Soybean Outlook 1970-71

D. M. BARTHOLOMEW, Soybean Complex Specialist, Merrill Lynch, Pierce, Fenner & Smith, Inc.

The first official estimate of production was lower than most observers expected in view of higher acreage. Subsequent estimates will show some increases since August weather was generally beneficial. This crop is extremely variable in development and cannot be expected to have a yield as favorable as last year. Furthermore, the fields where plants have never achieved normal height will have some low-set pods which can never be harvested (Cottonseed estimates, however, should be lower due to weather problems). It now appears that next season's use of soybeans will pull down carryover on September 1, 1971, to about 100 million bushels.

Preliminary projections of supply & demand show:

Sept. carry-in	220	million bus.
Production	1,134	
Total Supply	1,354	
Crush	760	
Exports	430	
Seed	60	
Total Use	1,250	
Carry-out	104	

This allows for a very modest increase in use compared to this season's increase which is all that can be expected in view of some expected increase in other oilseed crops and the higher price level of soybeans.

Rapeseed production in Canada may be about double last year's figure. Europe will have some net increase but not as much as in earlier indications due to weather. France has already bought a cargo of Canadian rapeseed for new crop shipment. Sunflower seed production in Eastern Europe and Russia will likewise be somewhat larger but less than expected earlier and we must assume that oil yield will be no larger per ton crushed continuing the recent trend.

Palm oil and coconut oil supplies are improving but peanut supplies will remain short at least until December or January. Some important parts of Africa are deficient in rainfall. Lard will likely become more plentiful from October with only slight improvement in tallow supplies. However, in view of recent developments in corn blight, which is likely to sharply reduce production, there could be a significant reduction in sows farrowing. Furthermore, animals will be fed to lighter weights in view of higher feed costs.

Fishing will resume in Peru in September and we suppose earthquake damage will have been fully repaired. But we must assume results will be disappointing at least until December similar to last year and in view of the poor catch last June.

Soybean meal demand could be extraordinarily strong if the current concern over the corn crop materializes to be as serious as now seems possible. A corn-urea mixture for cattle, for example, would be more expensive than less corn and more protein meal until meal advances significantly.

These factors indicate some price weakness in soybeans at harvest time, as usually occurs, but then working progressively higher into the spring. Most of the demand should be for soybean meal rather than oil. World oil supplies will be more comfortable than in the season just ended.

It appears that price action in the period ahead will be choppy, surging and falling back according to weather and crop conditions, both here and abroad. Speculative interest could fluctuate between corn and beans.

Soybean supplies are ample to last until new crop unless harvest is seriously retarded. Commodity Credit Corp. (CCC) sold 70 million bushels for September use and will most likely sell additional amounts as needed by the trade during the next year. Government stocks are growing as approximately 60 million bushels will be delivered to the government from previous years loan programs than can no longer qualify for a re-seal so that CCC inventory will reach 90 to 100 million bushels unless additional sales occur in the meantime.

Farmers were willing sellers of new crop beans on forward cash contracts last June and early July but then became reluctant as prices worked lower. Meanwhile export business for October-November-December has been large, probably at a new high level and crusher demand will also be large. This situation indicates a higher-than-normal cash basis will prevail. Certainly prices will have to be well maintained to secure all the new crop production plus eventually at least 100 million bushels from re-sale loan and CCC stocks if current supply-demand projections are realized.

As for crushing margin profits, it appears that a more traditional relationship will prevail. Certainly the past season's profits are not in prospect since soybean supply is significantly less burdensome and CCC sales formula will no longer be held to the minimum as long as prices in the cash market stay above the minimum formula price. Futures price relationships for March, May and July contracts of beans compared to products have been fluctuating around zero profits. This, of course, does not precisely reflect an actual crusher's return in cash prices, but it suggests crushing volume may diminish in that period unless price relationships permit more profit either from better return for products or lower prices for beans.