

February 1999 - Prices and Economic Indicators

RECENT DEVELOPMENTS & IMPLICATIONS

The March global oilseed output estimate is 3.5 million metric tons (MMT) above the previous month, chiefly reflecting upward revisions for China, Argentina and Brazil. Also, the global oilseed carry-in was revised upward by 1.3 MMT. With below normal growth in foreign demand, the global oilseed carry-out will be 3.5 MMT above last month's estimate. Global oilseed ending stocks are forecast at 39 days of use, compared with 35 days last month. Most of the recovery in foreign oilseed stocks will be in the United States and Argentina.

World oilseed stock-use coverage is projected to approximate its 1991 level at 9 percent above its 10-year average. However US soybean stock-use coverage is forecast to be the highest since 1987 and 56 percent above its 10-year average.

Ending stocks in days of use with price comparisons:

REGION & COMMODITY or PRICE	UNITS	97/98	FEB. EST. 98/99	MAR EST. 98/99	10-YR. AV.	MAR 98/99 % DEV fm 10-YR. AV.
US Soybean stks	days	28	59	69	44	+56%
World Oilseed stks	days	31	35	39	36	+9%
US Soy Oil stks	days	28	27	25	43	- 43%
World Veg. Oil stks	days	35	31	32	39	- 19%
Soybean price 1/	\$/bu	6.47	5.20	5.05	6.24	- 19%
Soy meal price 2/	\$/st	185.5	137.5	130.0	205	- 37%
Soy oil price 3/	ct/lb	25.8	24.25	22.0	23.3	- 5%

1/ US farm price. 2/ 48% bulk at Decatur. 3/ Crude bulk Decatur.

Upward revisions in the current ending stock/use coverage estimates from last month for US soybeans, world oilseeds and oils forced cuts in the price forecasts.

The global vegetable oil output forecast was revised upward by 0.5 MMT, reflecting gains in South America and China. However, global demand growth is expected to absorb most of the increase and hold the increase in world vegetable oil ending stocks to 0.2 million over last month's estimate. Although this does not bode well for US vegetable oil exports remember that foreign vegetable oil stocks are still projected at 32 days of use, or 16 percent below their 10-year average.

Weakness in the new crop soybean/corn futures price ratio will not curb US soybean plantings this spring in the corn belt, reflecting the favorable soybean/corn loan price ratio. However, the depressed oilseed/grain price ratio could result in some down shifts in Southern Hemisphere oilseed plantings late this year. Looking ahead, palm oil output recovery could depress oil prices and slow plantings of high-oil content oilseeds.

KEY INDICATORS

February indicators exceeding their respective 12-month trailing averages include: US soybean exports and disappearance. Indicators falling short of their respective 12-month trailing averages include: the soybean/corn price ratio; the soybean/cotton price ratio; the meal/grain price ratio; the US hog/corn ratio; US soybean crush margins; Malaysian palm oil stocks; US soybean oil stocks; soybean oil as a share of soybean product value; and the value of the European Currency Unit (ECU) in US dollars.

FEBRUARY 1999 PRICE SUMMARY Cash prices for US soybeans and corn showed counter seasonal weakness, while prices for soybean meal and oil registered above-normal weakness. All these prices were significantly below their respective monthly 10-year averages. Oil prices registered counter seasonal weakness in relation to meal. Relative weakness in soybean prices put the February soybean/corn price ratio significantly below its 10-year average. The February 1999 index of prices received for all US farm products was 1 percent below the previous month and 5 percent less than a year ago.

Annual percentage changes in February US prices for selected commodities include: coconut oil, +31; livestock & livestock products, +1; palm oil, -8; corn, -21; soybean oil, -25; soybeans, -26; and 48-percent soybean meal, -31. February 1999 cash prices for most selected commodities were all below their respective 12-month averages.

