

## Prices and Economic Indicators

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### AUGUST 1999 SUMMARY

Deterioration in U.S. soybean and corn yield prospects kicked off counter seasonal gains in **U.S. prices** for soybeans and products plus corn. Most oilseed and product prices followed the surge. However, the August farm price for soybeans at \$4.25 per bushel was the lowest for that month since 1972, reflecting large U.S. stocks which are indicated to continue to expand in 99/00. The trade weighted index of vegetable oil prices rose 9 percent in August, but remained 35 percent below a year earlier. The index of prices received for all U.S. farm products was 3 percent above July reflecting across the board recovery in livestock and crop prices, but remained 3 percent below a year earlier. Percentage changes in August 1999 U.S. prices for selected commodities from a year earlier include: coconut oil +13; combined livestock and products -2; 48% soy meal -3; corn -6; soybeans -22; soybean oil -31; and palm oil -48. August, prices for selected commodities were below their respective 12-month trailing averages, except soy meal.

During August, most **ratios and indicators** were below their respective 12-month averages except soy meal/corn; soy meal/wheat; wheat/corn; feed profitability; crush margins; U.S. soy oil stocks; and Malaysian palm oil stocks. Although U.S. soybean disappearance (crush plus exports) during the 12-months ending August 1999 was 3 percent less than a year earlier, there was sharp recovery in recent months. At bargain prices, foreign meal usage is now picking up. U.S. oilseed supplies will account for about 33 percent of 99/00 global supplies, compared with only 29 percent during the last decade.

### KEY DEVELOPMENTS

In September, the global oilseed production forecast for 99/00 was cut 2.0 million tons, because lower expected yields in the United States and India more than offset gains in Canada, Argentina and the EU-15. Global oilseed supply expansion was trimmed to 7.9 million tons. The 4.8-million ton increase in U.S. oilseed carry-in accounts for more than 60 percent of the global supply increase and expansion in this year's U.S. oilseed output could add another 1.6 million tons. Foreign oilseed carry-in is down a million tons, but some expansion in area and yields could boost foreign output about 2.5 million tons. This adds up to a below-normal 2.5 percent expansion in global oilseed supplies.

**Foreign oilseed supplies** are up less than 1 percent following last year's 4.5 percent increase, or much less than its 10-year annual average increase of 3.3 percent. Despite a 5.3 million-ton increase in rapeseed production, chiefly in China, Canada, EU-15, Australia, and Poland, the below-average increase in foreign oilseed supply reflects: [a] a 1.8-million ton drop in Oct. 1, 1999 soybean stocks in South America; [b] a 2.4-million ton cut in combined oilseed output in Argentina, Brazil, Paraguay; and [c] a 0.8-million ton drop in India, chiefly soybeans, cottonseed and peanuts.

**Global meal and oil usage** are projected to grow at above-average rates of 3.9 percent and 5.0 percent, respectively, reflecting below-average prices and slightly higher income growth abroad. However, U.S. oilseed and oil stocks will continue to expand, unless there are output shortfalls and/or demand exceeds current estimates. U.S. oilseed ending stocks are estimated at 60 days of total use coverage, or 45 percent above its 10-year average. In contrast, oilseed stock/use coverage outside the U.S. will be 15 percent below its 10-year average.

**U.S. soybean exports** during Sept-Aug using Census data through June plus weekly inspections for export through August approximated 21.9 million metric tons. This was 1.8 million tons less than a year earlier, largely reflecting the above-average 9.8-million-ton gain in foreign oilseed supplies.

**The U.S. soybean crush** using Sep-Jul Census data plus a seasonal adjustment for August was down 0.2 million tons from the 43.5 million tons a year ago. The decline reflected reduced meal exports caused by a huge increase in foreign supplies. In July 1999, U.S. soybean crush capacity utilization was 73.1 percent, compared with 71.2 percent a year earlier and 65.8 percent in July 1997 as capacity continues to expand. During the past two years, the U.S. soybean crush capacity increased about 8 percent.

