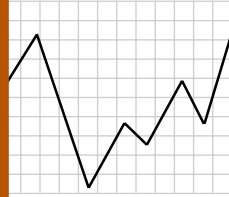


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WORLD SOYBEAN PRODUCTION REMAINS LARGE

World consumption of soybeans has grown steadily over the past decade. Use during the 1990-91 marketing year was estimated at 104 million tons, or just over 3.8 billion bushels. Use has grown each year since then, even during the short supply year of 1995-96. Consumption during the current year is projected at 102 million tons (nearly 5.9 billion bushels). Much of the increase this year is coming in China, due to a 14 percent increase in soybean meal use. U.S. exports of soybeans are projected at a record 965 million bushels this year, 20 percent larger than last year's exports, due in large to a doubling of Chinese imports of soybeans. Increased soybean and soybean product demand has been generated by population growth, economic growth, and increased livestock production.

For the most part, annual production increases have kept pace with the increased use of soybeans. Production was estimated at 104 million tons in 1990-91 and at 155.9 million tons in 1999-00. The only year-over-year decline in production came in 1995-96 due to a small crop in the U.S. The largest increase in production came in 1997-98. High prices resulted in a 9 percent increase in soybean plantings in the U.S. and a 10 percent increase in acreage in South America. Above average yields in the U.S. and record yields in South America resulted in a 20 percent increase in world soybean production that year. Acreage has continued to increase since 1997, supported by a relatively high Commodity Credit Corporation (CCC) loan rate in the U.S. and low variable costs of production on a world basis. Acreage in the U.S. is estimated at a record 74.5 million for the current year, 29 percent more than planted in 1990. South American acreage for the most recent harvest was estimated at 56.9 million acres, 50 percent larger than in 1991.

In the monthly update of world estimates of production and use released on July 12, the USDA made the first forecasts for the 2000-01 marketing year for soybeans. Since the southern hemisphere crops have not yet been planted, these projections are subject to change. The USDA reports that the average difference between the July projection and final estimate of foreign soybean production since 1981, for example, has been about 6 percent. The early projection for 2000-01 include a modest increase (1.7 percent) in South American acreage and a 13.7 percent increase in acreage in China. For the world, acreage for the 2000-01 marketing year is expected to be 3.4 percent larger than for the current year. Higher yields are expected in the U.S. and Brazil. World production is projected at 168.5 million metric tons (nearly 6.2

billion bushels), 8 percent larger than this year's crop. The largest increase outside of the U.S. is expected in China, where production is expected to be up 10.6 percent. Even with a trend increase in consumption, a crop near the projected level would result in a significant increase in world stocks of soybeans during the year ahead.

The projections of another increase in foreign soybean production added to the negative influence of the likelihood of a record U.S. soybean harvest this fall. The USDA now projects that crop at 2.94 billion bushels, 11 percent larger than the 1999 crop. The first objective yield estimate will be made next month. For now, the USDA is using a projection of 40 bushels per acre, compared to the 36.5 bushel average of last year. Current crop ratings are not as high as the ratings of a year ago, but ratings declined sharply from mid-July until harvest last year. In mid-July 1999, 71 percent of the crop was rated as good or excellent. That rating dropped to 45 percent by harvest. The weather forecast for August would suggest that ratings for this year's crop will remain steady, or improve, from the current 66 percent good to excellent.

Prospects of another large U.S. and world crop pushed November 2000 futures to a contract low of \$4.465 on July 14. That is still \$.40 above the low for the 1999 contract established in July of last year. Prices a year ago were buried by talk of a 3 billion bushel crop and year ending stocks of 600 million bushels. While talk of a 3 billion bushel crop is circulating again this year, demand is stronger than anticipated last year.

Near term prices will be influenced by progress of the U.S. crop. Even with less than favorable weather in August, prices are not expected to rally by the \$1.25 that would be needed to put prices above the CCC loan rate. It appears that marketing strategies this year will once again be centered around the use of the marketing loan program.

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