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AN INDUSTRY PERSPECTIVE ON THE OUTLOOK FOR OILSEEDS

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The supply side of the 1997-98 world oilseed crop is now reasonably well defined. Thanks to high prices in the previous year, the area devoted to the 5 major oilseeds production rose by nearly 5% in 1997-98 and the average yield increased by 4%. The USDA's February report pegged world production of the five major oilseeds at over 272 million tonnes, up nearly 23 million from the previous year. Soybeans account for nearly 90% of the total increase in production. The US soybean crop was up 9.4 million tonnes but the most important change from a competitive standpoint was that the South American crop topped 50 million tonnes and was 8.4 million greater than a year ago. Let us turn our attention to the demand side of the market.

During the fall quarter, US domestic usage of soybean meal rose by only 2.2 % to about 7.68 million tons. Double digit increases in the number of cattle on feed and a 7% increase in hog inventories contributed to the larger meal usage. However, industry pipelines had been reduced to minimal levels in the summer of 1997 due to tight bean supplies, large board inverses and high basis values. Since South America had aggressively marketed much of their 1997 crop before new crop US supplies became available in September, US processors also had to stock export pipelines in order to meet projected record exports of US meal during the late fall and winter months. Since it is unlikely that the Census crush report fully accounts for meal in pipelines, the resulting domestic usage calculation tends to be inflated.

Reductions in the projected growth rate for meat exports at a time of substantially increasing red meat supplies have contributed to reduced margins for both livestock and poultry producers and will lead to a slower production growth rates in coming months. Above normal temperatures in the US during the winter months increased feeding efficiencies but probably acted to limit feed usage. Mild winter weather conditions and plentiful moisture supplies should encourage the early season grazing of pastures and winter wheat. In addition, US soybean meal faces large supplies of competitively priced alternate protein feedstuffs.

Because of these considerations, we anticipate that domestic meal usage during the 1997-98 crop year will increase by only about 0.7 million tons to 28.0 tons. While this will be a record usage, the forecast is about 0.5 million tons below the usage shown in the February Supply/Demand report.

US soybean meal exports during the fourth quarter of 1997 were a record 2.6 million tons. This was up more than 0.7 million from the previous season and largely reflected the sharply reduced supplies of meal exports from South America. During the fall quarter, world trade in soybeans and meal on a meal equivalent basis from the US, Brazil and Argentina increased by 1.35 million tonnes. However, keep in mind that this increase included US soybean shipments to Brazil of just over 600,000 tonnes and to Argentina of about 475,000 tonnes that allowed South American processors to capture

relatively strong processing margins last fall. Adjusting for the trade among the four exporting nations, net world exports were up only 0.65 million tonnes on a meal equivalent basis. It is noteworthy that shipments to China were down about 400,000 tonnes from the record volume of a year ago. This reduction may have been due in part to both heavy imports during the summer quarter and China's larger 1997 soybean crop. Excluding China, Japan and Taiwan, shipments to all other Asian destinations were down only about 150,000 tonnes of meal equivalents from a year ago. Increased US credit allocations to various Asian nations could help the US compete in coming months. The only concern as to whether US meal exports will reach our current 7.6 million tons projection relates to the pace of shipment through March. If the US still has large volume of unshipped sales on the books by April l, switches to South America will be likely, especially in light of recently released export registration data for Brazil showing both and meal sales down by more than half from last year.

Based on our current assessment of meal demand, the US crush is expected to reach 1506 million bushels, up 51 million from a year earlier but about 9 million below the current Outlook Board projection. US export sales of soybeans have remained above year earlier levels so far this season. At one point in early October, US soybean sales were as much as 161 million bushel ahead of the previous year. However, declining processing margins and bearish price attitudes by overseas buyers based on expectations for a record South American crop have significantly slowed the pace of new purchases. Total export commitments through mid-February were only 30 million ahead of last year. South American producers may prove to be strong holders in anticipation of higher prices caused by possible crop problems in the US this spring and summer, giving US sales a boost later in the year. Our current export projection of 953 million is slightly lower than the estimate of the Outlook Board. Carryout stocks of soybeans are estimated at about 260 million bushels and points to an average annual price for nearby futures in the $6.50-6.70 range. Since the average price for nearby soybean futures during the first half of the season is nearly $6.80, there will be limited potential for a price rally unless driven by weather considerations.

