Prices and Economic Indicators

NOVEMBER 2001

PRICE SUMMARY: In November, U.S. prices for soybeans and meal registered below-normal seasonal strength while soybean oil and corn posted above-normal seasonal strength. U.S. soybean oil prices rose 5.9 percent, the largest increase for that month since 1994, reflecting double digit gains in palm oil prices. Prices for all of these commodities remain significantly below their respective 10-year averages. The soybean/corn price ratio increased slightly to 2.26:1, but remained at its lowest level for that month since 1995. The 48% soybean meal/corn ratio registered slight counter-seasonal weakness to 2.51:1, but continued above its long-term average. In November, both of these ratios were above their respective season average forecasts. Crush margins weakened in November, but were sharply above last year on strength in oil prices. With low prices, improved margins and continued income growth abroad, global soybean exports and the crush should continue to expand. Despite recent weakness in livestock prices, feed profitability ratios are near their respective trends. However, global usage expansion rates for both meal and oil may slow from last year's levels. The oil/meal price ratio will rise as slowing palm oil output and reduced supplies of sunflowers and rapeseed pull global vegetable oil stocks to its lowest level for days of use coverage in more than a decade. Following the 26-month down draft which ended in Dec. 2000, oil's share of soybean product value just completed its 11^{th} month in recovery. Despite some recovery, the Decatur soybean oil/48% meal price ratio in Nov. 2001 was 22 percent below its 10-year average for that month. Since Oct. 1979, the four previous upswings in soybean oil's share of product value lasted from 18 to 30 months and averaged 25 months.

KEY POINTS (1) Historically, most of the year-to-year changes in U.S. soybean supplies were either used domestically or exported as prices adjusted to market conditions. (2) However, an above-average gain in foreign soybean supplies at competitive prices could side track much of this year's U.S. soybean supply increase into stocks. (3) Foreign soybean usage will continue to expand at an above-average rate, reflecting less sunflowers and rapeseed. (4) Above-average expansion in South American soybean area will supply a larger share of foreign imports. (5) Below-average global income growth may slow the global expansion in oilseed and product demand. (6) If global meal and oil demand growth slows as expected, U.S. prices for soybeans and meal are expected to remain below their respective year earlier levels as stocks build. (7) Despite below-average expansion in global vegetable oil usage, cuts in global sunflower and rapeseed supplies, together with slowing palm oil output expansion will force some reduction in global vegetable oil stocks which would spur vegetable oil prices.

WHAT NEXT? (1) Unless the upcoming South American soybean yields are sharply below trend, or global real incomes exceed expectations, any increase in U.S. oilseed and meal exports will be small. (2) This season's reduction in global vegetable oil stocks will boost vegetable oil prices, preventing a larger decline in soybean prices. However, with higher vegetable oil prices, expansion in planting of high oil-content seeds will resume in 2002/03. (3) That could result in some increase in global oil stocks in 2003. (4) Beyond this season, U.S. soybean producers price prospects favor soybeans over corn and this would suggest that U.S. farmers will plant more soybeans next year. (5) With larger carry-in stocks, we should see an increase in U.S. oilseed supplies in 2002/03 unless poor crop conditions sharply curb yields. (6) Next season, with normal yields, even a strong demand recovery may not be enough to prevent a gain in U.S. oilseed stocks.

