

Another Look At Soybeans



DR. DARREL GOOD

Extension Economist University of Illinois

grain outlook

Two weeks ago we wrote about the strength in soybean prices and the importance of upcoming USDA reports and the importance of South American crop prospects. There has been a lot of action in the soybean market since then. Prices turned lower from September 7 through September 16, but rallied sharply on September 17 and again at the open of trade on September 20. November 2010 futures exceeded the early December 2009 highs and then traded to nearly \$11.00.

Higher prices have occurred even though the USDA's September Crop Production report forecast a larger U.S. crop and the USDA's World Agricultural Outlook Board repeated the forecast of large year ending stocks of U.S. soybeans. Early reports from the eastern Corn Belt include some unexpectedly high soybean yields, suggesting that average yields in those areas may exceed the current USDA forecast. Even so, strength in soybean and soybean product prices have come from a number of other sources.

Export sales of U.S. soybeans remain large. As of September 9, the USDA reported cumulative sales of 678 million bushels, representing nearly 46 percent of the projected marketing year exports. Sales exceed those of a year ago by 30 million bushels. China accounts for 57 percent of those sales. Sales to South Korea, Thailand, North Africa, and Mexico are running ahead of last year's pace. Export sales of U.S. soybean oil for delivery during the upcoming marketing year that begins on October 1 have also been relatively large. USDA reported outstanding sales of 727 million pounds as of September 9, compared to 341 million pounds a year earlier. For the 2010-11 marketing year, the USDA has projected soybean oil exports at 2.1 billion pounds, down from 3.35 billion pounds during the year ending this month. Sales of soybean oil to China account for 55 per-

cent of total sales. China is purchasing more U.S. soybean oil and less Argentine soybean oil.

In addition to strong export demand for soybeans and soybean oil, prices have received recent support from higher corn prices as the market sees the potential for more corn and fewer soybean acres in the U.S. in 2011. The market has also reacted to ongoing dryness in northern Brazil, the potential for frost damage to the canola crop in Alberta, Canada and some forecasts of potential frost damage to the soybean crop in Northeast China. A weaker U.S. dollar has also supported expectations of continued strong export demand for U.S. commodities, including soybeans.

One of the major fundamental uncertainties surrounding the soybean market is the potential domestic demand for soybean oil for the production of biodiesel. The USDA expects use for that market to total 1.7 billion pounds during the current marketing year. That projection is 100 million pounds less than projected last month and 313 million pounds less than used during the 2008-09 marketing year. The current projection is 400 million bushels below the October 2009 projection. The year-over-year decline in soybean oil use for biodiesel reflects the discontinuation of the \$1.00 per gallon blenders' tax credit beginning in January 2010.

For the upcoming marketing year, the USDA projects use of soybean oil for biodiesel production at 2.9 billion pounds. Soybean oil exports are expected to decline by 1.25 billion pounds and domestic use of soybean oil for purposes other than biodiesel is expected to increase by 250 million pounds. Domestic stocks of U.S. soybean oil are expected to decline from 3.206 billion pounds on October 1, 2010 to 2.631 billion pounds on October 1, 2011. That decline will only happen if soybean oil use for biodiesel production rebounds as forecast. Such a rebound seems unlikely, however, if the blenders' tax credit is not reinstated. Several attempts at such reinstatement have failed. The blenders' tax credit for ethanol that expires on December 31, 2010 is coming under more criticism as well.

The USDA projects the 2010-11 marketing year average price of crude soybean oil at Decatur, Illinois to be between \$.375 and \$.415 per pound, up from \$.3575 for the year just ending. Soybean oil futures prices are currently in the \$.43 range. Those prices may be vulnerable if the blenders' tax credit is not renewed. Δ

DR. DARREL GOOD: Extension Economist, University of Illinois



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