Soybeans Have Some Bull Left in Them

USDA left their expected ending stocks of old crop soybeans unchanged at 140 million bushels in the April 8th update. While ending stocks did not budge, there were some changes. Better yields in Brazil caused them to raise production there by about 75 million bushels and lower U.S. exports by 10 million bushels. U.S. crush was also lowered modestly by 5 million bushels. The average price expected to be received by U.S. farmers was also reduced by 10 cents a bushel to $11.50 (at the center of the range).

The old crop ending stocks of 140 million bushels is very tight representing only 4.2% of use, or a 15 day supply as of August 31, 2011. There can be some question of whether crush will be as low as USDA suggests given the high animal feeding rates. In addition, exports sales so far would suggest even higher export numbers. However, actual bushels exported so far are more in line with current USDA export estimates. Unlike corn, at least world buyers can look to South America for purchases this summer if U.S. inventories become depleted.

Huge financial incentives to plant corn this spring may mean soybeans will not get the 76.6 million acre intentions reported March 31. In addition, I expect that a record 9% to 10% of soybean acres this year will be double-crop, which have lower yield potential. As a result, I am lowering trend yields about ½ bushels per acre from 43.2 bushels per acre to 42.7.

If soybeans do get the 76.6 million acre intentions (which I doubt) and with 42.7 bushel yields, production drops to 3.24 billion bushels or a decrease of nearly 100 million bushels from last year’s crop and means a usage cutback of about 100 million bushels will be needed. Given the ability for South American acreage to increase, much of the usage reduction could come in reduced U.S. exports.

Since new crop beans may be tighter than old crop, there is not likely to be any large decrease in cash prices late this summer and early fall as the market transitions from old crop supplies to new crop. As an overall statement soybeans are probably undervalued relative to corn at this point.

July soybean futures have weakened from their most
recent high of $14.42 on March 31. A retest of that level would be the first upside objective with any harmful weather this spring or summer causing new highs above the $14.75 which occurred on February 9.

For the 2011 crop, prices are expected to have a much higher average and producers will actually receive the financial advantages of the higher prices. I have the new crop cash prices averaging $13.50 a bushel with normal yields. Of course higher or lower yields will have dramatic price impacts, just like for corn.

November futures have had a peak so far of $14.09 on March 31. Prospects to push above those levels could result from a lower number of acres than intentions and of course from unfavorable weather. If new highs are established on the November futures, the next upside objective could be about $15.50.

While these are very lofty numbers, producers should not wait on that level which may not materialize. Rather they should consider pricing at least 25% to 35% of their expected production this spring at the very favorable prices offered.

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