now 10 percent less. Cumulative exports reported in the USDA's *Export Sales* report totaled 725 million bushels as of February 26, 4 percent less than reported a year ago.

The recent slow down in the U.S. soybean export program suggests that exports for the year will in fact be down from those of a year ago, as projected by the USDA. The USDA marketing year export projection is currently at 900 million bushels, nearly 14 percent less than exports during the 2003-04 marketing year. Some expect that projection to be lowered in the USDA March 10 monthly update of world supply and consumption projections.

The pattern of the U.S. domestic crush so far this year has also been somewhat unusual. Because of the small U.S. harvest in 2003, the available supplies of soybeans for domestic processing this year are significantly less than supplies of a year ago. The USDA has projected a 10 percent decline in the domestic crush for the year. For the first five months of the 2003-04 marketing year, monthly crush was larger than that of a year ago in September, smaller in October, about unchanged in November, smaller in December, and larger in January. Cumulative crush through January was 0.6 percent larger than crush of last year. The larger crush appears to be driven by soybean meal demand. Based on the estimate of month-end meal stocks at processing plants, consumption of meal from October 2003 through January 2004 was about 0.1 percent less than during the same four months last year. In contrast, apparent soybean oil consumption was down 8.5 percent. In addition, the large January crush resulted in a large

increase in month ending stocks of soybean oil.

If the marketing year crush is to be 10 percent less than that of last year, the crush during the last 7 months of the year will have to be down nearly 18 percent. If exports fall short of the current projection of 900 million bushels, more bushels will be available for domestic crush. A 25 million bushel shortfall in exports, however, would still require a 15 percent reduction in the domestic crush during the last 7 months of the year. The timing and pattern of that decline will be important for prices, potential imports, and decisions by end users of meal and oil. The longer the reduction in crush is delayed, the more abrupt the required adjustment by market participants.

In addition to demand uncertainty, the market will continue to react to changing prospects for the size of the current South American harvest. Last month, the USDA projected that crop at 3.75 billion bushels. A dry end to the growing season in parts of Brazil and Argentina, along with rain damaged crops in parts of northern Brazil, likely reduced the crop size significantly. A variety of forecasters expect the crop to be 150 to 220 million bushels less than the current USDA forecast. The USDA forecast will be updated on March 10.

Finally, the market will be anticipating and reacting to the USDA's March 31 *Prospective Plantings* report which will reveal U.S. producer intentions for soybean acreage in 2004. Over the past month, the price of November 2004 futures increased by \$1.00 per bushel and increased more rapidly than December 2004 corn futures. How much will relative crop prices and recent yield experiences impact producer planting decisions? The direction of change, as well as magnitude of change, in U.S. soybean acreage could have significant price implications.

It appears that soybean prices could continue to be very volatile for an extended period of time as the market reacts to a variety of fundamental factors. In addition, rumors about export demand, export cancellations, and potential imports of meal and oil could contribute to the volatility. Even with the price uncertainty, new crop soybean futures are now high enough for producers to start the 2004 marketing program.

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