WEEKLY OUTLOOK

UNIVERSITY OF ILLINOIS EXTENSION

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.

SEPTEMBER 7, 2010

SOYBEAN PRICES REMAIN STRONG TOO

Much of the attention in the crop markets in recent weeks has been focused on wheat and corn. The wheat market has been dominated by the shortfall in production in Russia and the potential for a draw down in world wheat stocks. The corn market has been driven by strong domestic and world demand and by recent concerns about the size of the U.S. harvest.

Soybean prices have traded in a wide range over the past two months, but fundamental developments have been less dramatic than in the wheat and corn markets. Over the next month, three USDA reports will add more clarity to the supply side of the soybean market. The first of those is the September 10 *Crop Production* report which will provide a new forecast of the size of the 2010 U.S. harvest. A change in the forecast of harvested acreage is not expected, so the focus will be on the yield forecast. The USDA's August *Crop Production* report forecast the U.S. average yield at 44 bushels, equal to last year's record and about 1.2 bushels above the calculated trend yield for 2010. Above average temperatures in many areas during August may have reduced yield potential, particularly in areas that also experienced below average precipitation during the month. For the most part, expectations are that the U.S. average yield potential has not been reduced enough to alter the prospects for a record large harvest.

The second report is the September 30 *Grain Stocks* report which will reveal the level of old crop soybean stocks on September 1, the beginning of the 2010-11 marketing year. Based on available data, it appears that soybean exports during the 2009-10 marketing year that ended on August 31 exceeded the USDA projection of 1.47 billion bushels. Cumulative export inspections through August 31 were reported at 1.46 billion bushels. From September 2009 through June 2010, cumulative exports as estimated by the Census Bureau exceeded inspections by 44 million bushels. If that margin continued through August, marketing year exports would have totaled 1.504 billion bushels.

In contrast, the 2009-10 marketing year domestic crush may fall just short of the USDA projection of 1.75 billion bushels. The crush during August needed to be 7 million bushels larger than during August 2009 to reach that projection. Monthly crush was below year ago levels from April through June and exceeded the year ago crush in July by only 300,000 bushels. On the surface, it appears that the inventory of soybeans on September 1, 2010 may have been smaller than the projection of 160 million bushels. However, the September stocks report has a reputation for containing some surprises and on occasion has resulted in a revision in the estimated size of the previous harvest.

The third report to provide supply information will be the USDA's October 8 *Crop Production* report. In addition to providing a new forecast of yields, that report will also reflect administrative acreage information, primarily certified planted acreage data from the Farm Service Agency.

Prospects for export demand for the 2010 U.S. crop will depend heavily on the strength of Chinese demand and the size of the 2011 South American crop. Currently, the USDA projects that China will import 1.91 billion bushels from all sources during the 2010-11 marketing year, up from 1.82 billion during the year just ended. While the 2011 South American crop is expected to be smaller than the huge 2010 crop, large inventories of the 2010 crop will keep supplies large and perhaps allow South America to capture more of the Chinese market. However, U.S. export sales for the 2010-11 marketing year have started very strong. As of August 26, the USDA reported sales for delivery during the current marketing year at 562.7 million bushels. New crop sales a year ago totaled 516.1 million bushels. Nearly 60 percent of current outstanding sales are to China. Progress of the South American crop will become very important over the next few months as the developing LaNina weather pattern becomes important for the Southern Hemisphere.

Soybean futures prices remain above $10.00, resulting in cash prices at or above the upper end of the USDA's projected range for the marketing year average price. Relatively high prices and a small carry in the futures market make harvest sales attractive for a portion of the crop.

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