WEEKLY OUTLOOK

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WHAT'S NEXT FOR SOYBEAN PRICES?

Soybean futures contracts for the 2008 crop sunk to contract lows in early December 2008 and the average spot cash price in central Illinois dropped under $8.00 per bushel. Prices rallied sharply into early January 2009, with the central Illinois cash price moving above $10.00. Prices collapsed again in early March with the cash price dropping to about $8.35, but rebounded sharply last week with the central Illinois spot cash bid ending the week at $9.38.

Much of last week's rally in prices was associated with higher energy prices, a rally in financial markets, and a weaker U.S. dollar. These markets, in turn, were influenced by U.S. monetary policy that ignited expectations of an upcoming period of rapid inflation in the U.S. economy. Developments within the soybean complex also continue to be somewhat supportive for soybean prices.

On March 11, the USDA confirmed prospects for a relatively small South American soybean harvest. That crop is now forecast at 3.894 billion bushels, 30 million smaller than the February forecast, and 364 million less than harvested in 2008. The smaller crop bodes well for the export demand for U.S. soybeans for the next 12 months. In addition, potential disruptions to Argentine exports due to ongoing disputes over export taxes may send more near term export business to the U.S. The USDA is already forecasting record soybean exports for the current marketing year. Census Bureau export estimates from September 2008 through January 2009 exceeded cumulative USDA estimates by 32 million bushels. If that margin continued through mid-March, weekly shipments from March 20 through August 31 will need to average only about 11 million bushels per week to reach the USDA projection. New sales of about 4.5 million bushels per week will be needed to reach sales at the projected level of exports of 1.185 billion bushels. The magnitude of sales to China, which has accounted for 58 percent of U.S. export business so far this year, will be watched closely for indications of the strength of old crop export demand.

The weak link in U.S. soybean demand so far in the 2008-09 marketing year is the slow pace of the domestic crush. Crush during the first 5 months of the year totaled 707 million bushels, 84 million less than during the first 5 months of the previous marketing year. The small crush reflected reduced consumption, export and domestic, of both soybean oil and soybean meal. Meal exports, however, were large in January 2009 and data from the Oilseed Processors Association indicated that the February crush was larger than generally expected. Census Bureau estimates for February are not yet available.

A major factor for soybean price prospects is the expected size of the 2009 U.S. crop. Some insight will be provided by the USDA's March 31 *Prospective Plantings* report. However, substantial acreage uncertainty will persist beyond that report. The market likely underestimates the ability of producers to adjust planting decisions after March 31. In addition, the question of total crop land acreage planted in 2009 will remain after March 31. Some focus is on the upper Plains right now where melting snow and rainfall will create flooding issues. The market is always quick to think that acreage could go unplanted. That may or may not happen this year. In addition, a continuation of higher crop prices may result in a smaller reduction in total planted acreage than has been forecast. Longer term, yield prospects for the 2009 U.S. soybean crop will become important. A return to a trend yield near 42.5 bushels per acre, for example, would add about 215 million bushels to production in 2009 with no increase in acreage.

The rebound in soybean futures prices and the continuation of a strong basis is giving producers an opportunity to price a portion of the unsold 2008 crop. Decisions for the 2009 crop are more difficult. November futures are slightly above the spring price guarantee for crop revenue insurance so there is some downside risk for unpriced new crop soybeans. That risk is small for the insured portion of the crop, but greater for the uninsured portion. The real dilemma surrounding pricing of the 2009 crop, however, is associated with determining value in a rapidly changing economic environment. Is economic recovery and demand strength eminent? Is the economy headed for a period of rapid inflation and how would that influence soybean prices? Such uncertainty favors a marketing strategy of frequent, small sales. There is more than a year left to sell the 2009 crop.

Issued by Darrel Good
Extension Economist
University of Illinois

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