The most important development in the world vegetable oil market in the 1997-98 crop year is the projected decline in Malaysian palm oil production that reflects that lagged effect of below normal rainfall in 1997. The growth in Indonesian production will also be slowed by below normal rainfall. Production in both countries also has been affected by an extended period of smog created by land clearing operations in Indonesia. Shipments of palm oil from Indonesia in early 1998 have been disrupted by the economic crisis. During the past 5 years, production of palm oil in Malaysian and Indonesia has increased by an average of 800,000 tonnes and exports have increased by 550,000 tonnes. Combined production this year will be down about 100,000 tonnes. The normal growth in world demand in 1997-98 will have to met from both a draw down in palm stocks and increased imports of competing vegetable oils. This will be supplied in large part by increased exports from South America, Canada and the US.

Prospects for large shipments from South America have been trimmed by crop losses in sunseed and oil yields that have probably been reduced due to the cool, wet growing

season. Since palm oil exports from Malaysia are fully refined, many of the Malaysian buyers may be forced to seek larger supplies of refined oils. South America is not believed to have excess refining capacity and European refiners are busy with shipments into the FSU. This could, therefore, boost US exports of refined oils during the next six months. The increased shipments of refined oil are also likely to provide a lift to US refining margins this season. US exports through the first quarter of the season totaled 841 million pounds and were 195 million ahead of last year. US exports of all other fats and oils during the fall quarter increased by about 190 million to 820 million pounds. If soybean oil shipments in the current quarter reach the projected 1.2 billion pound level, US exports for the entire crop year should reach at least 2.6 billion pounds.

The Outlook Board raised the soybean oil yield earlier this month to 11.2 pounds per bushel. However, the final yield may prove to be slightly higher. Based on our lower crush forecast, soybean oil production in 1997-98 is forecast a record 16.9 billion and will be about 70 million less than the current USDA estimate.

During the 1993, 1994 and 1995 crop years, US domestic use of 13 fats and oils increased at an average annual rate of only about 270 million pounds and compared to an annual increase of over 600 million in the previous five seasons. This slowdown in consumption was related to the rapid industry shift to a host of new reduced-fat and no-fat products. During the 1996-1997 season domestic usage of fats and oils climbed by nearly 700 million pounds. We believe the increased expansion in usage signals that the demand for reduced or no-fat products has been satiated. Sales of many of these new products have fallen and consumers are returning to products with higher fat levels. The national introduction of a new line of snack foods by this Spring that have been prepared from the Procter & Gamble Olestra product is expected to be a net addition to demand due to both the increased amounts of oil used in the manufacturing process and new consumers.

Total fats and oils usage in the 1997-1998 year is forecast to increase by about 600 million pounds. Adjusting for the available supply of competing fats and oils results in domestic usage for soybean oil of 14.7 billion pounds. Apparent domestic use of Soybean oil during the October-December quarter totaled 3.88 billion pounds, up more than 220 million from the same period last year.

US Carryout stocks of soybean oil on October 1, 1998 are estimated at 1.18 billion pounds and 340 million less than a year ago. The oil share of product value may climb into the 46-48% range. Soybean oil futures could reach into the 32-34 cent range.

Based on the recently released enrollment in the 16th signup of the CRP, USDA has estimated that the seeded acreage to all crops in 1998 could increase by about 2 million acres. Expected reductions in the seeded area for cotton, winter and spring wheat could allow for an overall increase in all other crops of nearly 4.5 million acres. Area increases in rice, sunflower, canola and durum wheat should rise in total by about 1.5 million, leaving about 3.0 million acres to be divided between corn and beans. Our current soybean area estimate for 1988 of 72.3 million acres is up about 1.4 million from last

year. The potential for corn planting delays in the South, or producer concerns for drought this summer could add to the soybean area.

A year ago sea surface temperatures in the equatorial Pacific had already begun to rise, but were still below normal. The temperature climb continued unabated during the balance of the year. By mid-spring, the world was aware of the developing El Niño and the event soon became the most widely heralded meteorological story in modern history. The trade began to focus on those areas of production that would be influenced by the El Niño episode. The Indian monsoon was the first concern. The monsoon was late in arriving in key oilseed areas, but subsequent rainfall was timely and India enjoyed record yields in 1997. El Niño usually adversely affects Australian wheat but timely rains resulted in yields being slightly above trend. Brazil and Argentina typically enjoy above trend yields in an El Niño episode and this year appears to have been no exception. South Africa typically suffers corn losses during this phase of an El Niño event. While planting and crop development has been affected by heat and dryness, a disastrous outturn has been averted so far by occasional periods of rain and cooler temperatures. Despite the differing outcomes of this El Niño on foreign agricultural production, the attention of the market will soon be riveted on North American weather.

