



WEEKLY OUTLOOK



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NEW HIGHS FOR SOYBEAN PRICES

Soybean prices moved to the highest level for the current marketing year on the last day of October. November 2007 futures traded to \$10.185. November futures have reached a high over \$10.00 only once before, when the 1988 contract traded to a high of \$10.46.

The average spot cash price of soybeans in central Illinois reached a high of \$9.73 on October 31, well below the recent high of \$10.40 established on March 22, 2004. Basis levels continue to strengthen, although basis remains generally weak by historic standards. The Illinois River basis strengthened by \$.43 from October 15 through November 2, while the average central Illinois basis strengthened by only \$.20. The average cash price in central Illinois on November 2 was \$.3575 under November futures, compared to the average for the previous four years of \$.19. Further basis strengthening is likely as the marketing year progresses.

The \$.60 rally in soybean futures over the past three weeks has been lead by soybean oil prices. After dipping to about \$.38 in early October, December soybean oil futures moved above \$.42 in early November. December soybean meal futures have been trading between \$270.00 and \$280.00 per ton. The recent strength in soybean oil prices has been associated with large export sales and rising crude oil prices. For the current marketing year which started on October 1, the USDA has forecast a 24 percent decline in U.S. soybean oil exports, to a total of 1.45 billion pounds. As of October 25, U.S. export commitments were reported at 304 million pounds, 22 percent larger than commitments of a year earlier.

Higher crude oil prices have supported soybean oil prices due to the expected increase in biodiesel production stimulated by high fuel prices. The Census Bureau has been reporting the amount of fats and oils used in biodiesel production only since January 2006. For the first year, only once-refined soybean oil used in biodiesel production was reported. Since January 2007, both refined and crude soybean oil have been reported, as well as the amount of all fats and oils used in biodiesel production. It appears that use of fats and oils for biodiesel production peaks in August. In August 2007, 376.2 million pounds of soybean oil were used for bio-diesel production, accounting for 20.6 percent of the monthly use of

U.S. soybean oil. That use declined by nearly 26 percent in September, compared to a 16 percent drop in September 2006. High soybean oil prices are keeping biodiesel production margins thin even with higher fuel prices.

Relatively strong export sales of U.S. soybeans have also provided some support for soybean prices. For the year, the USDA projects a 13 percent decline in U.S. soybean exports. Export inspections during the first nine weeks of the marketing year were about 23 percent less than the total of a year ago. However, unshipped sales as of October 25, were about 3 percent larger than sales of a year ago so that total commitments are only about 9 percent behind those of a year ago. A strong export sales pace, combined with a 3.6 percent year-over-year increase in the domestic crush in September, suggest that soybean demand remains very strong.

Prospects for a sharp decline in U.S. soybean stocks by the end of the 2007-08 marketing year suggest that an increase in U.S. soybean production, and therefore acreage, will be required in 2008. That perceived need has provided underlying support to soybean prices. Some analysts have already projected a large increase in U.S. soybean acreage in 2008. However, forecasts of the acreage response in the U.S. before the outcome of the 2008 South American crop is more clear cannot be very accurate. While some production decisions have already been made, producers clearly demonstrated the ability for late-season acreage flexibility in 2007 when planted acreage of soybeans was nearly 3.5 million less than intentions reported in March. There does appear to be a bit of a knee-jerk reaction by producers to plan for more soybean acreage in 2008 with November 2008 futures above \$9.50. However, December corn futures at \$4.25 suggest that corn is still potentially more profitable than soybeans in much of the midwest.

In the short run, the USDA's November soybean production forecast to be released on November 9 could have some influence on price direction. Expectations are for a slightly larger forecast than the October forecast of 2.598 billion bushels.

Soybeans that were stored and hedged or priced with a hedged-to-arrive contract have earned good storage returns in the form of basis appreciation. Further basis strengthening is anticipated. The outcome for soybeans stored unpriced is more mixed, depending on when the crop was harvested. A move to new highs offers an opportunity to sell a few of those unpriced soybeans, but plenty of price volatility is expected over the next several months.

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