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Weekly Outlook: Which Way for Soybean Prices?

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Soybean prices have been on a roller coaster over the past three months. November 2015 soybean futures traded to a high of $10.45 on July 14, declined to a low of $8.53 on September 11, and rebounded to a high of $9.16 on October 14. That contract is currently trading just under $9.00.

The price swings reflect changing expectations about the size of the U.S. crop, uncertain U.S. export prospects, and potential impacts of the current strong El Niño weather event on world oilseed and vegetable oil production in 2016. Depending on how those factors unfold, soybean prices could move substantially in either direction over the next six months. Some analysts expect a larger U.S. crop forecast, large crops outside of the U.S., and weak demand for U.S. soybeans to push prices below $8.00. Others point to the elevated production risk associated with the El Niño event, the current strong demand for U.S. soybeans, and the potential for prices to move back above $10.00.

The case for lower soybean prices starts with the expectation that the U.S. average soybean yield for the crop currently being harvested will exceed the 47.2 bushels forecast in the USDA October *Crop Production* report, resulting in a larger crop forecast. That expectation is based on continuing reports of high soybean yields in many areas as harvest progresses. In addition, there has been a history of the final soybean yield estimate in January exceeding the October forecast in years when the September forecast exceeded the August forecast and the October forecast exceeded the September forecast, as was the case this year. That pattern occurred in 11 of the past 40 years, with the January estimate above the October forecast in nine of those 11 years. In addition, those expecting lower prices point to the potential for another record soybean harvest in South America, due to expanded soybean area in Brazil, and to the risk of weaker soybean demand from China. That combination would point to U.S. soybean exports during the current marketing year less than the current USDA projection of 1.675 billion bushels. A larger crop estimate and smaller exports, then, would point to larger year-ending stocks and lower prices.

The case for higher soybean prices starts with the expectation that harvested acres of U.S. soybeans will be less than the USDA's October forecast, limiting any future increase in the estimated size of the crop. As pointed out in the *farmdoc daily* article (October 15, 2015), expectations of fewer soybean acres is based on planted acreage reported to the USDA's Farm Service Agency to date. That total is not expected to increase very much in the final report and is relatively small compared to the estimate in the October *Crop Production* report. Based on this analysis, some expect the final production report in January to contain a slightly smaller estimate of harvested acreage. The second argument for higher prices is that export demand for U.S. soybeans has actually been quite strong in recent weeks and points to stronger overall export demand. New export sales during the four weeks ended October 8 totaled 236 million bushels, compared to 211 million bushels in the same period last year. An additional 49 million bushels of sales were reported in the USDA's daily reporting of large sales since October 8. The pace of export shipments have also accelerated so that cumulative shipments since September 1 now exceed those of a year ago. However, shipments were extremely large in late October and November last year. While current export activity is encouraging, the potential for U.S. soybean exports this year will hinge at least in part on the size of the 2016 South American harvest. Those friendly to soybean prices have expectations of a shortfall in production there based on the El Niño weather event. In addition, some expect that the world palm oil crop could be adversely impacted by weather associated with the El Niño event, enhancing the export demand for soybean oil. There is also the tendency for USDA to underestimate U.S. soybean exports early in the year as reason to expect larger exports. The USDA's forecast of marketing year exports in the October WASDE report was less than actual exports in 17 of the past 25 years. The difference was 50 bushels or more in 14 of those years and exceeded 150 million bushels in five years. The third argument for higher prices is that the end of the El Niño event in 2016 could result in late summer weather that is adverse for U.S. soybean yields. Finally, some also argue that potential changes in biofuels policy yet this year could enhance the demand for soybean oil as feedstock for biodiesel.

The uncertain soybean supply and consumption prospects suggest that soybean prices may continue to trade in the wide range of the past three months. Fairly dramatic changes, however, would be required to alter prospects for abundant U.S and world inventories and push prices above the high experienced in July. Prices at that level will likely only be generated by production issues and are not expected in the near term. Modest short-term rallies based on other factors, however, are more likely.

References

Good, D., and S. Irwin. "Progression of USDA Corn and Soybean Acreage Estimates and Prospects for Final Estimates for 2015."*farmdoc daily* (5):191, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 15, 2015.