FEB. 1999 PRICES - HISTORICAL PERSPECTIVE

Commodity prices & price ratio	10-yr Feb Hi	10-yr Feb Lo	10-yr Feb Av	Feb. 1998	Feb. 1999
Soybeans at farm (\$/bu)	7.41	5.40	6.28	6.57	4.83
Soybeans Nov. Fut. (\$/bu)	7.24	5.84	6.44	6.63	5.12
Corn at farm (\$/bu)	3.37	2.00	2.53	2.55	2.01
Soybean/corn ratio	2.86	2.08	2.50	2.58	2.40
48% Soy meal (\$/st)	262.4	151.3	199.8	192.8	132.3
Soy oil (cents/lb)	28.8	18.9	23.3	26.5	20.0
Soy meal/corn ratio	2.77	1.90	2.22	2.12	1.84
Soy oil/meal ratio	3.72	1.68	2.41	2.75	3.02

Feb. 1999 price changes with comparisons are as follows in percent:

Commodity Prices & Price Ratios	Feb. 10-yr high % dev. from 10-yr MY avg.	Feb. 10-yr low % dev. from 10-yr MY avg.	Feb. 10-yr avg. % dev. from 10-yr MY avg.	Feb. 98 % dev. from 98/99 MY forecast
Soybeans at farm	+18.8%	- 13.5%	+0.6%	- 4.4%
Soybeans Nov. Fut.	+13.8%	- 8.2%	+1.3%	+1.4%
Corn at farm	+35.3%	- 19.7%	+1.6%	+0.5%
Soybean/corn ratio	+13.5%	- 17.5%	- 0.8%	- 5.1%
48% Soy meal prices	+28.0%	- 26.2%	- 2.5%	+1.8%
Soy meal/corn ratio	+20.4%	- 17.4%	- 3.5%	+1.1%
Soybean oil prices	+28.2%	- 19.3%	- 1.5%	- 9.3%
Soy oil/meal ratio	+59.0%	- 28.2%	+ 3.0%	- 10.6%

Possible implications of the above changes include: (1) Depressed soybean/corn price ratios along with dry weather could curb 1999 Southern Hemisphere oilseed plantings. (2) Lower grain prices failed to boost feed profitability reflecting depressed hog prices and this could curb livestock product output and slow meal demand. (3) However, lower meal/grain price ratios may benefit meal feeding rates. (4) Relative strength in oil prices reflects below-normal global oil stocks, but this will not prevent a decline in US vegetable oil exports unless foreign oil usage exceeds expectations. (5) The soybean oil/meal price ratio, which registered an above normal drop in February, despite indications of a reduction in foreign oil stocks, may have reflected cancellation of some oil contracts.

In February 1999, US prices for corn, soybeans and products were all below their respective 10-year averages for that month. The price ratios for soybeans/corn, soybean meal/corn were also below their respective 10-year average, although the soybean oil/meal ratio continued significantly above its long term average.

Longer term implications of the above changes:

*** If soybean/corn market price ratios continue sharply below the US soybean/corn loan ratio, US producers would likely expand soybean plantings, no matter how low prices might go.

*** In contrast, if cash soybean/corn price ratios remain depressed in relation to competing crops, foreign producers would likely shift land from oilseeds to grain. The first evidence of this shift will be late this year in the Southern Hemisphere.

SOYBEANS On February 26, NASS reported mid-February farm prices for soybeans at \$4.83 per bushel, or 23 percent below its 10-year complete season weighted average of \$6.24 per bushel. During the past decade February prices for US soybeans at the farm ranged between \$7.41 per bushel in 1989 and \$5.40 in 1995. The February 1999 soybean price is the lowest since 1987. In March, the midpoint of the 1998/99 US farm soybean price forecast range was cut to \$5.05 per bushel, or 19 percent below its 10-year weighted average and the lowest since \$4.78 per bushel in 1986/87.

CORN NASS reported mid-February farm prices for corn at \$2.01 per bushel, or 19 percent below its 10-year complete season weighted average of \$2.49 per bushel. During the past decade February monthly prices for US corn at the farm ranged between \$3.37 per bushel in 1996 and \$2.00 in 1993. In 1998/99, the US farm price for corn is forecast to average \$2.00 per bushel, or 20 percent below its 10-year weighted average and the lowest since \$1.94 per bushel in 1987/88.

SOYBEAN/CORN RATIO In February, the US soybean/corn price ratio at 2.40:1.0 was only 5 percent below its 10-year average of 2.52:1.0. On March 12, 1999, closing prices for 1999 crop futures, indicated a soybean/corn price ratio of 2.03:1.0 and Y2K crop futures indicated a ratio of 2.08:1.0.

