



Weekly Outlook: Soybean Price Roller Coaster

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June 4, 2012

farmdoc daily (2):105

Recommended citation format: Good, D. "[Soybean Price Roller Coaster](#)." *farmdoc daily* (2):105, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, June 4, 2012.

Permalink: <http://farmdocdaily.illinois.edu/2012/06/soybean-price-roller-coaster.html>

http://farmdoc.illinois.edu/podcasts/weeklyoutlook/Weekly_Outlook_060412.mp3

November 2012 soybean futures reached a high of \$14 in September 2011, declined to about \$11.20 in December 2011, rebounded to almost \$14 in early April and again in early May 2012, and traded to a low of \$12.45 in the current trading session. The wide price swings reflect ever-changing supply and demand expectations.

Much of the strength in soybean prices during the first three months of this year reflected deteriorating production prospects in South America. The USDA currently projects production in five South American countries at 4.237 billion bushels, 779 million bushels (15.5 percent) smaller than the 2011 harvest and 833 million bushels (16.4 percent) smaller than the December 2011 forecast. Some believe the crop to be even smaller. The USDA will provide an updated estimate on June 12. Much of the price weakness over the past few weeks reflects growing concerns about the U.S. and world economic and financial conditions and the negative implications for commodity demand.

Prices will continue to be influenced by a wide range of factors, but over the next three months prospects for the 2012 U.S. crop will be one of the more important factors. The USDA's March 30 *Prospective Plantings* report revealed producer intentions to plant 1.074 million fewer acres this year than planted last year. The USDA will release an estimate of planted and harvested acreage on June 29. The strong soybean price rally into planting time suggests that acreage may exceed intentions. Unless there is a large difference from intentions, the production focus will be primarily on yield prospects.

It is too early in the season to form very specific yield expectations. The long term trend yield calculation for 2012 is 43.4 bushels. The USDA's early projection of yield potential is 43.9 bushels and the record yield was 44 bushels in 2009. One factor that should be supportive of yield potential is the small percentage of the crop planted late this year. Late planting can be characterized in a number of ways since production occurs over a large geographic area, planting occurs over a period of several weeks, and planting has generally occurred earlier over time. We have defined late planting as the percentage of the crop planted after May 30 in the major soybean producing states included in the USDA's Crop Progress report. Based on that definition and weekly planting progress reported by the USDA, we estimate an average of 34 percent of the crop was planted late in the 26 year period from 1986 through 2011. The smallest percentage was 13.6 percent in 2000. Some of the late planting each year reflects soybeans planted following winter wheat harvest. Only 11 percent of the crop was reported as not yet

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planted as of May 27 this year, so a new record low percentage of the crop was planted late this year. With an early harvest of the soft red winter wheat crop, even most double-cropped soybeans will be planted in a timely fashion. Timeliness of planting is not the most important factor in determining yields, but an early planted crop suggests a higher yield potential than if an average percentage of the crop had been planted late.

Beginning this week, the USDA's weekly Crop Progress report will include an assessment of soybean conditions. Historically, there has been a positive relationship between the percentage of the crop rated in good or excellent condition at the end of the season and the magnitude of the U.S. average yield relative to trend. Early season ratings are not always indicative of end of season ratings. On average, the percentage of the crop rated in good or excellent condition at the end of the season since 1986 was 6 points lower than at the beginning of the season. End of season ratings exceeded those at the start of the season in only four of those 26 years. Still, yield expectations will follow weather developments and condition ratings over the next three months.

On the demand side, the pace of exports and export sales will be one of the most important price factors as the world adjusts to the small South American crop and troubling economic conditions. Export commitments for the current year ending August 31 exceed the USDA's projection of 1.315 billion bushels for the year, which is not unusual. In addition, however, sales for delivery during the 2012-13 marketing year had reached 393 million bushels as of May 24, the most ever for this early in the year. Seventy-seven percent of those sales were to China and 18 percent were to "unknown" destinations.

The small South American harvest and the strong pace of export sales suggest that soybean prices will be very sensitive to U.S. production prospects. Substantial price swings are likely to continue, providing producers with opportunities for additional sales of the 2012 crop.