**U.S. 1998/99 soybean supplies** increased 3.7 million tons because of substantial recovery in beginning stocks and some expansion in area. However, U.S. soybean stocks on Sept. 1, 1999 are expected to increase by 4.5 million tons, reflecting reduced export demand for soybeans and meal. This would boost U.S. soybean stocks to 63 days of use, or 50 percent above its 10-year average.

**FY-99 U.S. oilseed and product exports through June** to the EU-15, and South America dropped 22 percent and 56 percent, respectively. Movements to Asia during the same period were down only 7 percent. However, U.S. exports to Asia in June 1999 alone were up 22 percent. Despite lower prices, foreign meal usage this year is expanding at only its 10-year annual average growth of 3.3 percent. Meanwhile, U.S. domestic demand for soy meal is growing at more than 6 percent, an above-average pace, reflecting lower prices and expanding livestock product output.

**U.S. soybean crop conditions as of August 15**, were 80 percent setting pods, exceeding its 5-year average of 70 percent for that date. On that date, 51 percent of the area was in good to excellent condition compared with 67 percent last year. For cotton as of August 15, only 13 percent was opening bolls, compared with 20 percent last year. However, 48 percent of the crop was in good to excellent condition, compared with only 34 percent a year ago. This implies lower yields for soybeans, but improvement for cotton.

**Competing exports of soybeans and meal**, as meal, from Brazil and Argentina during Oct-Jul 1998/99 totaled 28.2 million tons, or 6.8 million tons more than the same months a year earlier. During the same period, U.S. soy-meal equivalent exports were 21.4 million tons, or 3.9 million tons less than the same months a year earlier. Combined soy-meal equivalent exports from the U.S., Brazil, and Argentina during Oct-Jul 1998/99 were up only 3.0 percent, despite much lower prices reflecting slow foreign demand growth.

**U.S. soybean oil stocks** on July 31, 1999 totaled 1.67 billion pounds, compared with 1.78 billion pounds a year earlier. This represents 34 days of total U.S. soybean oil use, compared with 35 days a year ago. However, by Sept. 30, 2000 U.S. soybean oil stocks are now expected to rise to nearly 2.4 billion pounds, or 48 days of total use.

**Malaysian palm oil** stocks on August 1, 1999, at 1.16 million tons were 55 percent more than a year earlier, despite only a 10.2 percent decline in output during the 12-months ending July 1999. July 1999 was the fifth consecutive month of recovery in Malaysia's 12-month palm oil output.

During the last 15 years, Malaysia's 12-month palm oil output registered three upswings which lasted between 29 months and 38 months and averaged 34 months. The current cyclical upswing in Malaysian palm oil output may not end before Sept. 2001. During the last 15 years, there were 4 cyclical downswings in Malaysia's 12-month palm oil output which lasted between 7 and 12 months and averaged 10 months.

**U.S. coconut oil imports** during the 12-months ending June 1999 were 430,100 metric tons, down 35 percent from the same period a year earlier and 12 percent below its 5-year annual average of domestic use. Despite reduced imports, U.S. coconut oil stocks on Aug. 1, 1999 were 89,568 tons, or 3 percent more than a year ago. The import cut reflects higher prices. In June 1999, the import unit value was \$708 per ton or 16 percent above its 5-year average. The lagged effects of improved rainfall should boost Philippine coconut oil output and moderate prices in 2000.

**Global Y2K oilseed supply-use:** Despite this month's 2.0-million ton cut in the world oilseed production estimate, global supplies will be up nearly 8 million tons and ending stocks will increase for the third consecutive year. Since 1979, neither U.S. nor global oilseed stocks have increased more than two years in a row. However, combined soybean stocks in Brazil and Argentina on Oct. 1, 1999 are estimated at 11.8 million tons, or 1.8 million less than a year earlier and a further drop seems likely in 99/00.

