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## Weekly Outlook: Which Way for Soybean Prices?

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Soybean prices reached a peak on September 4, with November 2012 futures trading to \$17.89 per bushel. The price of that contract declined to about \$15.50 by the end of September and has been in a range of \$14.86 to \$15.74 since then. The price is currently in the lower half of that range.

The generally sideways pattern for soybean prices over the past month reflects conflicting fundamental factors. The most supportive factor has clearly been the very strong export pace. U.S. exports will be restricted to some extent this year due to the smaller supply. The USDA forecast exports at 1.05 billion bushels in September when the crop was expected to total only 2.634 billion bushels. The export forecast was raised to 1.265 billion bushels last month when the production forecast was increased to 2.86 billion bushels. The latest forecast is 95 million bushels less than last year's exports and 236 million less than exported during the 2010-11 marketing year.

Through the first nine weeks of the current marketing year, the USDA reported cumulative export inspections of 370 million bushels, about 110 million bushels larger than cumulative inspections last year. Exports to China accounted for about half of the year-over-year increase. As of October 25, the USDA reported unshipped export sales of 650 million bushels, 166 million bushels larger than unshipped sales a year earlier. Nearly 70 percent of the increase was to "unknown" destinations, much of which may be additional Chinese purchases. The large U.S. soybean export program to date reflects the continued growth in Chinese consumption and the unusually small soybean harvest in South America earlier this year.

While the robust export pace has been the most supportive fundamental factor, the domestic crush during September was also a bit larger than expected. The National Oilseed Processors Association reported that its members crushed 119.732 million bushels of soybeans during the month, 9.419 million more than the unusually small crush in September 2011. For the year, the USDA has forecast the crush to be 163 million bushels less than crushed last year. Like exports, the domestic crush this year will be limited by a smaller supply.

Based on the October production forecast, the current pace of consumption of U.S. soybeans clearly cannot be maintained. Prices have not increased in an attempt to slow the pace of consumption for at least two reasons. First, the market anticipates that the U.S. harvest was actually larger than the October

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forecast. If so, a higher rate of consumption can be supported. The USDA will release a new production forecast on November 9 and a final estimate on January 11, 2013. Second, the market anticipates a rebound in South American soybean production in 2013 that will provide ample supplies to support the increased pace of world consumption and to provide for exports of soybeans and soybean products to the U.S. if needed. The USDA currently forecasts 2013 South American production at a record 5.449 billion bushels, 1.212 billion larger than the 2012 harvest. That forecast will be updated monthly beginning on November 9. The larger production expectation is reflected by the lower price of soybean futures for the last half of the 2012-13 U.S. marketing year.

Beyond the current marketing year, the soybean market also anticipates a rebound in U.S. production in 2013. If acreage is maintained at the 2012 level and the U.S average yield rebounds to a trend value near 43.8 bushels, the 2013 crop would be near 3.34 billion bushels, 478 million larger than the current forecast of the 2012 crop. This expectation is reflected by the much lower futures price for the 2013-14 marketing year.

Deferred soybean futures prices are lower than nearby prices in anticipation of larger South American and U.S. crops in 2013, but it should be noted that those prices are still higher than the average prices received for the 2010 and 2011 crops. That is, there is some production risk reflected in the current price structure so that if current expectations materialize, even lower prices should be expected. The immediate focus is on South American weather and production prospects there. For the month of October, much of the center and western portions of the production area in Brazil received less than average precipitation while much of Argentina was extremely wet. Not much can be said about 2013 U.S. production prospects at this point. While drought conditions have been alleviated in much of the eastern producing areas, dryness persists in portions of the western Corn Belt and much of the central Plains.

With current unsettled weather conditions and large crops needed in both South America and the U.S. in 2013, the soybean market may be understating production risk. If so, modestly higher prices for the 2013 crop would be expected.