Fats & Oils Outlook

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NERVOUS SOYBEANS

As the 1976 soybean harvest in the United States is about completed, the market continues to demonstrate a nervous attitude. In fact, it is more sensitive to any new development than it was earlier in September and October. The balance between supply and demand has definitely become more delicate.

First, there was the reduced acreage planted because of relatively low profit potential versus corn and cotton. Then there were very unfavorable growing conditions in some of the important producing areas. The August crop report, however, looked a little better than had been feared at 1,344 million bushels (36.6 million metric tons).

Then followed the September estimate at 1,274 million bushels (34.7 million metric tons). This was the largest reduction that the U.S. Department of Agriculture has ever made from one month to the next. Closely thereafter, however, came the soybean stocks report showing 24 million bushels more than had been expected for the end of last season. But shortly thereafter that cushion was taken away as the October crop estimate was reduced by 24 million bushels to be placed at 1,250 million bushels (34.0 million metric tons). The November estimate showed only a very minor change.

Here is the primary reason why the market is so nervous. The total supply in the United States for this season (September 1 to August 31) is estimated at 1,496 million bushels (40.7 million metric tons), which is more than 200 million bushels below last season which was 1,730 million bushels (47.1 million metric tons). But consumption last season was 1,462 million bushels (39.8 million metric tons), so it is obvious that consumption cannot be so large, or there would be dangerously close to zero inventory next August 31.

In a free-market economy, the way to accomplish the necessary rationing of consumption is to put prices high enough to restrict demand. No one really knows in advance at what level that should be. So price goes up for a time until it is seen that consumer buying of soybeans and products (oil and meal) is reduced. Then price comes down for a time to encourage consumer buying. If that buying were not encouraged, it could develop that end-of-season inventories would be too large to justify such a high price.

An example of such price action has been seen in October. Until the last week of the month, it was felt that prices would have to go higher because weekly statistics of domestic crush and exports continued at a rate that could not be sustained all season. And maybe the November crop estimate would reveal a further reduction in supply. (It did not.)

Also during that week it began to be more evident that the Russian sunflower crop may be no more than 5.5 million tons instead of the 6.0 million expected earlier. If that is true, then the Soviet Union can be expected to buy additional soybeans in order to keep their crushing facilities fully utilized. Certainly Russia needs all the protein feed and vegetable oil that they can get.

We would anticipate, however, that such soybean purchases will be made from new crop Brazilian supplies for several reasons: (a) The price could be more attractive than United States origin where old-crop supply could be very tight. (b) The need to utilize Russian available crushing capacity will not occur until the Brazilian harvest (June to August). (c) Brazilian soybeans have an oil content higher than the United States varieties, and the sunflower seed being replaced, of course, would have had oil content higher than soybeans.

Crop Size in 1977

This brings us to the other principal reason why the soybean market is so nervous. That is the concern about soybean production in 1977, both in Brazil and the United States. Planting season has begun in Brazil, while in the United States the producers are beginning to formulate plans for their 1977 crops. In both countries the present prices for soybeans are well above government support prices, but the same is true for other crops which compete for the same acreage.

In both countries it is obvious that inventories going into the new season will be very low, which was not true this season in the United States. Thus there will not be the possibility for consumption next season to be maintained at this season's rate unless new-crop production increases. And it was seen above that, for this season's consumption of United States soybeans, the figure is below last season.

Certainly, there will be some acreage increase for soybeans in both countries, plus Argentina and others that are recently showing an interest in producing this crop. Currently the price is attractive when considered in isolation from other crop values. But will it be enough of an increase? That is to be answered in perspective with comparative values of competing crops at planting time.

It is generally expected in Brazil that soybean production will increase by 12 percent under existing conditions to about 440 million bushels (12 million metric tons). As for the United States, it would seem that 10 percent more acreage would be needed (55 million acres), which would produce 1,500 million bushels (40.8 million metric tons) if yields of last year are realized. Such a production combination would appear to be ample and should result in prices below current levels. But prices dare not come down too soon or this amount of acreage increase will not be attained unless, of course, the values of competing crops should also decline significantly.

Conclusion

Prices for soybeans and by-products are likely to remain firm until early 1977. Then a down-trend is likely which could eventually approach the levels seen in early 1976. This will be especially true if acreage expansion exceeds the amounts indicated above. Also it is our expectation that weather conditions in the United States will be much improved in 1977, following longterm cyclical patterns. This could give yields above normal. Moreover, the demand for soybean meal should be reduced due to the current low level of profitability in the livestock and poultry sector. Then it is also noted that the supply of cottonseed and other competing products is on the increase. And finally, there is the very real possibility that Brazil will attempt an aggressive export sales program for the period May to September before new crop supplies in the United States become available. There are strong indications that this could develop as there are pressures on Brazilian authorities to attempt to improve the balance-of-payments deficits.

At the beginning of this article it was said that the soybean market demonstrates a nervous attitude. There is nothing in the outlook that would indicate anything but continuous tension, at least not until about next September. *(November 26, 1976)*