Weekly Outlook: Soybean Prices Dominated By Supply Uncertainty

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November 2016 soybean futures traded to a high of $11.86 per bushel on June 13, $3.22 above the low reached on November 10, 2015. The price of that contract declined to $10.21 on July 8 and is currently trading near $10.65. As is typically the case this time of year, price direction will now be mostly determined by U.S. crop prospects, with the pace of consumption playing a minor role.

The increase in prices that began this past spring was associated with surprisingly low planting intentions in the U.S., late season crop problems in Argentina that fueled an increase in U.S. export sales, and some early season crop concerns in the U.S. The price decline that began in mid-June was associated with improved U.S. weather and very high crop condition ratings. Those ratings, along with the USDA's June 30 *Acreage* report that revealed soybean plantings exceeded March intentions by 1.4 million acres, pointed to prospects for a very large crop. Forecasts of an upcoming period of above normal temperatures in the U.S., a continuation of strong export sales, and a strong pace to the domestic crush have helped support the recent modest price rally.

The surprisingly large USDA estimate of June 1 stocks of soybeans was initially brushed aside by the market, but may have ultimately contributed to the price weakness in early July. Subsequent to the release of the USDA's *Grain Stocks* report on June 30, the Census Bureau released the soybean export and import estimates for May and the USDA released the soybean crush estimate for May. As a result, an accounting of use during the third quarter of the marketing year can be made. March 1 stocks were estimated at 1.531 billion bushels, imports during the third quarter were estimated at five million bushels, and June 1 stocks were estimated at 870 million bushels. Use during the quarter, then, totaled 666 million bushels. Exports totaled 182 million bushels and the domestic crush totaled 485 million bushels. By calculation, seed and residual use during the quarter was a negative one million bushels. Typically, use in that category during the third quarter has been near 35 million bushels, explaining the surprise in the stocks estimate this year. Seed and residual use of soybeans during the first three quarters of the year totaled about 182 million bushels. In order for use during the year to equal the USDA projection of 129 million bushels, use during the fourth quarter needs to be -53 million bushels. Use in the fourth quarter is almost always a negative value, but typically is in the range of -120 to -80 million bushels. The surprise in the June 1 stocks estimate may also point to a surprise in the September 1 stocks estimate and a possible revision in the estimated size of the 2015 crop.

On the demand side of the soybean market, new export sales of U.S. soybeans have been unusually large for the past two months. Unshipped export sales as of June 30 were reported at 266 million bushels, compared to only 100 million bushels at the same time last year. While export sales have been large, the pace of export shipments has remained relatively low. In last month's WASDE report, the USDA forecast current marketing year soybean exports at 1.76 billion bushels. With just under eight weeks remaining in the year, a combination of weekly USDA export inspection estimates and monthly Census export estimates indicate that cumulative exports have reached 1.697 billion bushels. Weekly exports now need to average about eight million bushels through August in order to reach the USDA projection. Weekly inspections averaged 9.8 million bushels for the five weeks ended July 7. It now appears that exports may be slightly larger than currently forecast, but that a large portion of outstanding export sales will be carried into the 2016-17 marketing year.

The USDA has projected the 2015-16 marketing year domestic crush of soybeans at 1.89 billion bushels. The crush during the last quarter of the year needs to total 452 million bushels, equal to the crush of a year ago, in order to each that total. The crush during May 2016, the last month of the third quarter of the marketing year, was three percent larger than the crush during May 2015. The crush for the year may be slightly larger than the current forecast of 1.89 billion bushels.

While the strong pace of export sales and the domestic crush may have provided modest support for soybean prices, the major focus has been and will continue to be on U.S. weather and yield prospects. Crop condition ratings for the week ended July 3 indicated that 70 percent of the crop was rated in good or excellent condition. That compares to 63 percent rated good or excellent for the same week last year and the 30-year average of 60 percent for the same week. If maintained, current ratings would point to a U.S. average yield above the 2016 trend value of 46.1 bushels and above the USDA's trend projection of 46.7 bushels per acre. Recent and upcoming rainfall will likely maintain high crop condition ratings for the near term. The main short term uncertainty surrounds the duration of an upcoming period of above normal temperatures for much of the soybean production area. With so much of the growing season remaining, however, yield uncertainty could persist for several more weeks. The resulting price fluctuations will provide opportunities for producers to make additional sales in the run-up to harvest.

Reference

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