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SOYBEAN PRICES RECOVER

Soybean prices have rebounded from the sharp decline following the bearish information in the USDA's January 10 reports. March futures traded to \$5.44 following the report, but settled at \$5.69 on January 24. November futures recovered from a low of \$5.025 to settle at \$5.285 on January 24. The average spot cash price in central Illinois declined to \$5.41 on January 16, but rebounded to \$5.615 on January 24. That price was \$.14 below the early January high. The recovery has been mostly driven by higher soybean meal prices.

A number of factors have contributed to the recovery in prices over the past week. These include projections of a decline in U.S. soybean acreage in 2003, drought conditions in important producing areas of the U.S., ideas that domestic meal feeding is being driven higher by widespread low temperatures, hot weather in parts of Argentina, and a rapid pace of U.S. export sales. More information about prospective acreage and yields in the U.S. in 2003 will be revealed over the next few months, as the USDA releases its *Prospective Plantings* report on March 31 and spring weather prospects become clearer.

There are three sources of information about the pace of U.S. soybean exports: the USDA's weekly *Export Inspection* report, the USDA's weekly *Export Sales* report, and monthly estimates by the Census Bureau. The Census Bureau figures are the official estimates and are reflected in the USDA's historical supply and consumption estimates. It is not uncommon for these three sources to have different estimates. This year, however, there is a very large difference in the estimates of soybean exports from these sources. Census Bureau estimates are only available for the first three months of the 2002-03 marketing year, September, October, and November 2002. Cumulative exports for those three months are reported at 297.6 million bushels, 50 million bushels (14.6 percent) less than during the same three months last year. In contrast, the USDA *Export Sales* report showed cumulative exports during that period at 317 million bushels, 18 million bushels (5.4 percent) less than indicated for the same three months last year. Finally, the USDA's *Export Inspection* report showed cumulative shipments through November 2002 at 339 million bushels, 16.8 million bushels (4.7 percent) less than during the same period last year.

A large difference among export estimates have occurred before, most recently in 1998-99. In that year, the difference resulted in the USDA carrying a very large estimate of residual use of soybeans in the supply and consumption balance sheet. It will be important to see

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if the Census Bureau estimates continue to fall below those from the USDA, and if so, how the difference is resolved.

The other issue regarding U.S. soybean exports is the large outstanding sales to China. As of January 16, 2003, the USDA *Export Sales* report indicated that 123.5 million bushels of U.S. soybeans had been shipped to China since September 1, 2002. That is 21.6 percent more than cumulative shipments at the same time last year. Unshipped sales to China on January 16 totaled 97.2 million bushels, four times as large as unshipped sales of a year ago. Until those soybeans are shipped, there is always some concern that the sales could be cancelled. That concern is most prevalent this time of year, as the South American harvest gets underway.

Soybean prices are expected to continue to be well supported by a combination of 2003 supply concerns and a high rate of exports. These factors will likely more than offset the effect of a slow down in the rate of domestic processing of soybeans. The slower rate of processing has a more positive impact for soybean meal prices than for soybean oil prices due to the relative product yield from the 2002 crop. For the period September through November 2002, the average oil yield per bushel of soybeans processed was 11.35 pounds, 0.21 pounds (1.9 percent) higher than the average yield of a year ago. On the other hand, the average meal (plus hulls) yield was 47.12 pounds, 0.37 pounds (0.8 percent) lower than the average yield of a year ago.

March 2003 futures may find some technical resistance in the gap left following the January 10 USDA reports and at the pre-report high near \$5.85. Recent lows should provide support. November futures prices have already exceeded the pre-report high. Fundamentally, prospects for a large South American harvest is still the most limiting price factor at the current time.

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