OUTLOOK For the 1999 crop, US farmers are guaranteed a soybean/corn loan price ratio of \$5.26/\$1.89 (2.78:1.0), or sharply above the recent futures price ratios. Thus, we expect 1999 US soybean plantings to be record large, and significantly exceed last year's 72.4 million acres.

With expanded plantings, normal yields and bulging stocks, a double digit percentage increase in Y2K US soybean supply seems likely. The Y2K US soybean supply increase could boost US ending stocks to between the 1987 level of 78 days of use, to more than the 1986 level of 104 days of use. However, the high of recent decades was 126 days of use in 1969. Such a stock buildup would cut the Y2K season average soybean price to its lowest level since 1971/72, unless foreign demand exceeds expectations or foreign oilseed plantings and/or yields are significantly reduced.

This means soybean stocks and prices will deviate sharply from past cycles and could continue at depressed levels for the foreseeable future. During the 1960's and 1970's, US soybean prices rallied to new cyclical peaks every three or four years. Despite inflation, the 1996/97 peak in season average price for US soybeans at \$7.35 per bushel failed to exceed the peak season average price of \$7.83 per bushel, in 1983/84.

NEGATIVE INFLUENCES ON SOYBEAN PRICES

In February 1999, the soybean price was 27 percent below its 1985-98 trend. That represents a record large negative deviation from trend. During the same month, the CRB futures price index was 17 percent below its 1985-98 trend. This may indicate that most of the negative deviation from trend was due to factors outside the oilseed complex rather than endogenous factors.

Key exogenous price shifters would include weak foreign demand caused by: [a] Economic problems in some Asia countries; [b] Negative market psychology which may have caused some buyers to cancel previous purchases and prevent potential buyers from extending their forward

coverage while prices were in a free-fall; and [c] Brazil's devaluation may cause a larger share of her oilseed product supplies to move into export, rather than domestic use.

Price shifters within the oilseed complex include changes in: [a] US oilseed beginning stocks; [b] US oilseed production; [c] Foreign oilseed beginning stocks; [d] Foreign oilseed production; [e] US domestic demand for oilseed products; [f] Foreign demand for oilseed products; and [g] Oilseeds stocks in the US and abroad, see the following table.

ITEM	97/98 MMT	98/99 MMT	99 Ch MMT	% of 99 Ch World Sup	99 % Ch	10-yr % Ch
US Beg Oilsd Stk	4.65	6.45	1.80	12%	39%	-4%
US Oilsd Prod	83.10	84.62	1.52	10%	2%	3%
For Beg Oilsd Stk	12.42	17.45	5.03	35%	40%	5%
For Oilsd Prod	203.24	209.53	6.29	43%	3%	4%
<i>World Oilsd Sup</i>	303.41	318.05	14.64	100%	5%	3%
US Oilsd Exp	24.45	22.23	-2.22	-15%	-9%	4%
US Oilsd Dom Use	57.53	55.76	-1.77	-12%	-3%	3%
US Meal Dom Use	30.05	30.74	0.69	5%	2%	3%
US Meal Exp	8.69	6.52	-2.17	-15%	-25%	1%
For Oilsd Use	221.99	231.41	9.42	64%	4%	3%
World E Oilsd Stk	23.89	30.87	6.98	48%	29%	-2%
For End Oilsd Stk	17.45	17.07	-0.38	-3%	-2%	4%
US End Oilsd Stk	6.45	13.80	7.36	50%	114%	-5%

How do all these elements fit together in adversely impacting soybean prices?

“Soybean price impact” may be defined as the percentage deviation of US soybean prices at the farm for the most recent month (Feb. 1998) from its 1985-98 trend. That deviation is -27 percent.

Most Important, the CRB price index for 17 commodities in Feb. 1998 was 17 percent below its 1985-98 trend. If the negative price impact from International macro economic disturbances was 17/27 of the total soybean price impact, the price impact from various exogenous factors may account for about 60 percent of the total impact.

Second in importance among the endogenous factors which are negatively affecting soybean prices is foreign oilseed output expansion. The increase in foreign oilseed production accounts for 43 percent of the increase in 1998/99 global oilseed supplies. However, the soybean price

impact from increased foreign oilseed stocks accounts for only 43 percent of remaining 40 percent, or 17 percent of the total price impact. The bulk of the production increase includes: rapeseed in Canada, Australia, India, and the EU-15; sunflowerseed in Argentina and Eastern Europe; peanuts in India and China; and cottonseed in India.

