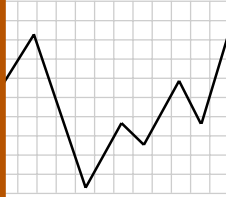


UNIVERSITY OF ILLINOIS
EXTENSION

WEEKLY OUTLOOK

A joint publication
and the Department
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Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences,
University of Illinois at Urbana-Champaign.

FEBRUARY 12, 2001

SOYBEAN PRICES AT MARKETING YEAR LOW

The soybean market got caught once again leaning the wrong way in front of a USDA report. In January, the soybean market expected the USDA to significantly reduce the estimated size of the 2000 U.S. soybean crop. When that did not happen, prices declined sharply. Last week, the market expected the USDA to raise or increase the projection of soybean exports for the current marketing year. The 15 million bushel reduction in that projection, along with a 10 million bushel reduction in the projection of domestic crush of soybeans, provided another negative surprise to the market. As a result, futures prices traded to new contract lows on February 8. The average cash price of soybeans in central Illinois declined to \$4.39 per bushel, \$.025 below the previous marketing year low established in late October 2000 and \$.585 below the marketing year high price established on December 19, 2000.

The decline in the projection of marketing year exports was especially surprising given the rapid pace of exports to date and the large undelivered sales currently on the books. As of February 8, 23 weeks into the marketing year, the USDA reported cumulative export inspections of 566 million bushels, compared to 565 million by the same date last year. Last year, marketing year exports reached a record 973 million bushels. Compared to last year, shipments to the European Union have been smaller than shipments of a year ago, but shipments to China have been larger.

As of February 1, the USDA reported that 246.3 million bushels of soybeans had been sold for export but not yet shipped. That compares to unshipped sales of only 144 million bushels on the same date last year. Total sales (shipped and unshipped) as of February 1 represented 81.3 percent of the USDA's revised export projection of 960 million bushels. That is the highest percentage for that date in the past ten years, and compares to only 69 percent sold on the same date last year. With such large sales on the books, why was the export projection lowered?

There are two basic reasons. The first is related to the timing of purchases and receipt of U.S. soybeans by China. Last year, China imported 191 million bushels of U.S. soybeans. However, as of February 1, 2000 China had imported only 65 million bushels and had priced a total of only 72 million bushels. Sales and shipments to China were very large from February through August 2000. This year, China is expected to import fewer U.S. soybeans, but has already received over 100 million bushels and has priced at least 175 million bushels. Sales and shipments to China are expected to be much smaller over the next seven months than during the same period last year. There is also some concern that China may default on some of the U.S. purchases because of lower prices and the availability of low priced soybeans from South America.

The second reason is the prospects for larger exports from South America during the spring and summer of 2001. The USDA now estimates the 2001 South American harvest at 2.3 billion bushels, 55 million larger than the January estimate and 195 million larger than the record harvest of 2000. South American exports are projected at 713 million bushels, 70 million larger than last year's shipments. With world trade expected to equal that of last year, the U.S. will lose market share of exports to South America.

The USDA now projects U.S. soybean stocks at the end of the current marketing year at 345 million bushels, 55 million larger than stocks at the beginning of the year and at the upper end of year ending stocks of the past 13 years. Even with low prices and a five percent increase in world consumption, year ending stocks on a worldwide basis are expected to remain very large, near 950 million bushels. Currently, the market expects little relief from the burdensome supplies during the year ahead due to prospects for continued large plantings of soybeans in the U.S. A reduction in winter wheat seedings and increased cost of corn production has the market looking for at least another million acres of soybeans in the U.S. in 2001.

Are there any bright spots for soybean prices? Some improvement in soybean oil demand is anticipated if there are significant restrictions placed on feeding of animal fat due to concerns about "mad cow" disease. Restrictions would most likely occur in the European Union, which accounts for about 18 percent of the world tallow and grease consumption. The U.S. accounts for about 30 percent of consumption and China accounts for about 16 percent of world consumption. Consumption of tallow and grease in the European Union is equivalent to about 2 percent of world vegetable oil consumption. After moving to the lowest level in 29 years, there is some room for soybean oil prices to increase. As a result, soybean prices could make some modest recovery, but recovery would be limited by weakening soybean meal prices.

The best opportunity for price recovery may be during periods of weather concerns in the upcoming U.S. growing season. In the meantime, producers who own soybeans for which the loan deficiency payment has already been established need to get price protection in place.

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