ASSUMPTIONS (1) In 2002, global real income growth is now expected to fall short of its 5-year annual average rate of 3.0 percent. (2) Combined income and population growth will boost global usage of meals and oils by below-average rates of 3.5 percent and 2.7 percent, respectively. (3) Globally, despite slower growth in meal and oil usage and a near normal increase in oilseed production, global oilseed supplies will register a below-normal increase and result in some reduction in foreign oilseed ending stocks, particularly rapeseed, sunflowerseed and also soybeans in South America, but U.S. stocks will expand. (4) The global growth rate for meal usage will be about 15 percent below its 10-year average, but global oil usage growth may be 40 percent less than its 10-year average. (5) The Dec. 2001 global oilseeds ending stock forecast was cut slightly, reflecting upward revisions in soybean usage in Japan, the EU and Latin America. (6) Global oilseed stocks will dip as U.S. oilseed stocks build, as was the case in seven of the last 16 years. (7) Divergent movements in U.S. and foreign oilseed stocks tend to increase U.S. export volatility, but reduce seasonal price volatility. (8) Despite upward revisions in global oilseed supplies, global oilseed stocks fell short of the previous estimate, reflecting upward revisions in the soybean crush. (9) Despite upward revisions in global oilseed crush, global vegetable oil stocks fell short of the previous estimate, reflecting a downward revision in olive oil output. (10) Although this month's U.S. oilseed supply estimate remains unchanged, strong foreign demand forced upward revisions in soybean and product exports. (11) This will trim the U.S. oil carry-out and force slight upward price revisions for soybeans and oil. (12) Current forecasts show a 5-million ton gain in South American Oct-Sep 2001/02 oilseed supplies following last year's 8.9 million-ton gain and a 2.2 million-ton increase in 1999/00. (13) If our forecasts are on track, this could benefit U.S. oilseed and product exports beginning in early 2002.

KEY PRICE SHIFTS Annual percentage changes in November U.S. prices for selected commodities are as follows: soybean oil +14; corn -1; combined livestock products -1; all farm products -5; cash soybeans -8; 48% soy meal -8; and coconut oil -17. During the same period, Malaysian FOB prices for RBD palm oil were up 30 percent. In Nov. 2001, most selected commodity prices were below their respective 12-month averages, except vegetable oils.

INDICATOR SHIFTS: U.S. indicators that exceeded their respective 12-month trailing averages in November include: soybean exports; the soybean crush; the crush margin; the soybean/cotton price ratio; the wheat/corn price ratio; the broiler/feed price ratio; the soybean oil share of product value; and U.S. soybean oil stocks. In contrast, the soybean meal/corn price ratio; the livestock feed profitability index; the hog/corn price ratio and Malaysian palm oil stocks have been lagging their respective 12-month trailing averages, reflecting weakness livestock prices and slowing output of palm oil in Southeast Asia.

HISTORICAL PERSPECTIVE November 2001 prices with comparisons follow:

Commodity prices & price ratios	10-yr Nov Hi	10-yr Nov Lo	10-yr Nov Av	Nov. 2000	Nov. 2001
Soybeans at farm ($/bu)	**6.90**	**4.45**	**5.71**	**4.45**	**4.18**
Soybeans Nov. Fut. ($/bu)	**6.94**	**4.96**	**6.03**	**5.14**	**4.59**
Corn at farm ($/bu)	**2.87**	**1.70**	**2.22**	**1.86**	**1.85**
Soybean/corn ratio	**2.79**	**2.23**	**2.58**	**2.45**	**2.26**
48% Soy meal ($/s.t.)	**251.5**	**144.5**	**192.3**	**180.0**	**166.1**
Soy oil (cents/lb)	**29.4**	**13.4**	**22.1**	**13.4**	**15.2**
Soy meal/corn ratio	**2.74**	**1.99**	**2.43**	**2.71**	**2.51**
Soy oil/meal ratio	**3.65**	**1.49**	**2.35**	**1.49**	**1.83**

Key changes in November 2001 U.S. prices and ratios for selected commodities:

PRICES & RATIOS	Nov 2001 dev. from Nov 10-yr av.	Nov 10-yr Av. dev. from 10-yr MY av.	Nov 2001 dev. from 01/02 MY forecast	Nov 2001 change from Oct 2001
SOYBEANS	**-26.8%**	**-1.0%**	**-5.0%**	**2.2%**
CORN	**-16.8%**	**-4.2%**	**-7.5%**	**0.5%**
SOYBEAN/CORN	**-12.4%**	**3.2%**	**-8.1%**	**1.6%**
48% SOY MEAL	**-13.1%**	**0.7%**	**3.8%**	**0.4%**
SOYBEAN OIL	**-31.0%**	**2.0%**	**-1.7%**	**5.9%**
SOY MEAL/CORN	**3.5%**	**5.7%**	**12.2%**	**-0.1%**
SOY OIL/MEAL	**-22.1%**	**1.6%**	**-5.4%**	**5.5%**