World oilseed S/U (MMT)	FY-99 Aug Est	FY-00 Aug Est	An Ch Aug	FY-99 Sep Est	FY-00 Sep Est	FY- 00 An Ch	FY-00 Mo Ch
Beg Stocks	24.61	28.49	3.88	24.61	28.45	3.84	-0.04
Production	291.61	298.50	6.89	292.48	296.50	4.02	-2.00
Supply	316.22	326.99	10.77	317.09	324.95	7.86	-2.04
Exports	55.47	56.19	0.72	55.98	56.62	0.64	0.43
Crush	235.63	245.01	9.38	235.48	244.57	9.09	-0.44
Feed S & W	52.10	51.79	-0.31	53.16	51.40	-1.76	-0.39
End Stocks	28.49	30.19	1.70	28.45	28.98	0.53	-1.21

**Key shifts:** (1) Above-average gains in 1997 and 1998 global oilseed area with above-trend yields fueled double digit recovery rates in U.S. and global oilseed carry-in stocks. (2) This depressed prices and slowed the 1999 expansion in global oilseed plantings. (3) Although 99/00 global soybean supplies are expected to remain flat, the large increase in rapeseed production is expected to boost global oilseed stocks. (4) After U.S. soybean exports dropped 23 percent during Oct-Feb 1998/99, reflecting the large South American soybean carry-in, exports surged 38 percent during Mar-Jun 1999 from the same period a year earlier, reflecting lower prices and slowing movements from Brazil. (5) U.S. soybean exports should expand through FY-2000 as South American oilseed supplies drop from the previous above-average levels. (6) U.S. soybean meal exports were down 34 percent through May, but began to recover in June and should register a double digit gain in FY-2000 as foreign meal usage accelerates and South American competition dwindles. (7) In contrast, U.S. soybean oil exports continued to lag through June, down 21 percent, and may drop further in coming months as palm oil output accelerates from the lagged effects of improved rainfall in

Malaysia and Indonesia. (8) U.S. oilseed prices will remain sharply below their 10-year respective averages, reflecting further stock accumulation next year. (9) Meal prices will gain on oil prices as meal demand accelerates. (10) Vegetable oil prices could remain at their lowest levels since the early 1970's, reflecting growing stocks of palm, rapeseed and soybean oil.

**Current ending-stock estimates in days of use** with comparisons include:

ENDING STOCKS IN DAYS BY REGION & COMMODITY	98/99	99/00 Aug Est	99/00 Sep Est	10-YR. AV.	Sep 99/00 % DEV FM 10-YR. AV.
U.S. SOYBEANS	51	73	63	42	+50%
FOR. OILSEEDS	27	22	25	29	-15%
U.S. SOYBEAN OIL	35	52	49	40	+21%
FOR. VEG. OILS	31	29	29	38	-22%

**Selected U.S. prices during August 1999** with 10-year comparisons:

PRICES AND PRICE RATIOS	10-YR Aug Hi	10-YR Aug Lo	10-YR Aug Av	Aug 1999
SOYBEANS, CASH (\$/BU)	7.82	5.40	6.16	4.25
SOYBEANS, SEP. FU (\$/BU)	7.87	5.36	6.16	4.68
SOYBEANS, NOV. FU (\$/BU)	7.61	5.34	6.08	4.74
CORN, CASH (\$/BU)	4.30	1.89	2.50	1.78
SOYBEAN/CORN PRICE RATIO	2.92	1.82	2.52	2.39
48% SOYBEAN MEAL (\$/ST)	273	146	204	142
SOYBEAN OIL (CENTS/LB)	26.6	17.9	22.6	16.5
SOY MEAL/CORN PRICE RATIO	3.06	1.70	2.34	2.23
SOY OIL/MEAL PRICE RATIO	3.28	1.54	2.31	2.33

**August prices for soybeans, meal, oil and corn made counter seasonal gains.** In contrast, the soybean/corn price ratio weakened and the soybean meal/corn ratio registered an above-normal increase, while the soybean oil/meal price ratio showed a below-normal increase. In August, the soybean/corn and the soy meal/corn price ratios were below their respective 10-year monthly averages. Although the soy oil/meal price ratio was slightly above its 10-year average, the ratio has been trending upward and the August level at 2.33:1 was below its 2.72:1 trend.

