



reduction in the forecast of consumption of U.S. soybeans during the current marketing year. Stocks at the end of the 2004-05 marketing year are projected at 190 million bushels, the same as projected last month. The USDA forecasts the marketing year average farm price in a range of \$5.35 to \$6.25. The projected level of year ending stocks relative to total use points to an average price of \$5.45, based on recent historical relationships between stocks and average price.

Exports of U.S. soybeans during the 2004-05 marketing year are projected at one billion bushels. That projection is 115 million bushels above exports for the year just ended, but is 30 million below last month's projection and 64 million bushels below the record shipments during the 2001-02 marketing year. The lower projection reflects continued expectations for a large increase in South American soybean production in 2005 and a slight reduction in the projections of Chinese consumption and imports. China is expected to import 827 million bushels of soybeans from all sources in 2004-05. That is 206 million more than imported last year and about equal to the record imports of two years ago, but 18 million below last month's forecast.

The 2005 South American soybean crop is forecast at 4.15 billion bushels, nearly 22 percent larger than the 2004 crop and 20 percent larger than the record crop of 2003. The soybean area is expected to increase by 7.3 percent (10.3 percent in Brazil) and yields are projected at a more normal level than experienced in 2004. If that large crop materializes, there will be substantial competition for U.S. soybeans and a build-up in world stocks of soybeans by the end of the marketing year.

It appears that cash corn prices will make a seasonal low during harvest and will likely be below the CCC loan rate for a period in many areas. If consumption unfolds as expected, prices should increase modestly after harvest. The need for another large U.S. crop in 2005 could generate additional price strength in the spring of 2005 as the market tries to encourage more acres of corn and worries about the weather. There is considerably more uncertainty about soybean prices due to the uncertainty about Chinese demand and South American production. If South America avoids significant problems, soybean prices could continue to move lower in the winter and early spring of 2005. A repeat of last year's problems, however, would push prices higher. Ownership of soybeans beyond harvest appears more risky than ownership of corn, suggesting that options might be considered as a way to manage risk on a portion of the crop.

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