Possible implications of the above changes: (1) Depressed soybean/corn price ratios in the past seem to have had little impact on Southern Hemisphere oilseed area. (2) Higher grain prices could hurt feed profitability and this could slow livestock output. (3) Lower meal/grain price ratios may help meal feeding rates. (4) Higher oil prices would indicate a decline in global oil ending stocks from a year earlier and this will benefit U.S. soybean oil exports. (5) The soybean oil/meal price ratio, which registered an above-normal seasonal gain in November may continue to increase from its below-average level as global palm oil output slows and U.S. vegetable oil stocks are worked lower.

FOREIGN OILSEED SUPPLIES Indigenous foreign oilseed supplies may register a below-average increase of only 2.2 percent reflecting a 5.6 percent increase in soybeans, partly offset by reduced sunflower and rapeseed production emanating from depressed vegetable oil prices that made these crops unattractive compared with competing crops. This is a sharp contrast from the last four years when foreign oilseed supplies gained by an average of 5.6 percent per year. Although upcoming South American oilseed crop yields will remain uncertain until March 2002, the current forecast adjusted to (Oct-Sept) is 95 million tons or 5.5 million more than last year. Expansion in South American oilseed crush and exports will exceed the supply increase as stocks on Oct. 1, 2002 by about one million tons from a year earlier.

U.S. OILSEED SUPPLY Although carry-in stocks were about 1.1 million tons less than last year, U.S. production was up 6.0 million tons, reflecting higher yields and more area. This pumped up the U.S. oilseed supply by 4.9 million tons compared with 0.7 million tons last year. In 2001/02, growth in U.S. oilseed supplies may account for 47 percent of the expansion in global oilseed supplies.

GLOBAL OILSEED SUPPLY-USE Although global oilseed supplies are up 10.4 million tons, usage is expected to grow by 11.1 million tons, or 3.5 percent reflecting both income and population growth, together with lower meal prices. With above-normal growth in U.S. oilseed supplies and below-normal gain in foreign oilseed supplies, U.S. oilseed exports will either increase or force a reduction in foreign oilseed stocks and set the stage for a significant increase in U.S. exports in FY-2003.

U.S. EXPORTS: Soybean exports are forecast at 27.2 million tons, or only slightly above 2000/01, despite a 4 percent increase in indigenous supply. Slow growth in U.S. oilseed exports reflects below average growth in total foreign meal and oil usage, larger Oct. 1, 2001 soybean stocks in South America and an above average increase in the upcoming South American soybean production. Key markets for MY-2000/01 U.S. soybean exports in millions of tons with the year earlier comparisons in parentheses include: China, 5.42 (4.51); Mexico, 3.81 (3.43); Japan, 3.57 (3.59); the Netherlands, 2.63 (2.31); and Taiwan, 1.87 (1.94).

Meal exports are forecast to register only slightly to 7.0 million tons, following last year's 4 percent increase, reflecting the reasons mentioned above. Key markets for MY-2000/01 soybean meal exports in 1,000 tons with a year earlier comparisons in parentheses include: Canada, 933 (797); Indonesia, 821 (268); the Philippines, 751 (864); Dominican Republic, 348 (344); and Saudi Arabia, 309 (315).

