Weekly Outlook: Soybean Prices Remain Strong

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December 2016 corn and wheat futures have recovered about 12 percent and seven percent, respectively, from the early September lows, but remain at relatively low levels. November soybean futures have recovered about 7 percent from the late September low and remain higher than expected based on the record large U.S. harvest, prospects for larger stocks by the end of the marketing year, and expectations of increased acreage in 2017.

The recent recovery in soybean prices has been led by soybean oil prices, with December 2016 futures now 22 percent above the late July low and above the previous high price established in April. December soybean meal futures are about six percent above the late September low and 25 percent below the June peak. Soybean oil prices have been supported by expanding world vegetable oil trade and consumption and higher prices of competing vegetable oils. Both soybean oil futures and palm oil prices have reached the highest level in more than two years. Soybean prices have also received support from strong nearby export demand for U.S. soybeans stemming from the shortfall in South American production this year and from continued large purchases by China. Export inspections during the first seven weeks of the marketing year are estimated at 384 million bushels, 37 million above the total inspections a year ago. Unshipped export sales as of October 13 were reported at 884 million bushels compared to 703 million a year earlier. China accounted for about 41 percent of the unshipped sales and unknown destinations, which may also be dominated by China, accounted for 44 percent of the unshipped sales.

Soybean prices may have also received some support from the September domestic soybean crush that was larger than expected. The National Oilseed Processors Association (NOPA) reported that its members crushed 129.4 million bushels of soybeans in September, two percent more than crushed in September 2015. The USDA's *Oilseed Crushings, Production, Consumption and Stocks* report to be released on November 3rd is expected to confirm that the September crush was the largest since 2007.

As pointed out in last week's newsletter, soybean prices for the remainder of the marketing year will be heavily influenced by the strength of export demand, particularly from China, and prospects for South American production. Production prospects will be influenced by the unfolding estimates of planted acreage and by weather and yield prospects. Some are expecting Brazilian soybean acreage to exceed the current USDA projection, but there is also increasing chatter about the prospects for a strengthening La Niña episode and the potential for unfavorable growing season weather in South America.

In the near term, soybean prices will also be influenced by the USDA's U.S. soybean production forecast to be released on November 9th. The October forecast was for a crop of 4.269 billion bushels, 68 million bushels larger than the September forecast and 209 million bushels larger than the August forecast. The U.S. average yield forecast increased from 48.9 bushels in August to 50.6 bushels in September and 51.4 bushels in October. Based on widespread yield reports, there is a general expectation that the yield forecast will increase again in November. History supports that expectation as well. In the previous 40 years, the U.S. average yield forecast increased in September and again in October, as was the case this year, in 12 years. In 11 of those twelve years, the November yield forecast exceeded the October forecast. The increase ranged from 0.2 to 1.1 bushels and averaged 0.7 bushels. The lone exception was in 1981, when the November yield forecast was 0.5 bushel below the October forecast.

In those 11 years when the yield forecast increased in November, the yield estimate released in January after harvest exceeded the November forecast in seven years, was unchanged once, and declined in three years. The January increase ranged from 0.3 to 0.7 bushel and the decline ranged from 0.1 to 0.3 bushel. In 1981, when the November forecast was below the October forecast, the January yield estimate was 0.4 bushel above the November forecast.

History points to a November U.S soybean production forecast that is 20 to 90 million bushels above the October forecast. If soybean production in South America rebounds as forecast, any increase in the U.S production estimate is likely to result in a forecast of year-ending stocks to exceed the current projection of 395 million bushels. The impact of larger year-ending stocks would be compounded by an increase in soybean acreage in the U.S. next year.

There will continue to be a lot of moving parts to the soybean price picture with the potential for a wide trading range over the next several months. From a risk management standpoint, current prices offer a relatively good return for producers who benefitted from above average yields this year. November 2017 futures approaching $10.00 also deserve a look, particularly by those intending to increase soybean acreage in 2017.

References

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