WEEKLY OUTLOOK
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November 23, 1983

WHY THE COLLAPSE IN SOYBEAN PRICES AND WHAT NEXT?

SOYBEAN PRICES HAVE BEEN ON A WILD ROLLER COASTER RIDE SINCE LAST SPRING. From \$7.02 on April 9, January futures decreased to \$6.09 on June 29. Under the impact of acreage reduction and summer drought, January soybeans rose to \$9.59 on September 9 and then collapsed to \$7.81 on November 18. We must characterize such volatile price behavior as a poor speculative performance. However, the important question is (1) whether the price rise into September overdiscounted the impact of the shortage and went higher than necessary to curtail use, or (2) whether the collapse has gone too far and a subsequent increase will be necessary to make supplies last until the 1984 crop is available. Supplies are known within narrow limits so that the price behavior from this time on will depend on the strength of demand for soybean products. On the supply side, the central fact is that use must be decreased by 15 percent from 1982-83.

This is the third recent year of supply shortfall. In 1976-77 it was necessary to reduce crush and export by 4.9 percent from the preceding year. The May 1977 futures price rose from \$5.75 in May 1976 to \$7.75 in September, fell to \$6.25 in November, and subsequently increased to \$10.50 in late April 1977. The downward adjustment in use was made in this domestic market. Soybean protein exports were unchanged from the year before, and soybean fat exports increased by 15 percent. Domestic protein use decreased by 7 percent, and domestic soybean oil use decreased by 5 percent.

In 1980-81, crush and export had to be reduced by 3 percent. The price of May 1981 futures rose from \$7.00 in June 1980 to \$10.00 in November, collapsed in early December to \$8.50, and subsequently declined to \$7.50 in May 1981. Actual use decreased by 13 percent. Domestic meal use went down 9 percent, and domestic oil use increased by 2 percent. Soybean protein exports decreased by 15 percent and soybean fat exports by 19 percent.

In 1976 the November collapse was not justified, and the subsequent price increase was extreme. In 1980 the December collapse was justified, and prices continued downward. The key difference between the two years was in export demand. The main factor in soybean prices from this year into 1984 will be the strength of export demand. It is doubtful that the high prices in the fall of 1980 were the main reason for the reduction in exports. Supplies outside the U.S. were large enough so that there was no reduction in use of either meal or oil. The dollar strengthened against other currencies during 1980-81 with the German mark, for example, decreasing 29 percent relative to the dollar. Interest rates in the U.S. were very high and rising. The price of gold went down from $675 in October 1980 to $425 in August 1981. These three things reduced foreign purchasing power from the year before.

What of this year? We should expect an increase in the South American soybean harvest next spring but by not more than 70 million bushels. A 15 percent cut in U.S. exports would be 136 million. Palm oil production will increase but not enough to make up the soybean shortfall. The dollar will probably stay strong but not gain in relation to 1982-83. Further weakness in gold is doubtful. Prices are now only 11 percent above last spring. This is not much in the face of a 15 percent cut in use.

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