Soybean oil exports, in contrast to the small gains projected for U.S. soybean and meal exports, could recover sharply to 1.13 million tons following last year's 2 percent gain. The fundamentals are positive: (1) Less rapeseed supply in Canada and a number of net importing countries; (2) Reduced sunflowerseed supplies in Argentina, the FSU and a number of net importing countries; (3) Slower growth in Asian palm oil output. Key markets for MY-2000/01 soybean oil exports in 1,000 tons with a year earlier comparisons in parentheses include: Mexico, 74 (118); Pakistan, 63 (0); Peru, 61 (67); Canada, 55 (23); and India, 54 (24).

U.S. oilseed and product export value, excluding corn gluten feed and meal, is forecast at $9.1 billion, or 3 percent above FY-2001, reflecting a 4 percent increase in export volume, which may be slightly offset by lower unit values.
In the past decade, annual changes in U.S. oilseed and product exports ranged between +31 percent in FY-95 and -22 percent in FY-99.

OILSEED STOCKS U.S. soybean ending stock use coverage is now expected to rise to 42 days of total use, compared with 32 days a year earlier. The current forecast is below the previous estimate of 46 days, but nearly unchanged from its 10-year average. In contrast, foreign oilseed stock/use coverage is forecast to drop to 31 days of use, but remain 3 percent above its 10-year average.

PRICE IMPLICATIONS Although the U.S. soybean supply is up only 4 percent or 3.3 million tons, U.S. soybean stocks are expected to increase 2.2 million tons. During the past decade, more than 55 percent of the increase in U.S. soybean supply was exported. However, this year, U.S. exports may be curbed by slower growth in foreign demand and above-average expansion in foreign soybean supplies. The resulting stock buildup may hold soybean prices below last year's $167 per metric ton weighted average price. Even if the global oilseed supply falls sharply below the current estimate and/or usage exceeds expectations, U.S. soybean prices will continue significantly below the 10-year weighted average of $212 per ton. The current USDA soybean price forecast midpoint is $162 per ton.

U.S. MEAL DISAPPEARANCE In 2001/02 U.S. oilseed meal usage is expected to increase 2.2 percent, or below its 3.3 percent 10-year annual average growth, reflecting lower favorable feed profitability. In Nov. 2001, the hog/corn ratio was 18.9:1.0, or 20 percent below its previous 12-month average. The next Hog and Pig report will be released on Dec. 28. Although broiler/feed price ratios are still favorable after the 5 percent drop in Nov. 2001, output flexibility is limited because most birds are gown under contract.

FOREIGN MEAL DISAPPEARANCE Expansion in total meal use abroad is forecast at 3.8 percent, compared with the 4.2 percent 10-year annual average growth rate. Despite lower meal prices, slowing income growth could curb livestock output and meal usage in some countries. However, expansion will be skewed toward countries with higher income growth such as China, rather than Europe. Soybean meal usage will command nearly all of the global meal usage expansion, as it did last year.

VEGETABLE OIL DISAPPEARANCE Expansion in U.S. vegetable oil domestic disappearance will accelerate following last year's below-average increase, while foreign oil usage continues to slow. However, foreign oil usage expansion will exceed indigenous supply expansion by 1.0 million tons. This opens the gate for substantial recovery in U.S. vegetable oil exports, since the foreign vegetable oil carry-in was 16 percent below its 10-year average in days of use coverage.

GLOBAL PER CAPITA VEGETABLE OIL USE TREND World vegetable oil use is forecast at 14.27 kilos per capita or slightly above its long-term trend. If global per capita use continues its long-term upward trend, it would approximate 16.6 kilos in ten years. If global population grows to 6.94 billion and per capita usage continues on the trend, the world would need about 115 million tons of vegetable oil in year 2012.

VEGETABLE OIL STOCK/USE COVERAGE U.S. vegetable oil stocks are forecast at 46 days of total use, compared with 58 days last year. U.S. oil stocks will be 16 percent above its 10-year average of 39 days. Foreign vegetable oil stock/use coverage is forecast to shrink to 26 days of use or 25 percent below its 10-year average of 35 days. However, solid stock data for China and India are lacking. Global ending oil stocks are expected to cover only 29 days of use, compared with 33 days a year earlier and 20 percent below its 10-year average. Unless global vegetable oil output exceeds our forecasts, and/or oil demand falls short of expectations, global vegetable oil stocks will continue below-normal. However, if U.S. oil exports expand as expected, U.S. soybean oil prices may recover as stocks shrink in coming months.

