



Weekly Outlook: Is it Time to Sell Some 2017 Soybeans?

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Soybean prices increased dramatically over the week ending January 20 on reduced production estimates for the U.S. and increased uncertainty in the prospects for South American soybean production. Old crop soybean cash bid prices in central Illinois ended the week at approximately \$10.40. New crop cash bid prices for harvest in central Illinois range between \$9.90 and \$9.94. The 2016-17 marketing year for soybeans, as it is currently shaping up, has a striking resemblance to 2015-16 marketing year expectations at this time last year. Despite the positive price outcome in 2016, a prudent soybean marketing plan for this year may possess some selling of 2017 soybeans in this price rally.

Currently, soybean production estimates for the United States in 2016 of 4.307 billion bushels is down one percent from the November forecast of 4.36 billion bushels but is still a record level of production. December 1 soybean stocks of 2.895 billion bushels came in 40 million bushels below trade expectations and indicated strong demand. The stocks estimate for the first quarter of the marketing year indicates a disappearance of 1.61 billion bushels. First quarter 2016-17 marketing year estimates of exports and crush came in at 932.5 million bushels and 484.9 million bushels respectively. Both numbers indicated substantial increases from last marketing year.

At this time last year, expectations for an increase in the number of acres planted in soybeans during 2016 and a potential record South American crop set up a scenario of significant downside risk for prices through the marketing year. The USDA forecasted ending stocks of U.S. soybeans at 440 million bushels on January 12, 2016. U.S. exports were forecast to be 153 million bushels less than the previous marketing year. Brazilian and Argentinian production ended up to be 136 million bushels smaller than expected in the January forecast and the substantial increase in planted acres did not materialize. U.S. exports ended the marketing year 245 million bushels higher than projected in January 2016, and ending stocks came in at 197 million bushels. Soybean cash prices reflected these events as the monthly average price for central Illinois increased from \$8.64 in the first seven months of the marketing year to \$10.26 in the last five months.

Currently, the WASDE report forecasts soybean crush and exports for the U.S. at 1.93 and 2.05 billion bushels respectively. At 420 million bushels, the ending stocks forecast is the largest since the 2006-07 marketing year. Projections of the U.S. 2016-17 marketing year average price place it in a range of \$9.00 - \$10.00, which positions current harvest cash bid prices in the upper end of this range. Many market observers believe a dramatic increase in soybean acreage will materialize in 2017. Estimates see the

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possibility of soybean acreage eclipsing corn acreage in 2017 due to the lower cost of production and large price differential currently in place with corn. The January 12 *Winter Wheat Seedings* report offered some support to this notion. Winter wheat plantings of 32.38 million acres are down 3.75 million acres from the previous year. This is the lowest level of winter wheat planting since 1909, and one could expect some of those acres switching to soybeans.

Forecasts by the USDA of Argentine soybean production currently sit at 2.09 billion bushels for the 2017 crop year. Numerous reports out of Argentina indicate the substantial flooding in the region may reduce production by 100 to 150 million bushels. Argentina soybean export forecasts stayed constant at 330 million bushels while import levels increased by 25.7 million bushels. Alternatively, Brazilian soybean production forecast increased by 73.48 million bushels over the December forecast to 3.79 billion bushels. The expected increase in soybean production levels led to a 40 million bushels increase in the forecast for Brazilian soybean exports. Taken together, USDA forecasts 5.91 billion bushels of soybean production and 2.51 billion bushels of soybeans exports from Brazil and Argentina over the marketing year. Currently, a realization of substantial production losses in Brazil and Argentina are necessary for total production in the two countries to fall to the 5.63 billion bushels seen in 2016.

While possessing similarities to last marketing year, the possibility of a strong downward price movement through 2017 is substantial. Despite strong soybean demand and production issues in South America, the possibility of a large increase in soybean acreage planted and the continuation of excellent soybean yields hang over the rest of this year. The March 31 prospective plantings report will provide the next major indication for soybean acreage for 2017. With so much production uncertainty in the U.S. and South America over the next few months, the current bids for 2017 harvest delivery provide a pricing opportunity for locking in prices high in the expected marketing year average price forecast. If producers are considering increasing soybean acreage in 2017, the current prices offer an opportunity, at a minimum, to price soybeans on the expanded acreage.

Reference

USDA, National Agricultural Statistics Service. *Winter Wheat Seedings* (January 2016). Released January 12, 2017.
<http://usda.mannlib.cornell.edu/usda/nass/WintWheaRy//2010s/2016/WintWheaRy-01-12-2016.pdf>