

Soybeans: Crush Slows, Exports Remain Large And Basis Strengthens



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grain outlook

A small U.S. soybean crop in 2003 resulted in a year-over-year decline in the domestic soybean crush. Since then, the size of the domestic crush has grown each year, from 1.53 billion bushels in 2003-04 to 1.806 billion last year. For the 2007-08 marketing year, the USDA projects the domestic crush at 1.84 billion bushels, 1.9 percent larger than the crush of a year earlier.

The crush during each month of the first half of the current marketing year was larger than the respective month last year. The crush during the six months from September 2007 through February 2008 totaled 936.2 million bushels, 3 percent larger than the total of the previous year. The USDA's projection of a 1.9 percent increase for the year implies that the crush during the last half of the year will be 0.7 percent larger than the crush during the last half of the 2006-07 marketing year. However, the Census Bureau estimated the March 2008 crush at 152.6 million bushels, 2 percent less than the crush during March 2007. The year-over-year decline in the monthly crush estimate is the first since April 2006. The March estimate is subject to revision, but implies that the crush during the last five months of the year must total 751.2 million bushels, 1.2 percent larger than the crush of a year ago, in order to reach the USDA projection of 1.84 billion bushels.

The slow down in the domestic crush in March 2008 appears to be the result of a slow down in the pace of soybean meal consumption. Apparent consumption (domestic and exports) in March 2008 was about 3 percent less than during March 2007, the first year-over-year decline since July 2006. Apparent soybean oil consumption during March was a record 1.95 billion pounds, 15.6 percent larger than consumption during March 2007.

While the pace of the domestic crush is slowing, the pace of exports and export sales of U.S. soybeans remains generally strong. For the year, the USDA projects exports at 1.075 billion

bushels, only 3.8 percent below the record shipments of last year. Through the first 34 weeks of the marketing year, the USDA reports exports of 907 million bushels, only 2.4 percent less than shipped a year ago. However, Census Bureau estimates for the first six months of the year exceeded USDA estimates by about 26 million bushels. Last year, Census Bureau estimates through the first six months of the year were about 10 million bushels below the USDA estimates. For now, it appears that exports are on the same pace as that of last year.

As of April 17, the USDA reported that 163 million bushels of U.S. soybeans had been sold for export, but not yet shipped. Unshipped sales a year earlier totaled only 116 million bushels. The U.S. appears to be benefitting from an interruption in export shipments from Argentina due to the farmer strike protesting higher export taxes. It appears that exports during the current year could exceed the USDA projection, offsetting a potential shortfall in the domestic crush.

The weakness in the soybean basis has been a topic of discussion over the past year. Basis levels remain generally weak, but significant strengthening of the old crop basis has occurred over the past four weeks. The average cash bid to farmers in central Illinois was \$.85 under July futures at the end of March. By April 25, that basis had strengthened to about \$.46 under July futures. That is about equal to the basis of a year earlier, about \$.15 weaker than in 2006, and \$.30 weaker than in 2005.

Lack of convergence of cash and futures prices at delivery markets at maturity of futures contracts has also been an issue since July 2007. Convergence was especially poor for the July and September 2007 contracts and the January and March 2008 contracts. As the May 2008 contract approaches maturity, more normal convergence appears to be occurring. Chicago basis was reported at -\$\$.36 on April 15 and -\$\$.20 on April 25. The average basis at Illinois River delivery markets south of Peoria strengthened from -\$\$.35 to -\$\$.17 during the same period.

Bids for 2008 harvest delivery have also reflected a strengthening, but generally very weak basis. The average harvest bid in central Illinois was about \$.95 under November 2008 futures on April 25, about \$.20 stronger than just six weeks ago, but about \$.60 weaker than a year ago. Continued strengthening of the basis may offset some of the decline in futures prices expected over the next few weeks. Δ