WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

MAY 29, 2007

NEW HIGHS FOR SOYBEAN PRICES

Three weeks ago we pondered the question of whether or not marketing year highs had been established in the corn and soybean markets. It was noted that February highs had not occurred previously and that odds favored new highs, particularly in the corn market.

As it turns out, new marketing year highs have been established for soybean prices, but not for corn prices. The average overnight cash price of soybeans in central Illinois reached a high of $7.705 on May 25, $.20 above the February high. In addition, November 2008 and November 2009 prices reached new contract highs and November 2007 futures traded within $.01 of its contract high. Futures settlement prices on May 25 translated to marketing year average farm prices of about $8.25 for the 2007-08 marketing year, $8.45 for the 2008-09 marketing year, and $8.15 for the 2009-10 marketing year. The highest marketing year average farm price to date is $7.83, established in 1983-84.

The strength in soybean prices during the month of May reflected higher prices for both soybean oil and soybean meal. July 2007 soybean oil futures increased about $.03 per pound while July 2007 soybean meal futures increased about $20 per ton. Soybean meal prices reversed the lower trend that started in late February, while soybean oil prices continued the upward trend that began in early November 2006. July oil futures are about $.11 (44 percent) above the early November low, while July meal futures are nearly $50 (29 percent) above the early November low, but nearly $30 below the late February high.

Much of the recent strength in soybean prices began with the USDA's May 11 forecast of supply and consumption for the 2007-08 marketing year. Prospects of a sharp decline in U.S. soybean inventories by the end of the 2007-08 marketing year result from a combination of a decline in harvested acreage from 2006 (8.5 million), a lower U.S. average yield (1.2 bushels), and annual consumption remaining near 3.04 billion bushels. Soybean prices have received additional strength from less than an ideal start to the U.S. growing season. Excess moisture in parts of the western Corn Belt, dryness in parts of the eastern Corn Belt, and drought in the southeast all contribute to uneasiness about the 2007 crop. Dryness in some areas of China has also been noted.

The rate of consumption of U.S. soybeans remains high. The USDA reports cumulative exports through May 24 at 966 million bushels, suggesting that only 114 million bushels need to be shipped during the last 14 weeks of the year to reach the projection of 1.08 billion for the year. Through March, however, USDA export estimates exceeded Census Bureau estimates by 30 million bushels. Such a large difference is unprecedented and adds some confusion to the export picture. If the difference has persisted, then exports during the last 14 weeks need to total 144 million bushels. The difference between the two estimates amounts to about 2.1 million bushels per week through the end of August.

The Census Bureau reported that the April 2007 soybean crush totaled 144.9 million bushels, 9.4 million more than crushed in April 2006. The domestic crush from September 2006 through April 2007 totaled 1.209 billion bushels, 3.8 percent larger than the crush of a year ago. For the year, the USDA projects an increase of only 1.8 percent. The increase in the domestic crush has been driven by soybean meal demand. That demand may get an additional boost from prospects of expansion in broiler production. This is a reversal of earlier prospects that higher corn prices would lead to a cut back in broiler production.

Continued speculative demand has also contributed to higher futures prices in the soybean complex. The combination of that speculative demand and large current inventories of soybeans have kept basis generally weak. The average central Illinois cash bid was $.42 under July 2007 futures on May 25. That is about $.07 weaker than the very weak basis of a year ago and about $.35 weaker than the typical basis for this time of year.

In addition to prospects for the 2007 U.S. crop, soybean prices will be influenced by planting decisions in South America later this year. Higher fertilizer prices and a weak U.S. dollar make soybeans less attractive in Brazil. Still, at current futures prices a substantial increase in soybean acreage in South America can be anticipated this year. The market appears to be offering an early opportunity to price a portion of the 2007 crop.

Issued by Darrel Good
Extension Economist
University of Illinois