



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.

NOVEMBER 14, 2005

SOYBEAN PRICES CONTINUE TO RECOVER

As generally expected, the USDA released a larger forecast of the size of the 2005 U.S. soybean crop on November 10. The forecast of 3.043 billion bushels, reflecting a record large average yield, was a little larger than expected.

The U.S. average yield forecast of 42.7 bushels is 1.1 bushels above the October forecast and 0.5 bushels above the previous record yield of 2004. The yield is about 1.9 bushels higher than projected by the crop condition ratings at the end of the year. The Illinois average yield of 46 bushels is 2 bushels higher than projected by a yield model based on trend and summer weather conditions. The Iowa average yield of 53 bushels is 5 bushels higher than projected by that model.

In addition to increasing the forecast size of the 2005 harvest, the USDA reduced the forecast of 2005-06 marketing year consumption by 13 million bushels. The USDA projects marketing year U.S. exports at 1.075 billion bushels, 40 million below the October projection and 28 million below the record exports of a year ago. The month-over-month decline in the export projection reflects the slow start to the 2005-06 marketing year U.S. export program as pointed out two weeks ago. In addition, the USDA increased the projection of Brazilian exports during the period from October 2005 through September 2006 by 40 million bushels. The increase came in spite of a 55 million bushel reduction in the projected size of the 2006 harvest, reflecting a further reduction in expected planted acreage. The 2006 South American soybean crop is now projected at 3.9 billion bushels, 55 million smaller than the October forecast, but 370 million larger than the 2005 harvest.

The domestic crush of soybeans during the current marketing year is projected at 1.72 billion bushels, 25 million above the October projection and 24 million above the crush during the 2004-05 marketing year. The month-over-month increase in the crush projection was driven by larger projections of soybean meal consumption. Meal exports are projected at 6.7 million tons, 150,000 larger than the October projection, but 600,000 below the exports of last year. The increase from October reflects expectations of slightly larger world trade of soybean meal. While it is early in the 2005-06 marketing year (started on October 1), the combined pace of U.S. soybean meal exports and export sales is currently running about 22 percent behind the pace of a year ago. Domestic meal consumption during the current marketing year is projected at 34.3 million tons, 300,000 above the October forecast and 700,000 tons above the domestic use of last year. The expected

2.1 percent year-over-year increase in meal consumption is in contrast to a 5.5 percent expected decline in feed and residual use of grain and comes in the face of an expected 19 percent increase in the availability of dried distiller grain.

The projections of meal consumption and the domestic soybean crush appear a little aggressive, although the September 2005 crush of 133.2 million bushels is consistent with the projection for the year. Still, year ending stocks of U.S. soybeans are now projected at 350 million bushels, slightly above the recent high on September 1, 1999 and the largest since September 1, 1987. The projected ending-stocks-to-use ratio is 11.85 percent, the highest since 1998-99.

Soybean prices moved higher on November 11 with cash prices approaching the pre-harvest levels as basis continued to strengthen in many markets. The average overnight cash bid in central Illinois on November 11 was \$5.75, \$.60 above the low reached on October 10. Based on the U.S. average farm price received in September and October and using closing futures prices on November 11 to project the average cash price for the remainder of the year, the market is currently reflecting a 2005-06 marketing year average farm price of about \$5.80. That price is \$.06 above the average price received in 2004-05 when year ending stocks were about 100 million bushels less than projected for this year. The USDA projects the marketing year average price in a range of \$4.95 to \$5.75 and our composite model correlating the year ending stocks-to-use ratio to price projects a marketing year average near \$5.25.

The soybean market appears to be a little over-priced based on current U.S. and world supply, consumption, and stocks forecasts, particularly if U.S. soybean acreage increases in 2006. Current prices are likely reflecting uncertainty about a number of factors. Those uncertainties may include the South American growing season (weather and Asian soybean rust) and renewed concerns about soybean rust in the U.S. in 2006. Soybean rust was recently confirmed in eastern Texas, raising the risk of more widespread rust in 2006, depending on the extent to which it over-winters.

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