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Weekly Outlook: Can Soybean Prices Maintain Recent Strength through 2018?

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Due to dry weather in Argentina, soybean prices showed recent strength despite rising ending stocks projections for the current marketing year. At 530 million bushels, the current forecast for soybean ending stocks represents a 228 million bushels increase over last marketing year's ending stocks. The development of soybean prices over the next year depends on the size of the 2018 U.S. crop and a more robust pace of consumption than produced thus far this marketing year.

For soybeans, monitoring the pace of consumption occurs on a weekly basis for exports and a monthly basis for the domestic crush. Current projections for domestic soybean crush during this marketing year sit at 1.95 billion bushels, up 51 million bushels from last year's crush total. The pace of soybean crush is currently running approximately 2.7 percent above last year's pace through December. Weather issues in Argentina and recent increases in soybean meal prices create the potential for increased crush profitability throughout the rest of the marketing year. This scenario indicates a crush total for this marketing year near or above the USDA projection.

USDA projections for marketing year soybean exports decreased 60 million bushels to 2.1 billion bushels. Soybean export projections declined 125 million bushels over the last two WASDE reports. Using Census Bureau export estimates through December and cumulative export inspection total through February 8, soybean exports for the current marketing year total 1.350 billion bushels. For the rest of the current marketing year, 25.8 million bushels of soybean exports are required each week to meet the USDA projection. As of February 8, total outstanding sales for the current marketing year totaled 322.4 million bushels, which is below the estimated 749 million bushels required to meet the USDA projection. Current data suggest soybean exports need to pick up the pace to reach the recently lowered USDA projection for this marketing year. The ability to attain the existing projection hinges on the size of the crop in South America and U.S. competitiveness in export markets. Brazil appears set to produce a crop larger than 4.1 billion bushels and continues to get a healthy share of the export business to China. Overall, weak exports and a slightly stronger crush place 2017-18 ending stocks at or slightly higher than the current forecast.

Building expectations about 2018 U.S. soybean production start with planted acreage. Presently, an expectation for an increase in soybean planted acreage exists. U.S. soybean plantings in 2017 came in

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at a record 90.1 million acres, a 6.7 million acre increase over 2016. Current USDA long-term baseline projections place 2018 planted acreage at 91.0 million acres. The lower cost of producing soybeans and the perceived profitability advantage of soybeans over many alternative crops drive expectations of an increase in soybean acreage. Planted acreage near 91.3 million is projected for 2018. The USDA will survey producer's planting intentions next month and release an estimate of those intentions in the March 29 *Prospective Plantings* report.

Since 1996, the difference between planted and harvested acreage of soybeans ranged between 587 thousand to 1.858 million acres and averaged 1.01 million acres. Under a normal weather scenario, the record level of planted acreage may see the abandonment of approximately 700 thousand acres in 2018. Planted acreage of 91.3 million acres leads to a harvested acreage of about 90.6 million acres.

Yield expectations for the next crop year usually rely on trend yield analysis. Current USDA baseline projections place 2018 soybean yields at 48.4 bushels per acre. Using a conditional trend yield analysis, normal weather during 2018 indicates a trend yield for average U.S. soybeans near 48.5 bushels per acre. Yield at that level would create a 2018 soybean crop of 4.398 billion bushels.

A 2018 soybean crop of 4.398 billion bushels combined with the current USDA soybean stock projection of 530 million bushels and imports of 25 million bushels leads to a marketing year supply of 4.954 billion bushels, 236 million bushels larger than the supply for the current year. To prevent 2018-19 ending stocks from increasing under this scenario, soybean consumption needs to exceed 4.424 billion bushels, 176 million bushels greater than current marketing year projections. Increased soybean consumption at this level does require a significant expansion in soybean exports and strength in soybean crush levels. A larger planted acreage or higher yield creates a scenario for greatly expanded ending stocks in the 2018-19 marketing year.

Expectations for the next marketing year include increased soybean acreage, an increase in ending stocks, and lower prices when compared to the current prices witnessed in the market. The mitigation of a major price decline requires a substantial increase in consumption or lower production in 2018. Neither alternative seems likely at this point. Using the current 2017-18 consumption projection and increased production in 2018, average farm price in the U.S. for soybeans could fall in a range of $9.00 - $9.20 for the 2018-19 marketing year.