



WEEKLY OUTLOOK



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SOYBEAN PRICE HAS NINE LIVES

Soybean prices dropped sharply following the USDA's March 31 *Prospective Plantings* report, but have regained some of that loss. A wide variety of factors will continue to have a bearing on price movement.

November soybean futures declined by about \$.30 in the aftermath of the USDA's report showing producer intentions to significantly increase soybean acreage in 2006. That contract traded to about \$5.85, only \$.43 above the contract low reached in February 2005. The average central Illinois spot cash bid dropped by \$.33 and traded within \$.15 of the marketing year low of \$5.15 established on October 10, 2005. It appeared that prices would continue under pressure, with the potential of new marketing year lows in the cash market. On April 17, however, November futures traded above \$6.00 and were only \$.13 below the pre-report settlement price. The central Illinois cash price recovered by about \$.10 during the shortened trading week ended on April 13.

A number of factors have helped stabilize the soybean price in the face of historically large stocks and acreage prospects. The USDA's monthly reports released on April 10 contained a smaller estimate of the South American crop currently being harvested. While production is expected to be record large, the current estimate of 3.83 billion bushels is nearly 75 million bushels smaller than the March forecast, reflecting lower yield prospects in Brazil and Paraguay. On the export front, the Census Bureau estimate of February 2006 soybean exports was about 2 million larger than the USDA estimates for the month. Cumulative marketing year exports through February were about 7 million larger than the USDA estimates. Weekly export sales of old crop soybeans remains brisk in light of the large South American harvest, averaging about 13 million bushels per week for the two weeks ended on April 6. The weekly *Export Sales* report also confirmed a large sale of soybeans to China for delivery in the 2006-07 marketing year. Sales to China for delivery next year total about 65 million bushels. Sales to all destination during the 2006-07 marketing year totaled 94 million bushels as of April 6. No new crop sales had been reported at this time last year. The new crop sales to China served as a reminder of the large appetite for soybeans in that country.

Soybean prices may also garner some support from the industry report of the soybean

crush during March. The National Oilseed Processors Association reported that member companies crushed nearly 142.9 million bushels of soybeans in March 2006, more than anticipated by the market. The larger than expected crush also resulted in a more modest increase in soybean oil stocks than anticipated. Finally, soybean prices have once again found support from speculative buying, based in part on continued price increases for other commodities, particularly crude oil and precious metals.

The rapid turn around in soybean prices last week will result in a changing message to soybean producers relative to planted acreage in 2006. Even though corn prices remain well supported just below the contract high of \$2.75, rising soybean prices will tend to reinforce producer decisions to increase acreage in 2006. As corn planting continues to be interrupted by rain events, there may also be less incentive to increase corn acreage. Prospects for a record large soybean crop in the U.S. remain in place.

Fluctuating soybean prices make pricing decisions difficult. For the new crop, the bottom line is that more acreage along with a trend yield would likely result in cash prices at or below the Commodity Credit Corporation (CCC) loan rate by harvest time. The market is currently offering a 2006-07 marketing year average farm price well above the loan rate. With November futures at \$6.02, and assuming that the monthly average farm price will have the same relationship to futures prices as the average of the past 5 years, the futures market currently reflects a 2006-07 average farm price near \$5.95. That is \$.30 to \$.35 above the average expected for the current year. The market will closely monitor planting progress, weather and weather forecasts, and weekly crop condition reports as they become available in order to judge 2006 production prospects. These factors will also provide producers with valuable information for gauging new crop pricing opportunities. The lesson of a year ago is that the weekly crop condition ratings are very valuable in judging U.S. average yield prospects.

Issued by Darrel Good
Extension Economist
University of Illinois