The current El Niño event peaked in December with sea surface temperatures at about 4 degrees C above normal, making it the strongest episode of the century. The second strongest event was in 1892-83, which peaked in January 1983 at 3.6 degrees. The 1987-88 peaked in September 1987 at just over 2 degrees C. In terms of both intensity and timing, the 1982-83 event is most similar to the current season. Sea surface temperatures have already declined by more than one degree and the rate of decline in February is greater than in January. Sea surface temperatures also fell sharply in February and March of 1983. The demise of the event substantially increases the prospects of more and extended heat this summer in the central and eastern US. The extent of heat will be a function of the rate of change in sea surface temperatures between now and summer. The more rapid the decline in SST's, the more likely the chance for hotter temperatures this summer.

The US and Canada has experienced a classic El Niño winter. The southern and coastal areas of the US have been wet. The central and northern areas have had above normal temperatures and the northern areas of the US and Canadian Prairie Provinces have had below normal precipitation. The pattern was similar in 1982-83.

During this declining phase of an El Niño event, there is a strong tendency for a cool April and May, especially in the central US. The Delta is likely to remain wet. Other areas that could be wet include the southeastern US and the Ohio River region. The northern states and Canadian prairies will tend to stay dry. Forecast for precipitation this spring in most of the Midwest is extremely difficult to forecast at this time. Some planting delays are likely in the South and parts of the Midwest. Cool temperatures could delay crop development. Heat and dryness during July and August are always problems for spring seeded crops.

The US trend line yield for soybeans in 1998 is 39.3 bushels per acre. With a trend yield production, could reach 2.78 billion bushels. Based on the yield deviation from trend in 1983 and adjusting for the upward shift in soybeans yield in recent years, we would estimate the worst case US soybean yield in 1998 at just over 34 bushels per acre which would drop production to about 2.44 billion bushels.

Domestic demand for meal in the 1988-89 season is expected to rise by about .65 million relative to the current year. However projected South American soybean stocks on September 1, 1998 could be as much as 4 million tonnes greater than a year ago. US meal exports could fall by about one million tons. The soybean crush is forecast at 1490 million bushels. Exports could climb slightly to about 965 million bushels. With a trend yield, US carryout stocks could climb to about 450 million bushels which would drop prices under $5.50 and push board meal prices into the mid $150 range and even allow oil to fall to about 24 cents. Under the low yield scenario, carryout stocks would fall to about 100 million bushels and carry futures prices for soybeans to over $8.00, meal to $230 and oil to 35 cents.

Thank you.

U. S. SOYBEAN MEAL

SUPPLY/DEMAND BALANCE

(October-September)(thousand tons)

		USDA	**SB**	**SB**		
		02/98	**Proj.**	**Proj.**		
	96/97	**97/98**	**97/98**	**98/99**		
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BEG. STOCKS	212	207	207	313		
PRODUCTION	34209	35843	35650	35200		
IMPORTS	101	125	81	100		
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TOTAL SUPPLY	34522	36175	35938	35613		
DOM. DISAP.	27315	28500	28007	28650		

EXPORTS MEAL	7000	7450	7618	6750		
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TOTAL USAGE	34315	35950	35625	35400		
END. STOCKS	207	225	313	213		

U. S. SOYBEAN OIL

SUPPLY/DEMAND BALANCE

(October-September)(thousand tons)

			USDA	**SB**	**SB**	
			02/98	**Proj.**	**Proj.**	
	96/97	**97/98**	**97/98**	**98/99**		
	------	**------**	**------**	**------**		
BEG. STOCKS	2015	1520	1520	1176		
PRODUCTION	15743	16970	16902	16835		
IMPORTS	51	60	54	200		
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TOTAL SUPPLY		17809	18550	18476	18211	
DOM. USAGE		14244	14500	14700	14950	
EXPORTS		2045	2500	2600	1900	
RE-EXPORTS		0	0	0	0	
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TOTAL USAGE		16289	17000	17300	16850	
END. STOCKS		1520	1550	1176	1361	

U.S. SOYBEAN

SUPPLY/USAGE BALANCE

(September-August)(million bushels)

				USDA	**SB**	**SB**	

				02/98	Proj.	Proj.	
			96/97	97/98	97/98	98/99	
ACRES PLANTED			64205	70850	70850	72250	
% HARVESTED			0.988	0.986	0.986	0.983	
ACRES HARVESTED			63409	69884	69884	71000	
AVERAGE YIELD			37.6	39.0	39.0	39.3	
CARRY-IN			183	131	131	260	
PRODUCTION			2382	2727	2727	2790	
IMPORTS			10	6	5	5	
TOTAL SUPPLY			2575	2864	2863	3055	
CRUSH			1436	1520	1506	1490	
EXPORTS			882	960	953	965	
SEED			79	78	79	78	
FEED/RESIDUAL			47	61	65	65	

TOTAL USAGE			2444	2619	2603	2598	
STOCKS			131	245	260	457	
STOCKS-TO-USE			5.4	9.4	10.0	17.6	