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Weekly Outlook: Too Early to Sell the 2017 Soybean Crop?

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Soybean prices during the last five months of the 2015-16 marketing year averaged much higher than during the first seven months of the year. For example, the average daily bid price at central Illinois locations was $8.67 during the first seven months and $10.28 during the last five months of the year. Those daily prices ranged from $8.40 on March 1, 2016 to $11.58 on June 30, 2016.

Through the first half of the 2015-16 marketing year, the soybean market traded on the basis of prospective year ending stocks of U.S soybeans of 450 to 460 million bushels. The 2015 U.S crop was very large, following an equally large crop in 2014; the 2016 South American crop was expected to be record large; U.S. exports were expected to be 150 million bushels smaller than in the previous year; and U.S. producers were expected to expand planted acreage in 2016 following the weather-induced decline in 2015. As things turned out, the South American crop was 225 million bushels smaller and U.S. exports were 250 million bushels larger than projected in March, U.S. producers increased soybean plantings less than expected, and the USDA's September 1 *Grain Stocks* report to be released on September 30 is expected to show marketing year ending stocks of only195 million bushels. If confirmed, year-ending stocks will have been below 200 million bushels for two consecutive years following early year expectations for stocks to exceed 450 million bushels. Ending stocks have exceeded 200 million bushels only once since 2008.

Soybean prices have now receded from the summer highs, with central Illinois bid prices currently averaging about $9.30, still about $0.75 higher than prices a year earlier. Prices have declined as new crop soybeans have become available and have alleviated some of the tightness in old crop supplies, resulting in a much weaker basis than experienced earlier in the month. In addition, early yield reports tend to confirm USDA's forecast of a record high U.S. average yield this year, with some potential that the yield will exceed the current forecast of 50.6 bushels per acre. With consumption during the 2016-17 marketing already projected to be record large, an increase in the average yield forecast (without an unexpected decline in the estimate of harvested acreage) would likely result in an increase in the current projection of year-ending stocks of 365 million bushels.

Two additional factors point to the potential for additional weakness in soybean prices as the 2016-17 marketing year unfolds. First, is the likely rebound in South American production in 2017. The USDA expects a modest increase in soybean acreage for harvest in South America next year. While an increase of only 1.5 percent is currently projected (mostly in Brazil), normal yield levels result in a projected 3.5 percent (220 million bushels) year-over-year increase in South American production. If that large crop materializes, the pace of U.S. exports would be expected to experience the normal sharp seasonal decline beginning in the spring of 2017.

A second factor that could contribute to lower soybean prices is an increase in soybean acreage in the U.S. in 2017. While it is too early to form solid expectations about U.S. acreage, low prices of other commodities relative to soybeans would be expected to result in some switch away from those crops to soybeans. In particular, the large increase in corn acreage in 2016, prospects for relatively large year-ending corn inventories, and the relatively high cost of producing corn would be expected to result in fewer corn acres in 2017. Futures prices for the 2017 corn and wheat crops are higher than prices for the 2016 crop, but those prices are still low relative to prices for the 2017 soybean crop. The USDA's *Winter Wheat Seedings* report released in the second week of January 2017 will provide the first indication of acreage response to current price levels. The size of the 2017 soybean crop will still largely hinge on the average yield. It will be interesting to observe if three consecutive years of above trend U.S. average soybean yields will alter early expectations for the average yield in 2017.

While the potential for larger South American and U.S. soybean crops in 2017 are widely recognized, prices for the 2017 crop remain well supported. November 2017 futures are currently trading only about $.03 below November 2016 futures and July 2018 futures are $0.19 below July 2017 futures. Bids for 2017 harvest delivery in central Illinois are near $9.15. With so much production uncertainty over the next 10 months, a strong pace of Chinese buying, and the recent history of smaller than expected year-ending stocks, it is not completely surprising that the market is not yet reflecting the potential for a growing surplus of soybeans during the 2017-18 marketing year. The question for producers is whether or not current prices offer a pricing opportunity for a portion of the 2017 crop. The answer is more likely to be yes for those who intend to increase soybean acreage in response to current price relationships.