



## Weekly Outlook: Soybean Production and Consumption Uncertainty

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Soybean prices, along with the prices of many commodities, have come under considerable pressure in the month of September. November 2011 futures reached a high of \$14.65 on August 31 and traded to a low of \$12.26 in the September 26 overnight session before settling at \$12.50.

While the USDA's September production forecast exceeded the August forecast, the recent sharp price decline primarily reflects the continuation of poor economic performance and concerns about financial conditions in Europe and the U.S. The prospects for prolonged economic and financial problems raise serious concerns about commodity demand. The 15 percent decline in soybean prices in less than four weeks, however, raises the question of whether the price decline has been overdone. The price decline appears particularly large when compared to declines of 8 to 10 percent in livestock and livestock product prices from spring/summer highs. One might expect that demand concerns would result in larger price declines in the livestock sector than in the crop sector. It may have been that crop prices were pushed too high in August on the basis of crop concerns. Corn and wheat prices have declined by about 18 and 20 percent, respectively.

Whether soybean prices are now too low or not will largely be revealed in upcoming supply estimates and the ongoing rate of consumption. The USDA's estimate of September 1, 2011 stocks of old crop soybeans will be a small component of the available supply for the 2011-12 marketing year. That estimate will be released on September 30. Based on consumption forecasts, the USDA's World Agricultural Outlook Board has projected those stocks at 225 million bushels. The September stocks report has often deviated from expectations and on occasion has resulted in revisions of the previous year's production estimate. A large deviation would be required to substantially alter the supply outlook for the current year.

The bigger supply question is the size of the 2011 crop. The October forecast will be released on October 12. The USDA's September U.S. average yield forecast was 41.8 bushels, 0.4 bushel above the September forecast. From 1975 through 2010 (36 years) the September yield forecast exceeded the August forecast 17 times, as it did this year. In 10 of those 17 years, the October U.S. average yield forecast exceeded the September forecast. The increase ranged from 0.1 bushels to 2.3 bushels. In 8 of

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those 10 years, the January yield estimate exceeded the October forecast.

There is some tendency, then, for a yield increase in September to be followed by further increases. What about this year? Along with the normal uncertainty associated with the difficulty of forecasting soybean yields is the unknown yield impact of the hard frosts and freezes experienced in northern growing areas in mid-September. Crop condition ratings declined substantially in the Dakotas and in Minnesota following those events, but the net impact on the U.S. average yield potential is not known.

As mentioned last week in discussing corn production potential, additional uncertainty about the size of the soybean crop centers on the estimate of harvested acreage. That uncertainty primarily focuses on the Farm Service Agency (FSA) estimate of planted acreage for those producers participating in federal programs. That estimate is 1.375 million (1.8 percent) less than the current NASS estimate of planted acreage. That compares to a difference of 1.086 million (1.4 percent), in 2010 and 1.045 million (1.3 percent) in 2009. The larger difference suggests that the NASS estimate of planted acreage could be reduced by 340,000 to 350,000 acres in the October Crop Production report. The implications for the forecast of harvested acreage is not clear since other factors influence that forecast.

With new forecasts of marketing year soybean supplies soon available, the focus will turn to the pace of soybean consumption. Weekly USDA data will provide a steady flow of export information. Through July 2011, the Census Bureau provided monthly estimates of the size of the domestic soybean crush, along with estimates of soybean meal and oil production and stocks. However, in a budget cutting effort, the Census Bureau has terminated the collection of data for all of the Current Industrial Reports so this information will no longer be available. Some of those monthly estimates are provided by the National Oilseed Processors Association for its membership, but not all of the soybean crush capacity is represented by members of that Association. The lack of monthly information comes at a time of tight supplies when more information, not less, is needed. The lack of monthly Census data will result in more consumption uncertainty and will put more focus on the USDA's quarterly estimates of soybean stocks.