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Weekly Outlook: Tough Marketing Decisions for New Crop Soybeans

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November soybean futures prices dropped significantly after the release of the August USDA reports. The November futures price closed at $8.93 on August 17, higher last week on the news involving recent developments in trade negotiations with China. The sensitivity of soybean prices to trade issues and the potential for large yields create difficult marketing decisions for new crop soybeans.

Numerous issues look to keep new crop marketing decisions difficult. A key contributing factor is the potentially large 2018 U.S. crop. The forecast of the size of the crop increased in August by 276 million bushels to 4.6 billion bushels on a projected national yield of 51.6 bushels per acre. Timely rain across much of the Corn Belt recently with moderate temperatures make the potential for larger yields moving forward a distinct possibility. At the current yield projection, 2018-19 ending stocks increased to 785 million bushels despite an increase in projected consumption levels. In conjunction with a large U.S. crop, forecasts for South American production during the 2018-19 crop year sit 764 million bushels larger than last year. In Brazil, the prospect of a five to seven percent increase of soybean acreage seems likely due to the price differential currently in place with the U.S. Additionally, a recovery in Argentina from last year's drought looks probable. Taken together, a substantial increase in South American production is plausible and bearish for soybean prices moving forward.

In addition to the larger soybean crop projections, trade issues continue to hamper any strengthening in soybean prices. Despite a decent export performance over the last couple of months under the current trade dispute with China, a continuation of this strength appears unlikely over the harvest period. Currently, soybean exports are on the pace needed to meet the projection of 2.110 billion bushels for the 2017-18 marketing year. As of August 16, soybean export inspections total 2.006 billion bushels. Cumulative Census Bureau export through June exceeded weekly export inspections by 51 million bushels. If the same margin exhibited at the end of June continued through this period, exports through August 16 equaled 2.057 billion bushels. At the current pace, 26.5 million bushels per week are necessary to meet the USDA projection. Over the last four weeks, soybean export inspections averaged 26.5 million bushels per week. Unshipped sales for the current marketing year sit at 173 million bushels, well above the current needs to reach the USDA projection for the marketing year. While this data is promising for export potential, outstanding sales for the 2018-19 marketing year came in at 291.35 million bushels on August 9, down 30 percent from last year at the same time. In a typical marketing year, soybean exports tend to expand in the fall as exports to China surge. The surge in soybean exports to various countries seen with the onset of the trade dispute needs to continue to meet the usual soybean exports to China early in the next marketing year.

Soybean crush continues to provide support for soybean consumption this year. July crush estimates by NOPA came in at 167.73 million bushels. USDA estimates of crush during this marketing year ran approximately six percent above NOPA estimates. If this pace continued, the crush estimate for the marketing year through July equals 1.885 billion bushels. The current estimate implies that the crush for the remainder of the year must total 155 million bushels, 2.4 percent higher than the crush of a year ago, to reach the USDA projection of 2.04 billion bushels. The continuation of strong crush levels into the fall appear likely due to low soybean prices and a continuation of good crush margins.

Foreshadowing potentially large soybean production levels this year in Illinois, soybean basis for harvest delivery in central Illinois weakened over the last month in many locations. Recent Central Illinois harvest basis levels came in at 35 to 45 under with some locations decreasing to below 50 under last week. If the soybean yield continues to grow as we move toward harvest, basis weakening is a distinct possibility. Currently, the soybean market exhibits carry in forward futures contracts, but the carry levels do not support full commercial storage carry. The decision to market or store soybeans hinges on individual marketing strategies, but neither prospect appears promising under current market scenarios.

The present outlook projects ample soybean supplies in the 2018-19 marketing year that will likely keep soybean prices depressed until a definitive development in trade policy officially occurs. The potential for higher prices continues to be exhibited in soybean markets by significant rallies associated with a mere whisper of a trade deal coming to fruition. While South American production issues may help soybean prices in the long run, difficult marketing scenarios face producers for harvest soybean prices this year and hinge on an individual's belief in a resolution to the trade dispute with China.

YouTube Video: Discussion and graphs associated with this article https://youtu.be/Tz-WrpA9fiw