Third, the increase in foreign oilseed stocks on Oct. 1, 1998 accounted for 35 percent of the global increase in 1998/99 oilseed supplies. However, the soybean price impact from increased foreign oilseed stocks accounts for only 35 percent of remaining 40 percent, or 14 percent of the total price impact. Most of the foreign stock increase was soybeans in Argentina and Brazil. Both countries have made heavy investments in infrastructures in recent years which will boost their future competitive position in foreign markets.

Fourth, the increase in US oilseed beginning stocks accounts for 12 percent of the global increase in 1998/99 world oilseed supplies. However, the total soybean price damage from increased US oilseed beginning stocks accounts for only 12 percent of remaining 40 percent, or 5 percent of the total soybean price impact. Underlying the increase in US oilseed stocks was above-trend 1997 soybean output. This was made possible by a 9 percent increase in US oilseed plantings reflecting favorable prices with above trend yields due to use of improved seed and cultural practices.

Fifth, the increase in US oilseed production accounts for 10 percent of the global increase in 1998/99 world oilseed supplies. However, the total soybean price impact from increased US oilseed production accounts for only 10 percent of remaining 40 percent, or 4 percent of the aggregate price impact. With total 1998 US oilseed area about unchanged at 35.4 million hectares, US oilseed output increased nearly 2 percent. The gain in US oilseed production reflected above trend soybean output from which was made possible in part by increased narrow row plantings and use of the roundup ready seed.

In summary, the factors above are interrelated and move in a lead-lag pattern, the full impact of which may not be felt for months. For example, the expected increase in 1999 US soybean plantings is already depressing soybean future's prices. The larger US soybean crop will cut soybean/grain price ratios forcing a down shift in South American oilseed plantings in late 1999. However, that will not begin to help US oilseed exports until next year. Any year in which half the global increase in oilseed supplies show up as an increase in US stocks is bearish. Price drops, though painful, are needed to reallocate resources. However, the current cyclical decline in soybean prices may be prolonged by the high US soybean/corn loan price ratio.

CURRENT FORECASTS

US soybean stocks this season are expected to more than double from last year and pull down weighted average producer prices by 22 percent. The price drop is diminished by a counter seasonal price pattern and heavy front loaded farm sales. If global meal and oil demand were on trend, soybean prices might be closer to its trend, instead of more than one standard error below trend. However, aggregate weakness in commodity prices is the key negative influence on soybean prices.

US oilseed supplies are up 3.3 MMT or 3.8 percent more than last year. The increase in US oilseed supplies accounts for 22 percent of the global increase in oilseed supplies. During the past decade, the average annual increase in US oilseed supply was only 1.5 percent. However, 1998 US oilseed supplies showed a larger increase reflecting a 1.8 MMT increase in carry-in stocks and a 1.5 MMT increase in production.

US oilseed and product exports lag. Even with a 3.3 million-ton increase in 1998/99 US oilseed supplies, US oilseed and product exports during Oct-Dec 1998 dropped 3.2 MMT. Although the volume of US oilseed product exports dropped 21 percent in Oct-Dec 1998, reflecting larger oilseed stocks in South America and weak demand in Asia, US export unit values dropped 15 percent. US soybean exports through December were down 25 percent with the EU-15, Brazil, Taiwan, Japan, Indonesia, China and Malaysia accounting for most of the decline. Comparably, US soybean meal exports through Dec. 1998 were down 18 percent with the EU-15, and South America accounting for most of the decline. US oil exports for the same three months were up 8 percent with the bulk of the increase moving to India, the Mideast, and South America. In contrast, US soybean oil exports to Asia were down 20 percent during the same period. In coming months, the aggregate monthly flow of US exports is expected to recover sharply from the depressed rate during Oct-Dec 1998, but remain somewhat below that of Jan-Sep 1997, reflecting dwindling competition from South America. Much of the recovery is expected to be as oilseeds, rather than products.

