Will The U.S. Run Out Of Soybeans?

grain outlook

DR. DARREL GOOD
Extension Economist University of Illinois

The short answer to the question about U.S. soybean supplies is "NO". The important issue is how high prices must be to maintain a minimum level of stocks going into the 2009 harvest. In general, prices will stay high or continue to rise until there is convincing evidence that the pace of consumption has slowed sufficiently to maintain at least a pipeline supply of old crop soybeans.

In its monthly report released in February, the USDA projected 2008-09 year ending stocks at 210 million bushels. That projection was reduced each month since and was at 130 million bushels last month. The primary reason for the declining projection is the larger than expected export demand for U.S. soybeans as a result of the shortfall in the 2009 South American harvest. The USDA currently estimates that crop at 3.556 billion bushels, 730 million smaller than the 2008 harvest. In addition to that shortfall, export demand has been bolstered by China's decision to build inventories of soybeans. China is expected to import only 12 million bushels fewer soybeans this year than imported last year even though production there was about 75 million bushels larger than in 2007. As of May 28, the USDA estimated that China had imported 629 million bushels of U.S. soybeans since September 1, 2008. That is 188 million more than imported in the same period the previous year. Exports to all destinations during the current year are projected at 1.24 billion bushels, 240 more than projected last fall.

Part of the strength in export demand has been offset by a slowdown in the pace of domestic crush. The domestic crush during the first half of the 2008-09 marketing year was 10 percent less than during the previous year. However, the crush was only 7.4 percent smaller in March and only 4.7 percent smaller in April. Last month, the USDA reversed the pattern of lowering the projection of marketing year crush and raised the projection by 5 million bushels.

As the prospects for year ending stocks have been reduced, soybean and soybean product prices have increased in an attempt to slow the pace of consumption. Since early March, July 2009 soybean futures have increased by about $3.70 per bushel, while the average cash price in central Illinois has increased about $3.95 per bushel as the basis strengthened. Over the same period, soybean meal prices have increased a bit more (50 percent) than soybean oil prices (40 percent). In addition, the soybean price structure became strongly inverted, with the premium of July 2009 over November 2009 futures moving from about $.10 to about $2.25. This inversion provides further motivation for users to postpone use to the extent possible.

The market is likely willing to let 2008-09 year ending stocks be reduced to a pipeline level as long as prospects favor a large 2009 U.S. harvest. Those prospects may be boosted by some increase in acreage over that revealed in the USDA's Prospective Plantings report due to delayed planting of corn and spring wheat. However, yield prospects are obviously uncertain at this point, with late planting in the east adding to yield risk. Pipeline supplies are likely near 4 percent of annual consumption. That would be near 120 million bushels this year. In recent history, stocks were reduced to a low of 112 million in 2003-04, which was 4.5 percent of use that year.

So, is consumption slowing? There is sufficient lag in the release of consumption data that the answer is not yet known. On the export side, there were net cancellations of sales for the week ended May 28, and the pace of shipments dropped sharply the past two weeks. The spike in the price of distiller's grain over the past two weeks (more than the increase in corn prices) suggests that livestock feeders are pursing alternatives to soybean meal. The pace of exports and export sales of meal and oil are slightly above the pace projected by the USDA.

The USDA will release its estimate of June 1 stocks of soybeans on June 30, 2009. In addition to ongoing consumption data, this report may provide some additional insight, in the form of residual use of soybeans during the third quarter of the year, about year ending stocks. Unusually large or small residual use would suggest that the 2008 crop was incorrectly estimated, with implications for year ending stocks. No such evidence was provided by the September 1, 2008 or March 1, 2009 stock reports and is not generally expected in the June report.

The U.S. will not run out of soybeans prior to the harvest of the 2009 crop. The need to slow the rate of consumption has been well advertised and prices will accomplish the necessary rationing. There are a few indications that rationing has begun, but confirmation is needed. Price strength may also be moderated by the fact that September 1 stocks have a tendency to exceed expectations. Those stocks have exceeded the USDA September projection in 7 of the past 10 years and 10 of the past 15 years. The largest difference was the 65 million bushels last year. That difference resulted in a 90 million bushel increase in the estimated size of the 2007 crop. The change was partially anticipated based on unusually small estimates of residual use in the first three quarters of the year. The bottom line is that producers will want to be ready to move old crop soybeans once the market is satisfied that sufficient rationing has occurred. Δ

DARREL GOOD: Extension Economist, University of Illinois.