

Early Focus on New Crop Soybeans

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Finally the last of the series of June reports has been released. Many industry traders were absent from the market in recent weeks to avoid the potential for volatility in going from one report to the next. That, in fact, reduced liquidity and increased volatility. Now they can, and probably will, come back into the market. Most likely they will be buyers rather than sellers, as prices have come down to attractive levels.

The acreage estimate is not bullish at 68.0 million, but neither is it bearish at current prices until more information is available about crop development. First there is the uncertainty about yield potential as the season has been too wet in the West and too dry in the East and South. Now it is drier in the West but also still dry in parts of the East and South. This could result in less soybean acreage in the East and South, as well as poor yields. Meanwhile, some acreage was lost to floods in the West. Other acreage can be shifted to soybeans as fields dry out, but yields of late planted fields will be smaller. The acreage factor can be resolved in the August report. Probably it will not deviate more than 500,000 acres, which is insignificant.

Yields should average 31 bushels per acre unless there is a serious problem in subsequent weeks. If that yield is applied to the harvested acreage forecast of 66.8 million, the crop would reach 2,071 million bushels. (USDA supply-demand estimates have been using 2,075 million.) Such a crop easily could result in a doubling of carryover to 215 million, so obviously it is not a bullish situation. In only one previous year has total consumption exceeded 2,071 million. That was 1982-83, when it reached 2,112 million. There does not appear to be demand potential of that magnitude in the season ahead.

There is the impediment of a sluggish world economy coupled with tighter credit restrictions. There also will be increased competition from palm oil and from potentially good oilseed crops in Europe and Africa and probably India. Moreover, the area planted to soybeans in South America in late 1984 should increase at least 10% following the good yields and prices of the past season. Additionally, preliminary guesses of Argentine sunflower area point toward a 20% increase, and if weather is better the crop could be up 30%.

Sunflower acreage in the US is indicated at 3.7 million acres which is less than had been thought but still 18% above last year. It still could increase some on switching where corn was flooded out, though not significantly. However, Canadian rapeseed area is up 24% (7.2 million acres) instead of the 7% increase estimated earlier because

weather improved and prices set all-time record highs just at planting time.

Domestic demand for soybean meal (SBM) continues to improve. Weekly broiler statistics retain their recent trend of increases. Now there is statistical proof of demand improvement, as SBM domestic use in May equalled the year ago level. That has not happened in any of the previous months this season, and the figures were even down 25% in November and December (Table I). Moreover, the recent pig report revealed an improving trend of demand which was first detected last April.

TABLE I

Soybean Meal U.S. Domestic Disappearance (1,000 Short Tons)

	1983/84	1982/83	% Change
Oct.	1749	1770	- 1
Nov.	1384	1852	-25
Dec.	1534	2036	-25
Jan.	1448	1508	- 4
Feb.	1332	1371	- 3
Mar.	1429	1490	- 4
Apr.	1414	1485	- 5
May	1548	1549	0

When these factors are coupled with the fact that EEC feed compounders can now buy SBM cheaper than corn, there is convincing evidence that the meal vs. oil equation is shifting back toward meal and probably will continue that way in the season ahead. This outlook also is compatible with the ideas expressed above of larger supplies of oils such as palm, rape, sun and groundnut. To that can be added more corn oil and cottonseed oil.

This does not necessarily mean that prices will go up for SBM and down for soybean oil (SBO) from their present level. Probably both will go down in the longer term, but oil faster than meal. Meanwhile, for the short term there can be price advances for beans and oil and maybe for meal. The old crop tightness for beans and oil is not over, and there can be weather scares in July and August. But as each day passes we draw closer to new crop harvest and price strength opportunities diminish.