China is now expanding imports of oilseeds, rather than products. China's total vegetable oil imports are expected to be about unchanged from the past two years at 3.4 MMT while meal imports dip 14 percent to about 4 MMT. The slowdown in China's oilseed product imports reflects expansion in direct imports of oilseeds. US soybean exports to China are expected to account for about 60 percent of China's total oilseed imports in 1998/99. Meanwhile, China is expected to continue to be a major destination for US soybean meal and oil exports.

Malaysia's palm oil output is about to recover. On Mar. 1, Malaysian palm oil stocks were down 3 percent from a year earlier reflecting reduced output. During the 12 months ending Feb. 1999, Malaysian palm oil output dipped to 8.27 MMT, or 9 percent less than the previous 12 months. The reduction in Malaysian oil output reflected the lagged effects of reduced rainfall. However, Malaysian rainfall has recovered sharply in recent months. The current Malaysian palm oil output forecast of 8.8 MMT for Oct-Sept 1998/99 implies sharp recovery in output in coming months. The lagged effects of improved rainfall could also boost yields in Indonesia in coming months as well. Increased output could result in larger stocks and lower prices, but a rebound in demand, particularly in China, will be a key factor affecting vegetable oil prices in coming months.

Indigenous foreign oilseed supplies are up 11.3 MMT, or 5.2 percent. During the last decade, the annual increase in foreign oilseed supplies averaged 3.5 percent. Most of the foreign oilseed supply increase reflects a 5.0 MMT increase in beginning stocks, chiefly soybeans in South America. Although foreign oilseed area is up by an above average rate of 3.8 percent, foreign oilseed production is expected to increase only 3 percent, reflecting somewhat lower yields. Foreign oilseed supply expansion accounts for 77 percent of the global oilseed supply growth.

PRICE PROSPECTS

In 1998/99, US soybean prices are forecast to average \$5.05 per bushel or \$191 per metric ton. The current price forecast is 22 percent below last year and 19 percent below its 10-year average. The current USDA soybean price forecast is sharply below the level indicated by projected ending stock use coverage. The larger price decline for US soybean prices is coincident with the depressed CRB price index.

Since the new crop US soybeans/corn loan price ratio is sharply above the ratio of new crop futures, US farmers will plant more soybeans this spring. However, if unfavorable weather delays corn plantings even more land would shift from grain into soybeans. Since 1975, US soybean plantings averaged 98.4 percent of reported planting intentions. The first USDA estimate of actual 1999 soybean plantings will be released on March 31.

US SOYBEAN PRODUCTION PROSPECTS FOR 1999

1. A weighted average of projected soybean yields by state, with adjustments for the recent year's shift to narrower rows, indicates the 1999 US soybean yield will be between 37.4 and 42.6 bushels per acre and significantly above its straight linear trend projection of 37.83 bushels per acre.
2. If growing conditions are normal, we would expect the 1999 US soybean yield to be about 2.2 bushels above its long-term unadjusted trend. The above trend yield will reflect adjustments for narrow row plantings, improved weed control and seeds that have enhanced yields and other genetic characteristics in recent years.
3. If the 1999 US soybean harvested area approximates 72.2 million acres and the yield achieves 40 bushels per acre yield that would push 1999 US soybean production to a record large volume of about 2.9 billion bushels, or 5 percent above last year.

IMPLICATIONS OF A RECORD LARGE 1999 US SOYBEAN CROP

1. With record large US 1999 soybean area, normal yields, and bulging stocks, supply prospects could exceed the 1998 record by roughly 10 MMT.
2. With a huge increase in supplies, stocks are expected to be record large.
3. If 1999 US soybean stocks are record large, we can expect further declines in soybean and soybean meal prices.
4. US soybean prices are already significantly below the loan rate and the discount will widen as stocks build. The depressed price will sharply escalate US government program costs. Soybean price prospects will not recover until US stock levels are normalized.

5. Although lower feed ingredient prices should buy more meal demand, in the US and abroad, depressed hog prices in the United States and economic problems in Asia will hold the growth in US and foreign meal usage to below average rates and accelerate the increase in US oilseed ending stocks.

6. The stock recovery could dampen oilseed prices to the point where it will curb Southern Hemisphere oilseed plantings late in 1999 and early next year in the Northern Hemisphere.

Alan Holz PH (202) 720-0143; FAX (202) 720-7670