



# WEEKLY OUTLOOK



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## **SOYBEAN MARKET BUILDING IN A SMALLER CROP**

The USDA's June report on world crop supply and consumption prospects contained a number of changes for U.S. soybeans. In addition, the report contained the first projections for the 2005-06 soybean marketing year for the rest of the world.

For the current U.S. marketing year, the USDA now projects the domestic soybean crush at 1.675 billion bushels, 25 million larger than the May projection and only 10 million less than the record crush of 2001-02. The larger crush is expected to lead to a significant increase in the level of year ending soybean oil inventories. Those stocks are projected at 1.526 billion pounds, 450 million larger than stocks at the beginning of the year and 285 million larger than projected last month. The larger domestic crush is being driven by soybean meal consumption. Domestic use of meal is projected at 33.9 million tons, 450,000 above the May projection. Meal exports are expected to reach 6.1 million tons, 100,000 above the May projection.

Exports of U.S. soybeans during the current marketing year are now projected at 1.11 billion bushels, 10 million larger than the May projection and 110 million larger than projected in September 2004. Year ending stocks are projected at 320 million bushels. Stocks at that level would be the largest in 6 years, but would be 140 million bushels less than projected in December 2004. If the 2004 crop was a bit smaller than the current USDA estimate of 3.141 billion bushels, as suggested by the December and March *Grain Stocks* report, year ending stocks may be near 300 million bushels.

While year ending stocks of U.S. soybeans will be ample, well above the 150 to 180 million generally considered as "tight", the smaller projection results in increased importance on the size of the 2005 crop. The June *Acreage* report will provide an update on actual planted acreage of soybeans. In general, the market believes acreage may be less than March intentions of 73.91 million acres due to a combination of increased acreage of corn and some prevented plantings in extremely wet areas. Yield expectations will be based on weather conditions and the USDA's weekly report of crop conditions. If current crop ratings, 62 percent good or excellent, persisted through the end of the growing season, a national average yield near 41 bushels would be expected. The USDA's calculated trend yield is 39.9 bushels, projecting to a crop of 2.895 billion bushels. Production at that level, in combination with a 30 million bushel increase in consumption,

would result in September 1, 2006 stocks near 250 million bushels.

For the rest of the world, the largest changes in estimates were for the 2003-04 marketing year, not the current year. Specifically, the 2004 Brazilian crop is now estimated at 1.855 billion bushels, 77 million less than the previous estimate. The 2005 harvest in Brazil is estimated at 1.95 billion bushels, the same as projected last month. Production in all of South America in 2005 is estimated at 3.62 billion bushels, 320 million larger than the 2004 crop.

For the year ahead, soybean area in South America is expected to increase only 1.4 percent, well below the 5.3 percent increase experienced this year. Area in Brazil is expected to increase by about 1 percent. Average soybean yields were low in Brazil and Paraguay in 2004 and 2005 and in Argentina in 2004. For the 2006 harvest, the USDA projects an average South American yield of 39.3 bushels per acre, compared to 34.7 bushels in 2004 and 36.1 bushels in 2005. Still, that projection is well below the record average yield of 42 bushels in 2003. The 2006 South American crop is projected at 3.99 billion bushels, 370 million larger than the 2004 crop. Production at that level would likely lead to a significant increase in South American inventories, keeping world stocks at a record level.

The USDA's projection of average farm price of soybeans during the 2005-06 marketing year is in a range of \$4.95 to \$5.95, \$.25 higher than last month's projection. At the level of trading early on June 13, the futures market reflected a 2005-06 marketing year average farm price near \$6.65, more than \$1.00 above the midpoint of the USDA projection. The average price projected from the historic relationship between year ending stocks and price (using the USDA's projection of use and stocks) varies significantly depending on which historic period is assumed to represent the current period. Based on the generally low price period of 1998-99 through 2002-03, the average price during the year ahead would be expected to be near \$5.00. Based on the higher price period of 1989-90 through 1997-98, the average would project to about \$6.35. Even at the higher projected level, it appears that the market is building in a much smaller crop than currently projected by the USDA. Current strength may be more related to concerns about soybean rust than adverse weather conditions. The concern about the spread of soybean rust increased with the recent tropical storm, although spore production in Florida and Georgia appear to be at very low levels.

Issued by Darrel Good  
Extension Economist  
University of Illinois