



# WEEKLY OUTLOOK



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## **SOYBEAN UNCERTAINTY PERSISTS**

Most of the attention in the crop markets continues to be on soybeans. The immediate interest is the potential size of the current South American crop, but other significant developments will be important as well.

Forecasts of the size of the Brazilian soybean crop continue to decline on the basis of dry weather in southern growing areas. Hardest hit is the state of Rio Grande do Sul. That area was also affected by dry weather last year, resulting in a crop of about 200 million bushels. Early forecasts for this year were for a crop near 340 million bushels. Some forecasts suggest that production may actually be only about half that amount. Compared to early forecasts of about 2.37 billion bushels, forecasts for all of Brazil have declined to 1.95 to 2.1 billion bushels. The 2004 harvest totaled about 1.93 billion bushels. The USDA will release a new forecast for the 2005 crop on March 10. Many believe that forecast will still exceed most private forecasts.

There still seems to be large differences of opinion about the potential size of the South American crop. More northern growing areas of Brazil, as well as growing areas in Argentina, have had more favorable weather. The 2004 Argentine crop was estimated at 1.25 billion bushels and last month the USDA forecast the 2005 crop at 1.43 billion bushels. Most seem to think that production potential is still near 1.4 billion bushels.

Beyond the size of the South American crop, the soybean market must also deal with the uncertainty about the size of the 2005 U.S. crop. Many analysts are still projecting a decline in U.S. soybean acreage this year. However, the recent rally in soybean prices relative to corn prices, has created some second thoughts about how large the decline might be. In early February, the ratio of November 2005 soybean futures to December 2005 corn futures was near 2.3. At the close of trade on March 4, the ratio was near 2.6. The increase in soybean prices has been enough to offset most, if not all, of the additional cost of treating for soybean rust. Expectations of a decline of 2 to 3 million acres in soybean plantings have given way to forecasts of a one to two million acre decline. The USDA will reveal the results of the survey of planting intentions on March 31. However, the market will likely continue to debate the magnitude of plantings until the June *Acreage* report is released.

Even after the acreage question is mostly settled, the soybean market will have to deal with yield uncertainty. With a decrease of about two million acres in soybean area and a trend yield near 40 bushels, the 2005 crop would be near 2.88 billion bushels. Consumption of U.S. soybeans during the current marketing year is forecast at about 2.82 billion bushels, resulting in year-end stocks of 440 million

bushels. Assuming that use exceeds the current projection by 40 million bushels due to the smaller Brazilian crop, stocks will be near 400 million bushels. If use grows another 50 million bushels next year for the same reason, stocks at the end of the 2005-06 marketing year would be near 370 million bushels. To create a shortage of U.S. soybeans, then, the combination of smaller production or increased use for the marketing year ahead needs to differ by about 200 million bushels from these projections.

The third significant uncertainty centers around Chinese import demand. For the current marketing year, the USDA projects Chinese soybean consumption of 1.42 billion bushels with imports of about 825 million bushels. Those forecasts are 12 percent and 33 percent large, respectively, than estimates for last year. From September 1, 2004 through February 24, 2005, the USDA estimates that China imported 355 million bushels of U.S. soybeans, accounting for 45 percent of all U.S. exports. As of February 24, China had also purchased an additional 36 million bushels of U.S. soybeans which had not yet been shipped. It appears that China will continue to buy U.S. soybeans a little later into the season than normal due to the uncertainty about Brazilian production. The larger questions, however, is the rate of increase in Chinese soybean consumption over the next several years. If that demand remains strong, total world consumption will continue to grow.

For the current marketing year, soybean prices did not trade to the extremely low levels suggested by price behavior in recent periods of surplus. The lowest cash price to date is about \$.60 to \$1.00 higher than experienced during the 1998-99 through 2001-02 marketing year. Similarly, the recent price increase of more than \$1.00 per bushels has been larger than appears warranted by world supply and demand fundamentals. The relatively strong performance of soybean prices this year suggests that responses to acreage, yield, and production prospects over the next six months could be quite strong.

The late season dryness in Brazil and the quick price response has provided an unexpected pricing opportunity. Now the question is whether that pricing opportunity will fade with good crop prospects in the U.S. or will better pricing opportunities develop during the spring and summer, or both. The large current surplus of soybeans suggests that the current rally should be used to sell additional old crop supplies and at least get started on selling the 2005 crop.

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