



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.

JANUARY 18, 2005

SOYBEAN PRICES TO FACE MORE PRESSURE?

Soybean prices declined sharply from the spring to the fall of 2004 as the market made the transition from shortage to abundance. To date, however, prices have not declined to the extreme lows expected to occur as a result of the surplus generated by the record crop of 2004.

March 2005 soybean futures declined to \$5.10 in early November and the average overnight spot cash bid in central Illinois reached a low of \$4.80 on October 13. That low is well above the lows reached in the 1998-99 through 2001-02 marketing years when supplies were less burdensome than during the current marketing year. Lows in those four years ranged from \$3.875 to \$4.295 per bushel. Futures prices recovered quickly after harvest, even as the production and carryover projections increased. March 2005 futures traded to the \$5.60 level in late November and again in mid-December. The cash price of soybeans in central Illinois traded to a high of \$5.515 on November 23 and again on December 27 as basis strengthened significantly. The cash price was as high as \$5.47 as recently as January 10, 2005.

The higher than expected prices since mid-October reflect a number of factors. Reportedly, producers have been reluctant to sell soybeans following the large price declines into harvest. At the same time, the market required large quantities of soybeans to refill the pipeline and to meet a large increase in domestic and export consumption of soybeans. The domestic monthly soybean crush declined to an 8 year low of 103 million bushels in August 2004, but exploded to a record 156 million bushels in October 2004. Similarly, monthly exports declined to a trickle of about 11 million bushels in August 2004, but October exports were the largest ever for that month, at 176 million bushels, and November exports were even larger at 183 million bushels. The exports were driven largely by shipments to China. From September 2004 through November 2004, China imported 197 million bushels of U.S. soybeans, half of all the U.S. soybeans exported and 24 percent more U.S. soybeans than imported during the same period in 2003. The combination of reluctant selling by producers and the market's need for large quantities of soybeans generated very strong basis levels and an inversion in the structure of futures prices.

Last week, the USDA production report indicated a slightly smaller 2004 U.S. crop than forecast in November. The January estimate of 3.141 billion bushels compares to the November forecast of 3.15 billion bushels. In addition, the USDA increased the forecast of the size of the

domestic crush during the current marketing year by 15 million bushels, lowered the projection of year-ending stocks by 25 million, and increased the forecast of the 2005 marketing year average farm price by \$.15 per bushels. Ironically, soybean prices declined following the release of the new projections. March 2005 futures declined \$.24 and the central Illinois cash price declined \$.22, to \$5.20, in the three trading days following the report.

To some extent, soybean prices were able to overcome an extremely bearish fundamental situation from October 2004 through early January 2005, but now appear vulnerable to those same fundamental factors. The monthly report by the National Oilseed Processors Association released on January 14, 2005, showed a smaller than expected soybean crush in December 2004. In an unusual pattern, the December crush was smaller than the November crush and only 5 million bushels, 3.6 percent, larger than the crush in December 2003. At the same time, soybean oil inventories at the end of December 2004 were larger than at the end of November 2004.

The slow down in the domestic crush was reported at the time that many analysts are also anticipating a slow down in export sales to China. While Chinese demand remains strong, South American supplies will provide seasonal competition for U.S. soybeans over the next several months. As of January 6, 2005, the USDA reported 60 million bushels of outstanding export sales to China, compared to 104 million bushels at the same time last year. The USDA continues to project South American soybean production at a record 4 billion bushels, 20 percent larger than last year's harvest.

If the South American crop continues to make good progress, soybean prices may come under additional pressure. Cash prices will likely decline below the CCC loan rate and there is an outside chance they could challenge the October 2004 lows. Uncertainty about the magnitude of U.S. soybean acreage in 2005 and the potential impact of soybean rust, along with normal weather uncertainty for the 2005 growing season, will provide some underlying support to prices and may contribute to more price volatility from April forward.

Issued by Darrel Good
Extension Economist
University of Illinois