



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.

MARCH 17, 2008

FOCUS ON SOYBEAN OIL

Grain and oilseed prices have been in a sharp up trend since the fall of 2007. Some of the price strength is clearly related to “traditional” supply and demand factors. These include large-picture items of increasing demand, reduced world wheat production, and declining stocks. In general, however, the extreme prices reached in recent weeks exceed levels that might have occurred historically under similar fundamental conditions. Soybean oil prices are a good example.

U.S. soybean oil prices reached a 25-year low in the period from late 1999 through early 2002, with nearby futures trading in the \$.15 to \$.18 per pound range. Prices spiked to \$.35 in early 2004 following the small U.S. soybean crop in 2003 and then retreated to the \$.20 level in early 2006. Nearby futures prices were near \$.275 in late 2007, rallied to \$.70 in early March 2008 and settled at \$.60 on March 14, 2008. The price strength has occurred during a period of large increases in world soybean oil and total vegetable oil production and relatively abundant stocks.

World soybean oil production in 2007-08 is forecast at 38.31 million tons, 5.8 percent larger than production in 2006-07 and 11.1 percent larger than production in 2005-06. World consumption of soybean oil has increased more rapidly, with use during the current year expected to be 13.2 percent larger than use of two years ago. Even so, stocks remain relatively abundant. U.S. inventories at the end of the current marketing year are projected at 2.837 billion pounds, only 67 million less than inventories at the start of the year.

The USDA projects world vegetable oil production in 2007-08 at 128.22 million metric tons, 5.1 percent larger than last year’s production and 8.4 percent more than produced two years ago. World consumption during the current year is forecast at 127.49 million tons, 10.6 percent more than consumed two years ago. Still, year ending stocks are projected at 8.76 million tons, compared to 8.88 million tons at the end of the 2006-07 marketing year and 9.98 million tons at the end of the 2005-06 marketing year.

The projection of world stocks of soybean oil at the end of the 2007-08 marketing year (October 2007 through September 2008 for the U.S., Argentina, and Brazil) represents 7.3 percent of projected use. That compares to the stocks-to-use ratio of 8.4 percent at the

end of the 2006-07 marketing year and 9.7 percent at the end of the 2005-06 marketing year. The degree of tightening in world stocks of soybean oil and all vegetable oils does not appear sufficient to explain the level of price increase in soybean oil experienced this year. The USDA projects the 2007-08 marketing year average soybean oil price in a range of \$.53 to \$.57 per pound, compared to \$.31 last year and \$.234 two years ago.

The high soybean oil prices are having an impact on domestic use of soybean oil for biodiesel production. The Census Bureau reported that soybean oil use for biodiesel reached 469.4 million pounds in August 2007 and then declined for five consecutive months to only 318.8 million pounds in January 2008. Soybean oil used for biodiesel production accounted for 23.2 percent of total domestic consumption in August 2007, but only 12.2 percent in January 2008. For the entire 2007-08 marketing year, the USDA projects use of soybean oil for biodiesel production at 2.8 billion pounds, essentially unchanged from use of last year. In the meantime, use of other fats and oils for biodiesel production continues to increase. Use of other fats and oils was reported at 34.2 million pounds in January 2007, 93.2 million pounds in August 2007, and 115.9 million pounds in January 2008.

While the use of soybean oil and other vegetable oils for biofuels production may moderate due to high prices and policy changes, demand for human consumption of vegetable oils is expected to remain strong. This is particularly the case in areas of continued economic growth. Consumption of soybean oil in China during the current marketing year, for example, is expected to be 14 percent more than consumption of last year and nearly 29 percent more than that of two years ago.

Soybean oil prices appear to remain overvalued even after last week's decline and some additional weakness would not be surprising. However, with continued strong demand and declining stocks, prices will be heavily influenced by the magnitude of world soybean production in 2008-09. A significant increase in U.S. soybean acreage is expected and any weather-related delay in corn planting would likely increase those already inflated expectations. As is the case for corn and wheat, however, the 2008 growing season and average yields will be extremely important for soybean production and for soybean and soybean oil prices.

Issued by Darrel Good
Extension Economist
University of Illinois