Viewpoint

More soybean surprises

David Bartholomew, oilseed specialist with Merrill Lynch Futures Inc. at the Chicago Board of Trade, is a frequent contributor to JAOCS. In this article he discusses developments in trading of soybeans and soybean products as the U.S. 1984 harvest was drawing to a close. Soybean oil is in relatively short supply, and crushings to fill oil demand will create a further surplus of soybean meal.

The October crop report was reduced sharply, as had been predicted, because of unfavorable weather. At 1,972 million bushels it was 56 million smaller than in September. This failed to generate any significant price strength, however, because the stocks report a few weeks before had, surprisingly, increased even more than that.

Then wet weather moved in, slowing harvest progress drastically and causing some additional yield losses. For awhile traders began to fear that some areas would not be able to complete harvesting until spring as winter weather will come soon. This did stimulate some price improvement for a short time.

November's crop estimate dropped sharply to 1,902 million bushels. In one sense this was disappointing because some had expected an even greater decline. But there were more important reasons for prices to show little strength. Weather began to improve, and significant progress was made in the harvest. Also demand, especially for exports of soybeans and soybean meal, remains distressingly slow.

This means that even with a crop that is currently estimated at 133 million bushels (3.6 mil MT) below the first estimate in August, the supply still may exceed demand by a comfortable margin. The latest USDA estimate, just released, reduced soybean exports by just 20 million bushels from the month-ago figure which had been increased 10 million from the month before that. There is profound evidence that this is still too ambitious. The end-of-season carryover was dropped 50 million. But still that leaves 200 million, which is much more than adequate to keep prices from strengthening by any major amount. And it may be even larger if consumption rate does not improve dramatically. Already 20% of the season has passed and exports are just slightly over 50% of the year-ago figure (a decline of 67 million bushels or 1.8 million MT). USDA is projecting a 50 million bushel increase.

Domestic crush rate is seriously lagging also, but measurement is impossible because the processors' association has stopped publishing weekly statistics. Weather delay of harvesting, of course, is a major cause of reduced crush and exports, so both should now begin to improve. But the degree will depend largely upon demand for soybean meal, and it remains poor compared to supply, both for domestic and export use. Production is excessive due to continued large requirements for soybean oil. Since storage of meal is difficult it is being heavily discounted in the cash market. These basis differentials are unusually weak. (Charts A & B illustrate performance of these in past months.)

This dilemma for SBM is likely to get even worse before it gets better. As harvest progresses and crushers can increase processing activity to produce SBO for commitments already made, there unavoidably will be more unwanted meal resulting. This is inevitable because of such low inventories of oil. Stocks of SBO in the United States are the

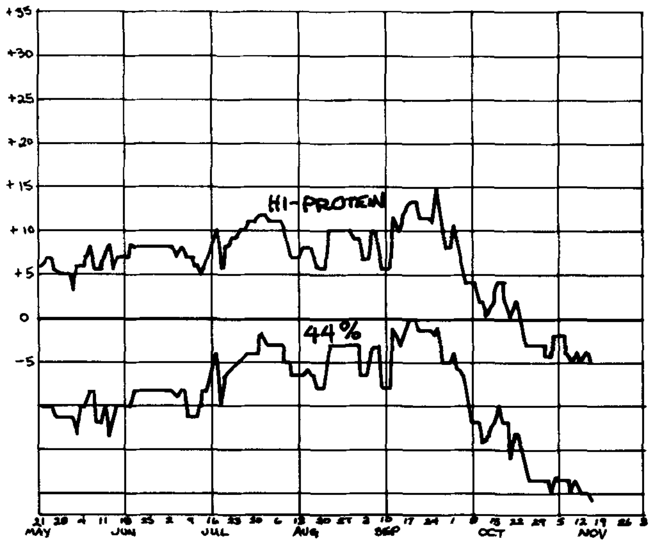

FIG. A. Soybean meal, Decatur, IL, dollars premium or discount vs. Chicago futures.

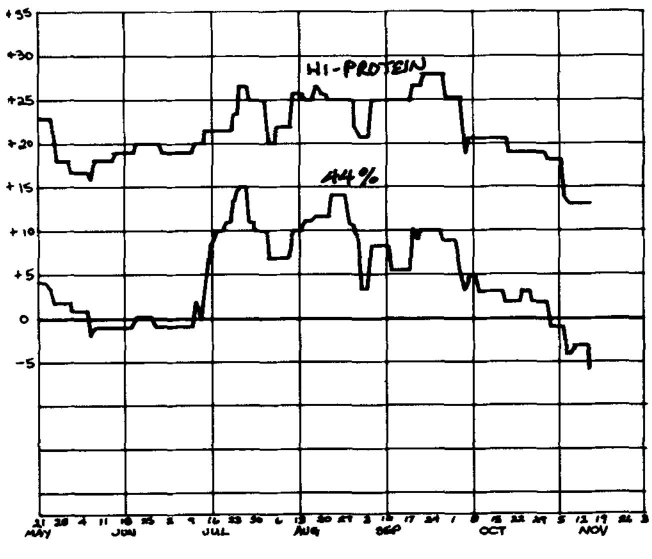

FIG. B. Soybean meal Gulf–F.O.B. vessel dollars premium or discount vs. Chicago futures.

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lowest in five years and approximately equal those at the same time in 1977, 1978 and 1979. Moreover, when considering all fats and oils, the total has not been so low since October 1975. It will take a long time to rebuild those inventories.

Maybe not so long as in past years of similar experience, because in those seasons there were smaller supplies of SBO from South America and palm oil from Malaysia. Planting of soybeans in Brazil is about half completed under variable climatic conditions. Some potential for stress is being watched carefully. First estimates of area in both Brazil and Argentina are similar to last year. Palm oil production in Malaysia should be up about 23% from last season's disappointing results.

Recently excessively strong prices for nearby futures and cash premiums on SBO have been largely because production was curtailed by delayed harvest. This surprised both the crushers and exporters who had made short sales earlier expecting normal progress and a better crop. Some of those price inversions should soon dissolve, but not completely for maybe many months.

A weaker U.S. dollar would seem essential to stimulate better demand for SBM and soybeans. That probably is beginning now but time is required to prove it. The USSR has about completed this season's purchases of grains, so that supportive influence for the dollar is ending. Another major reason for support has passed—the U.S. elections are over—so governmental programs are likely to develop which can modify or reverse this tendency.