PALM OIL OUTPUT GROWTH WILL SLOW Following 2000/01, when world palm oil output gained nearly 9 percent to 23.7 million tons, the lagged effects of less favorable rainfall in Malaysia and Indonesia will cut this season's growth in half. If output growth is slowing, why are oil prices so low? Although palm oil prices are sharply below their 10-year average, the November 2001 for RBD palm oil fob Malaysian ports was 30 percent above a year earlier. The low palm oil prices reflect last year's heavy carry-out of 44 days of use. However, after yields decline, ending stock use coverage will likely drop back to pre 1998/99 levels.

SHIFTS IN CHINA The focus of China's oilseed and product imports is now on oilseeds, rather than products. The lion's share of China's oilseed import growth has been as soybeans. The expansion was needed to supply strong growth in domestic meal demand which outpaced indigenous supplies. The demand growth was fueled by China's above average income growth and new investments in oilseed crushing capacity and hog and poultry output. This season, China's oilseed output is estimated to expand by two million tons to about 53 million tons. Larger indigenous supplies and slowing meal demand will curb the expansion in soybean imports while imports of Canadian rapeseed will drop. This season, China's oilseed imports from the U.S. will account for 43 percent of China's total oilseed imports, compared with 39 percent last year. Although China's meal and oil imports from the U.S. are nil, China is not expected to import much meal this season. The bulk of China's 2.5 million-ton vegetable oil import requirements will be as palm oil. But after China joins the WTO, more of China's imports may be as meal and oil, rather than oilseeds. How these shifts play out is key to U.S. exports.

INDIA THE KEY VEGETABLE OIL IMPORTER India's vegetable oil imports may fall 0.4 million tons reflecting unreported stock changes following last year's 1.1 million-ton import increase. Despite the decline, India with strong income growth will continue to be the world's leading vegetable oil importer, at 5.6 million tons, or 15.9 percent of world exports. Despite growing indigenous oilseed output, India's vegetable oil imports will be three times its 1996/97 volume.

US SOYBEAN DISAPPEARANCE During the 12 months ending Oct. 2001, U.S. soybean disappearance (crush plus exports) approximated 2.63 billion bushels, or 3.1 percent above the same 12 months a year earlier. Nov. 2001 was the 25th consecutive month of expansion for the 12-month U.S. soybean disappearance, following 13 consecutive months of no growth. U.S. soybean disappearance in the 12-months ending Aug. 2002 is forecast at 2.670 billion bushels, or1.2 percent above a year earlier. Although, it is still too early for definitive estimates of South American oilseed output, combined soybean stocks on Oct. 1, 2001 in Argentina and Brazil is estimated to be 1.1 million tons more than a year earlier.

SOYBEAN PRICES The mid-November U.S. farm price for soybeans was 8 percent less than a year earlier, but 2 percent above the previous month. During the last decade, the Nov. U.S. soybean price averaged 1.0 percent less than the complete season weighted average price, but 7.8 percent under the average annual monthly peak. Although the Nov. 2001 price was 27 percent below its 10-year average, it is only 5.0 percent under the midpoint of the current USDA season average price forecast. Using season to-date prices and the projected increase in ending stock/use coverage, U.S. soybean prices could be in the range of 3 percent less than last year. Monthly cash soybean prices will likely remain under the year earlier levels until Mar. 2001. At this point, possible seasonal strength should not be construed as a cyclical price reversal unless South American oilseed yields fall substantially below current estimates.

