

Soybean Export And Acreage Prospects Support Prices



DR. DARREL GOOD
Extension Economist University of Illinois

grain outlook

Among the major crops, the corn market has received the lion's share of attention over the past two months. The attention has been the result of the surprising USDA December 1 stocks estimate, adverse weather conditions in South America, the demise of the ethanol blenders' tax credit, and prospects for small year-ending stocks. The soybean market, however, has become the focus of more attention in recent weeks.

While corn prices have declined marginally since the first of the year, soybean prices, particularly for the 2012 crop, have increased. The strength in the soybean market is being generated by deteriorating crop prospects in South America and expectations for fewer planted acres in the U.S. this year. In last week's WASDE report, the USDA lowered the projected size of the 2012 South American crop by 215 million bushels, or 4.3 percent. That reduction comes on the heels of a 90 million bushel reduction last month. At 4.765 billion bushels, that crop is now expected to be 4.6 percent smaller than the 2011 crop and 3.4 percent smaller than the 2010 crop. While the USDA lowered the forecast of South American soybean exports by 105 million bushels, the projection of U.S. exports was not increased. Instead, both projected world imports and projected South American stocks were reduced. Nearly half of the 80 million bushel reduction in projected world imports was for China, reflecting lower than expected imports in the last quarter of the 2011 calendar year.

Weather conditions in Argentina over the past month were not as adverse as in December and early January, but conditions there and in southern Brazil and Paraguay have been far from ideal. Precipitation levels have been below average in recent weeks and there is potential that soybean production will be even less than currently forecast. Unless world demand is weaker than currently projected, additional crop losses there could propel U.S. exports

above the current forecast and would be supportive for U.S. exports in the first quarter of the 2012-13 marketing year. For the current year, the USDA expects U.S. exports to be 15 percent less than the record exports of a year ago. To date, shipments plus outstanding sales are 30 percent less than those of a year ago. Last year, however, export activity was unusually strong in the first half of the year and very weak in the last half. The margin of difference between exports this year and last year will narrow as the year progresses. A smaller South American crop might also buoy U.S. soybean meal exports, and therefore the domestic crush, above the current projection. It seems likely, then, that marketing year ending stocks of U.S. soybeans will be somewhat less than the current projection of 275 million bushels.

The expectation for fewer acres of soybeans in the U.S. this year stems from the 1.3 million acre increase in winter wheat seedings and the expected 2 to 3 million acre increase in corn plantings. However, with 1.6 million acres released from the CRP last September, prospects for up to a million fewer acres of cotton, and the likelihood of at least 4 to 5 million fewer prevented planted acres in 2012 than in 2011, there should be ample opportunity for more acres of corn, wheat, and soybeans this year. The battle for acreage may be less intense than advertised. In addition, the recent change in the relationship between new crop corn and soybean prices has reduced the potential profit advantage of a corn-after-corn rotation over a soybean-after-corn rotation. Average yields and projected costs still favor corn in those areas where corn-after-corn is common, but the margin has narrowed substantially since the first of the year and is still narrowing. The average price of December 2012 corn futures and November 2012 soybean futures during February establish the spring price guarantee for crop revenue insurance products and may have some acreage implications.

March and November 2012 soybean futures have moved to the highest level since late October 2011. On-going concerns about the South American crop should provide additional support, particularly if U.S. export activity remains strong. New crop prices may also strengthen due to concerns about reduced soybean acreage in the U.S., but those concerns may not be well founded. A rebound in March and November futures might be limited to near the \$13.00 area for now. Δ

DR. DARREL GOOD: Extension Economist, University of Illinois



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