**Key changes in August 1999 U.S. prices and ratios** for selected commodities:

PRICES & RATIOS	Aug 99 % Dev FM Aug 10-YR AV	Aug 10-YR. AV. % DEV. FROM 10-YR OCT-SEP AV.	Aug 99 % DEV. FM 99/00 FORECAST	Aug 99 CHANGE FROM Jul 99
SOYBEANS	-31.0%	-1.3%	-11.5%	+1.2%
CORN	-28.8%	+0.8%	-8.7%	+2.3%
SOYBEAN/CORN	-5.2%	-0.6%	-3.0%	-1.1%
48% SOY MEAL	-30.6%	-0.4%	-8.6%	+6.7%
SOYBEAN OIL	-26.9%	-3.0%	-5.7%	+7.9%
SOY MEAL/CORN	-4.8%	+1.7%	+0.1%	+4.3%
SOY OIL/MEAL	+0.8%	-1.2%	+3.1%	+1.1%

**U.S. export sales of 1999 crop soybeans** as of the fourth week in August were 3.0 million tons, compared with 3.7 million tons a year ago and 6.9 million tons two years ago. Lagging new crop export sales may reflect the fact that new crop soybean futures were declining until recently. Since South American exporters have already moved and/or sold the bulk of their exportable supplies, U.S. soybean exports could register above-normal seasonal strength until new crop South American crops are available in Feb. 2000. Abundant supplies and competitive prices will boost U.S. soybean exports in 99/00.

**U.S. feed profitability indexes are favorable** with low feed ingredient prices and this will benefit meal demand in most countries where incomes are growing. Acceleration in meal demand, with the recovery in South East Asian vegetable oil output will likely push vegetable oil prices to lower levels as stocks rebuild.

**Canadian 1999 oilseed area** expansion slowed sharply, reflecting a less favorable rapeseed price in relation to wheat. Even with higher oilseed yields, crush expansion will curb exports of rapeseed and soybeans. Despite expanding meal and oil output, growing domestic use is expected to slow meal and oil exports.

**China's** oilseed output is forecast at 43.4 million tons, only 0.4 million above last year. However, China's meal and oil usage are forecast to expand by about 1.2 million tons and 0.8 million tons, respectively. To cover the increase, China's net imports of meal could expand 12 percent to 2.5 million tons while oil imports gain 10 percent to 3.2 million tons. In addition, China's imports of oilseeds will be record large at 6.4 million tons, up 0.6 million from a year earlier. Soybean and product imports will likely account for the bulk of China's import expansion in 99/00.

CHINA'S IMPORTS BY COMMODITY	SOYBEAN & PRODUCT IMPORTS (IN MMT)	TOTAL OILSEED & PRODUCT IMPORTS (IN MMT)
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	98/99	99/00	99/00 CH	98/99	99/00	99/00 CH
OILSEEDS	3.70	4.40	0.70	5.82	6.45	0.63
MEALS	1.50	1.65	0.15	2.25	2.53	0.28
OILS	1.25	1.20	-0.05	2.92	3.21	0.29

**India's 1999 oilseed output** dropped 0.8 million tons. Soil moisture was insufficient for timely oilseed plantings and this may result in below-normal yields. Despite a 6.6 percent increase in India's 1998/99 oilseed output, vegetable oil imports more than doubled to 4.0 million tons and meal exports dropped to 3.5 million, or 0.3 million less than a year earlier. In 99/00, reduced soybean output will further trim India's meal exports and oil imports may decline 0.4 million tons as stocks from the record large 1998/99 imports are worked off.

INDIA'S OILSEED OUTPUT; MEAL EXPORTS & OIL IMPORTS	SOYBEAN & PRODUCT IMPORTS (IN MMT)			TOTAL OILSEED & PRODUCT IMPORTS (IN MMT)		
	98/99	99/00	99/00 CH	98/99	99/00	99/00 CH
OILSEED PROD.	6.00	5.70	-0.30	26.60	25.79	-0.81
MEAL EXPORTS	3.10	2.72	-0.38	3.52	3.18	-0.34
OIL IMPORTS	0.85	0.60	-0.25	4.02	3.58	-0.44

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