



Weekly Outlook: Soybean Price Prospects – Near Term and Long Term

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Soybean prices reached record high levels in late August and early September 2012. Those high prices were generated by a combination of a drought-reduced harvest in South America earlier in the year, drought conditions in much of the U.S. production region, and on-going strong Chinese demand for soybeans. Prices declined by about \$2.00 per bushel in September and October as the U.S. crop turned out to be larger than expected.

For the past four months, March 2013 futures have traded between about \$13.50 and \$15 and are currently near the midpoint of that range. Prices have received underlying support from the rapid pace of both exports and domestic crush, but have experienced wide swings based on changing expectations for the size of the South American crop. During the same time period, November 2013 futures traded between about \$12.60 and \$13.60 and are currently at the bottom of that trading range. Recent price weakness in both old and new crop futures reflects current expectations that the 2013 South American crop will be record large and will increasingly replace U.S. soybeans in the world market. While the pace of U.S. soybean exports remained large through the second week of February, recently announced cancellations of some export sales support the expectation of a rapid decline in that pace in coming weeks. Similarly, the pace of the domestic crush remained large through January, supported by large exports of both oil and meal. The January crush as estimated by the National Oilseed Processors Association on February 15 was not quite as large as expected and the pace is expected to slow as South American products become available.

The 2012-13 marketing year is just approaching the halfway point, so there is still uncertainty about how the tight supplies of U.S. soybeans will be allocated. Prices will remain sensitive to the revealed pace of consumption and South American production prospects. If the South American crop is as large as advertised, a slower pace of consumption of U.S. soybeans along with potential to import soybean products later in the year may mean that higher prices will not be required to ration remaining supplies.

Beyond the next two months, prospects for the 2013 U.S. crop will become an increasingly important price factor. Production prospects will begin with the USDA's March 28 *Prospective Plantings* report. Expectations about planted acreage will likely be in a wide range, but it seems reasonable to expect

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acreage near that of last year. A return to near trend yields, then, would result in a larger crop and lower prices. We have suggested that prices would return to the pre-drought levels around \$11. That is consistent with the recent projections by both the Congressional Budget Office and the USDA. It now appears that the cash price implied by the projected price for crop revenue insurance, the average of November 2013 closing futures prices during February, will be well above \$11. The average futures price during the first 11 days of the averaging period was \$13.01 and the average for the month would be \$12.85 if the price for the rest of the month remained at the same level as on February 15.

One factor that could provide additional support for soybean prices during the 2013-14 marketing year would be a rapid expansion in bio-diesel production. The EPA has announced a minimum of 1.28 billion gallons of biodiesel to be produced in 2013, up from one billion gallons in 2012. Annual increases in the total advanced biofuels mandate of the Renewable Fuels Standards (which can be met with biodiesel) in combination with the re-instatement of the \$1.00 per gallon biodiesel tax credit for 2013 could propel biodiesel production well above the minimum, particularly in 2014 if the tax credit is extended. In recent periods, vegetable oil has accounted for about three-quarters of the feed stock for biodiesel production and soybean oil has accounted for about three quarters of the vegetable oil feed stocks. As biodiesel production expands, limited supplies of alternative feed stocks would likely increase the proportion of vegetable oils used, particularly soybean oil.

An increase in vegetable oil demand for biodiesel production could support soybean oil and soybean prices during the 2013-14 marketing year at higher levels than now anticipated. Such an outcome could result in a very interesting dynamic in future years. Higher soybean oil and soybean prices relative to other crop prices in 2014 would be expected to stimulate more soybean production if biodiesel demand was expected to remain strong. This would be in contrast to the ethanol driven increase in corn acreage since 2007. The increase in soybean production and processing in order to meet expanding soybean oil demand could then result in a surplus of soybean meal and lower prices for that product, with an indeterminate effect on soybean prices beyond 2014.

There is considerable uncertainty about U.S. biodiesel production beyond 2013 since production is primarily policy driven. That is another factor that can be added to the long list of factors that will impact soybean prices over the next 18 months.