Soybean Prices: Is the Top in Sight?
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Soybean supplies are expected to expand somewhat for this year’s crop, but aggressive purchases by China and uncertainty about final yields in the U.S., and still to be determined South America production have markets on edge. The edginess is creating unexpected pricing opportunities for soybeans not only for this fall’s crop, but for 2011 and 2012 as well.

The shift to a much more bullish soybean situation arrived with the October USDA updates. U.S. yields were reduced to 44.4 bushels per acre and production to 3.4 billion bushels, both still record highs. But the reports reduced production by 75 million bushels. In addition, China continues to be a heavy buyer of soybeans in the early weeks of this marketing year, and the continued weakening of the U.S. dollar is encouraging more buyers of soybeans to be concerned with potential inflation generated by the U.S. Federal Reserve easing of monetary policy.

U.S. ending stocks as a percent of use are now projected to be 8% which is an increase from 5% over the past two years representing the 2008 and 2009 crops. For world inventories, stocks-to-use will be 24% compared with only 20% in 2008/09. These numbers would suggest that inventories will be adequate, but there is little room for any surprises that would result in smaller production or greater usage. The highest likelihood of a surprise would seem to be further reductions in U.S. yields this fall, greater Chinese purchases this fall, and then potential growing season weather problems in South America. USDA expects the average U.S. farm price to be in a range from $10.00 to $11.50 a bushel with a midpoint at $10.75. That compares with $9.59 a bushel from the 2009 crop. In mid-October, futures markets are pricing beans near the top end of that USDA range. This clearly indicates that the markets are more bullish than USDA.

USDA expects exports to rise only 1% this year to 1.52 billion bushels. However in the first six weeks of the marketing year, export commitments are up 10%. While it is very early in the marketing year, if that 10% rate were to continue, exports for the year would be over 100 million bushels more than USDA’s number and reduce ending stocks to very tight levels. This coupled with anticipation of reduced U.S. acres in 2011 keeps a bullish tilt to prices.

China’s appetite for soybeans is the driving force for exports. USDA expects them to increase purchases by 9% compared to last year. So far this marketing year their purchases are running 9% more, exactly at the USDA’s projected level of increases.

The carry in the bean market is providing an incentive to store beans on-farm and price them for delivery in the December to February time period. This may return about 20 to 25 cents above interest costs. Storage beyond that period runs the risk of a large South American bean crop. As always, if their
crop should experience growing season weather difficulty, bean price will move upward into the winter and early spring.

How high will bean prices go? We can only give some possibilities, but futures prices at $13 now seem a reasonable possibility given current information. For them to move above that lofty level probably requires a reduction in the anticipated South American crop, or much more aggressive Chinese purchases which seem to have a smaller possibility. Futures and options markets, at this writing, with March 2011 futures at $12.12 a bushel have an odds of 36% that March 2011 futures will reach $13, and a 22% odds of reaching $14, by expiration of that options contract.

Clearly, returns from pricing beans now are enormous for most producers. While the price trend seems to be upward, market price direction can shift quickly. Having some portion of the soybeans priced now and taking these wonderful margins seems more than reasonable. With such large price volatility, a diversified strategy of multiple pricing points works best for most producers.

Total bean acreage will likely be down in the U.S. next spring and this will help support 2011 bean prices, but at somewhat lower levels than 2010 prices. The exception to declining bean acres will be double-crop beans for 2011 as a large increase in wheat seeding this fall and then double cropping to soybeans is expected next year.

Right now, 2011 corn prices are leading the acreage parade. Purdue budgets for 2011 indicate that soybean prices would have to be at $12 a bushel at harvest to compete with corn. This does not say that beans have to be $12 in another year, but does say that if corn inventories stay tight, bean prices will not fall sharply over the coming year. Much will influence that however, like the Chinese purchases, the size of the South American crop, the rate of world economic growth, and the value of the dollar. Hold on to your hats!