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SOYBEANS MOVE TO CENTER STAGE

Soaring corn and wheat prices have been the center of attention in recent weeks. Now, the soybean market appears to be playing catch-up.

November 2006 soybean futures reached a contract low near $5.37 in early September 2006. The average spot cash price in central Illinois reached a low of $5.045 on September 6, the lowest price since February 2005. That price stood at $6.15 on October 27. November 2006 futures traded to a high of $6.43 in the October 30 overnight market. The high for that contract is $6.60, established in July 2005. November 2007 futures traded to a contract high of $6.89 in that overnight session. The 20 percent increase in soybean prices over the past 7 weeks has come from about equal increases in soybean meal and soybean oil prices. Basis levels have generally strengthened on the rally. The central Illinois basis is the strongest for this time of year in 6 years.

Higher prices have come in the face of the harvest of a record large U.S. crop, approaching 3.2 billion bushels. The USDA will release a new forecast of crop size on November 9, with expectations that the forecast will not be smaller than the October forecast. In addition, most continue to see the potential for a record large South American harvest in 2007 and a further build-up in world stocks this year. The speculative interest that is pushing soybean and soybean product prices higher is driven by prospects for strong demand and concerns that U.S. producers might reduce soybean acreage too much in 2007. Basis levels are likely being supported by a generally slow harvest pace.

Through the first 8 weeks of the 2006-07 marketing year, the U.S. exported about 209 million bushels of soybeans, 51 million above the total of a year ago. All of the major buyers have imported more U.S. soybeans than at this time last year. Unshipped sales of U.S. soybeans on October 19 totaled 310 million bushels, compared to 218 million on the same date last year. Sales to China account for essentially all of that increase. For the year, the USDA projects U.S. soybean exports at 1.145 billion bushels, 20.8 percent more than exported during the 2005-06 marketing year. Current commitments, shipments plus outstanding sales, are 40 percent larger than at this time last year. The rapid start to the export program is in sharp contrast to the slow start of a year ago and adds confidence that the USDA forecast of record large exports can be achieved.

The Census Bureau reported the September 2006 U.S. soybean crush at 142.3 million bushels, a record crush for the month of September and 9.1 million more than crushed in September 2005. The large crush in September supports USDA's projection of a record crush of 1.775 billion for the year. Even with a record yield of 11.835 pounds of oil per bushel of soybeans crushed, stocks of soybean oil held at processing plants declined for the month. Stocks at other locations are not reported so that the calculation of soybean oil consumption during the month using just mill stocks is not completely accurate. However, apparent disappearance of U.S. soybean oil during September 2006 totaled 1.777 billion pounds, just shy of the all time record monthly disappearance of 1.785 billion reached in November 2004. Stocks of U.S. soybean oil are still quite large, but the inventory is expected to decline significantly over the next several months. The average yield of oil from the 2006 crop is expected to be lower than the record yield from the 2005 crop and domestic soybean oil consumption is expected to expand more rapidly as bio-diesel production increases. The use of all fats and oils (excluding crude soybean oil) in the production of methyl esters grew from 106.6 million pounds in April 2006 to 178.9 million in August 2006.

On the supply side, there is apparently some concern that high wheat prices have resulted in a significant increase in U.S. winter wheat seedings and that higher corn prices will attract too much corn acreage in the spring, resulting in a sharp decline in U.S. soybean production in 2007. While current prospects for large U.S. and world stocks of soybeans at the end of this year suggest that soybean acreage should be reduced in 2007, the concern is that the decline could be too extreme if soybean prices are not competitive with corn. November 2007 soybean futures near $7.00 is likely high enough to keep soybeans sufficiently competitive with December corn futures near $3.40. The more important question may be "How will 2008 South American production respond to $7.00 soybeans?" A large increases in acreage there would imply the need for fewer acres in the U.S.

With such large speculative interest and a changing demand climate, it is difficult to gauge the potential strength in the soybean market. It appears the November 2006 futures may at least re-test the contract high.

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