WEEKLY OUTLOOK

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SOYBEANS AND CHINA

Soybean prices continue to be extremely volatile. Last week alone, July 2004 futures had a $.75 trading range and November 2004 futures traded in a range of $.65.

The volatile price behavior is being generated by a number of factors, including U.S. weather and crop progress. After an extremely fast start to the planting season, heavy rains in some areas brought planting to a halt and resulted in areas of ponding and flooding. Some replanting will be required and some area may be lost for the year. Planting progress is now behind the average pace in Wisconsin, Michigan, and Ohio. The magnitude of the area to be replanted is still not known.

In general, the later planting of the last 25 percent of the area may make it a little more difficult to reach the 40 bushel average yield projected by the USDA's World Agricultural Outlook Board. However, history suggests that July and August weather is still most important in determining soybean yields. Adverse conditions this summer could compound the effects of planting delays, while favorable conditions could more than compensate for early problems and produce a trend yield. Both outcomes have been experienced. Look for the debate about acreage, crop conditions, and production potential to continue to provide wide price swings. Price jitters associated with uncertain production prospects are common, but may be magnified this year because of late season production problems in the U.S. in 2003 and in South America in 2004. World stocks are a little tighter as a result of the shortfall in production.

Uncertainty about Chinese soybean demand has also contributed to soybean price volatility and may continue to do so. China bought large quantities of soybeans last fall as the shortfall in U.S. production was recognized. The exact timing of their purchases is difficult to track from USDA reports since some sales are initially reported as sold to "unknown" destinations. The USDA reports that 302 million bushels of U.S. soybeans have been exported to China since September 1, 2003, nearly 9 percent more than during the same period one year earlier. There are currently no outstanding U.S. sales of old crop soybeans to China, which is typical at this time of year.

It was assumed that China would continue to import South American soybeans at a rapid pace into the fall of 2004. In the past few weeks, however, China has rejected several shipments of soybeans from Brazil on the basis of fungicide contamination. Initially, there were rumors that the rejected Brazilian soybeans would be replaced by purchases from the U.S. To date, no such sales have been reported. Chinese feed-demand has been weakened by the outbreak of bird-flu in January, resulting in declining prices and falling soybean crush margins. Attempts by processors to stabilize the price of soybean meal in China have not yet been successful. The Chinese demand picture, both in the short run and into next year, now includes a lot more uncertainty than was the case just a few weeks ago.

The developments in China may have also impacted sales of U.S. soybeans for delivery in the 2004-05 marketing year. The USDA first reported such sales to China in late November 2003. By late January 2004, sales of new crop soybeans to China reached abut 75 million bushels. It appeared that China was buying U.S. soybeans early this year as the result of waiting too long last year. However, no new sales of new crop U.S. soybeans to China have been reported since late January.

Many insist that the current Chinese situation of weak demand, low feed prices, poor crush margins and a glut of soybeans is only temporary. The expectation is that growth in feed demand will be back on track soon. Such a rebound in demand will be critical for soybean prices during the year ahead. A large U.S. harvest in 2004, along with increased acreage and a return to trend yields in south America in 2005, would result in an abundant world supply of soybeans by the spring of 2005. That scenario is a long way from being accomplished, but would likely result in a return to lower soybean prices than currently reflected in the futures market. The market remains strongly inverted, with prices for the 2005 crop $2.30 below the current cash price. Those deferred prices, however, are much higher than prices experienced from late 1998 through the first half of 2003. Periods of higher prices during the summer of 2004 may offer opportunities to price a portion of the 2005 crop.

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