



# WEEKLY OUTLOOK



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## **SOYBEAN PRICES: HOW HIGH? AND THEN, HOW LOW?**

Soybean prices continue to push to higher levels, driven by almost daily declines in the expected size of the current South American soybean harvest. Deteriorating crop conditions there provide significant price support when coupled with the need to sharply reduce the pace of domestic processing of U.S. soybeans.

The pace of domestic processing of soybeans during the first half of the 2003-04 marketing year was about equal to that of last year. Smaller supplies imply that the pace of processing will have to slow sharply during the last half of the marketing year. In many respects, 2003-04 has been very similar to the 1976-77 marketing year. Both years were characterized by a small harvest that was only recognized late in the growing season and a failure of consumption to make early adjustments to the short supply. Prices were too low early in the 1976-77 marketing year and moved sharply higher in the spring of 1977 in order to force reductions in domestic use. The fundamental difference this year compared to 1977 was the expectation of large South American supplies that could provide soybean meal and oil to the U.S. market if needed. The smaller than expected crop there is still large enough to meet world needs in the short-run, including imports by the U.S., but means that the U.S. needs to produce a large soybean crop in 2004.

In contrast to the pace of domestic crush, U.S. exports have declined in the face of smaller supplies. The USDA projects marketing year exports at 890 million bushels, 14.8 percent below the exports of a year ago. Through March 18, 2004 (28 weeks into the marketing year) the USDA's export inspection report indicated that cumulative shipments were 11.5 percent smaller than during the same period last year. As of March 11, outstanding export sales of soybeans for the current marketing year stood at 93 million bushels, 31 million less than outstanding sales on the same date last year. Perhaps exports will be less than projected, allowing the domestic crush to be a little larger. Outstanding sales of U.S. soybeans for delivery during the 2004-05 marketing year are relatively large, also totaling 93 million bushels on March 11. Almost 80 percent of those sales are to China.

The current strong rally in soybean futures prices has resulted in a scramble to forecast the top in the market. Targets include the April 1977 high in May futures of \$10.765; the June 1988 high in July futures of \$10.99; and the all time high of \$12.90 for July 1973 futures in June 1973.

Still, others suggest the strong likelihood of new all time highs similar in magnitude to those which occurred in corn and wheat in the spring of 1996. For new crop November futures, targets include the highs reached over the past 30 years, ranging from \$8.02 last year to the all time high of \$10.46 reached in June 1988. There are a cluster of highs ranging from \$9.00 to \$9.685.

Perhaps as important as when and at what level the high price occurs, is the question of the pattern of price decline following the high. In almost all instances of extreme price highs in modern history (post- 1972) prices have declined very rapidly in a very short period of time. July 1977 futures peaked at \$10.64 in late April 1977 and traded below \$6.00 in mid-July. July 1988 futures reached the \$10.99 high in mid-June and expired at \$8.29. Similarly, November 1988 futures reached a high of \$10.46 in mid-June and expired at \$7.28. Finally, July 1973 futures reached a \$12.90 high in early June, traded to \$6.30 in early July, and expired at \$11.87 (bid). History does not provide a forecast for the current situation, but illustrates that prices could become even more volatile before reaching a high and could decline sharply in a relatively short period of time.

Fundamentally, the actual size of the current South American harvest and prospects for the 2004 U.S. crop will be very important factors over the next several months. The pace of Chinese purchases and the level of soybean product imports into the U.S. will also be watched closely. Perhaps the price decline will be more orderly and gradual over a longer period of time as the market makes the transition from small supplies to more abundant supplies in 2004 and 2005. In any case, the current high price environment provides a challenge for producers in timing the pricing of remaining old crop supplies as well as expected 2004 production. That's the bad news. The good news is that high prices provide very profitable marketing opportunities.

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