CORN PRICES In mid-November, U.S. producer prices gained 1 percent from the previous month, but remained 1 percent below a year earlier. Despite some recovery, the November price was 25 percent under its 10-year average for that month. During the past decade, November prices averaged 3.9 percent under its complete season weighted average and ranged between 11.9 percent under in 1994/95 and 3.3 percent over in 1997/98. In November, the corn price was 4.2 percent below the midpoint of the current USDA 2001/02 MY price forecast.

SOYBEAN/CORN PRICE RATIO In November, the U.S. soybean/corn price ratio gained 2 percent from the previous month, but remained 8 percent below a year earlier. The November ratio was 12 percent below its 10-year average for that month. Oilseed planting in the four major South American countries, though still in process, is estimated at 32.2 million hectares, or 6.9 percent more than last year and 31 percent more than in 1995/96. In contrast, U.S. oilseed area is up about 3 percent from last year and only 13 percent more than in 1995/96. If price prospects for new crop soybeans remain favorable in relation to competing crops, U.S. oilseed planting should continue to expand next year.

SOYBEAN MEAL PRICES November U.S. 48-percent soybean meal prices were unchanged from the previous month, but remain 8 percent under its 10-year average for that month. Meal prices are in a slump with the Nov. 2001 level 3 percent under its trailing 12-month average. The recent soybean meal price was 3.8 percent above the midpoint of the current USDA 2001/02 price forecast, but that forecast is 17 percent below its 10-year average. During the past decade, November soybean meal prices averaged 1.4 percent over the season average price, but on an annual basis November prices ranged between 32.4 percent over the 1997/98 average to 13.5 percent under the 1995/96 average.

SOYBEAN MEAL/CORN PRICE RATIO In November, the U.S. 48-percent soybean meal/corn price ratio at 2.51:1.0 was 7 percent below a year earlier, but 12 percent above the current season average forecast.

PALM OIL PRICES Because of the 14 percent drop in Malaysia's Nov. 1, 2001 palm oil stocks from a year earlier, f.o.b. prices for refined-bleached-deodorized (RBD) palm oil increased 30 percent from a year ago. In Nov. 2001, Malaysian palm olein was priced 9 percent less than Decatur soybean oil, compared with 16 percent under a year earlier, reflecting the decline in stocks in Malaysia. As palm oil output slows, stocks will be worked off and palm oil prices should recover.

SOYBEAN OIL PRICES November U.S. soybean oil prices gained 6 percent from October and 14 percent above a year earlier. In the past decade, the November soybean oil price averaged 1.6 percent over its annual average and ranged between 7 percent under in 1993/94 and 27 percent over in 1998/99. The November 2001 oil price is 1.7 percent below the midpoint of the current USDA soybean oil price forecast. However, the large deficit abroad should boost U.S. exports, trim U.S. vegetable oil stocks and boost prices.

U.S. OIL/MEAL PRICE RATIO In November, the U.S. soybean oil/48 percent meal price ratio gained 5 percent from the previous month to 1.83:1.0. Although the recent level is 23 percent above a year earlier, it is still 22 percent below its 10-year average for that month. During the last decade, this ratio has ranged between 1.34:1 in Dec. 2000 and 3.87:1 in Dec. 1994. Our current forecasts imply that the oil/meal price ratio will continue to recover in coming months. Beyond this season, at some point when palm oil output expansion accelerates and higher vegetable oil prices boost sunflower and rapeseed planting, the oil/meal price ratio will reverse as vegetable oil stocks build.

U.S. FEED PROFITABILITY The November index of feed profitability was down 5 percent from the previous month and 5 percent under a year earlier, reflecting weakness hog and broiler prices. In November, the hog/corn ratio dropped to 18.9/1.0, or 14 percent less than the previous month, but 20 percent under its 12-month average. If the profit outlook continues less favorable, it may slow livestock output expansion in next year. With most broiler production under contract, the November 2001 broiler/ feed price ratio was 7 percent above a year earlier, but was 5 percent below the previous month. In 2002, U.S. production of broilers and pork are both expected to register some increase. If current forecasts are on track, U.S. meat production and meal usage will register growth in 2001/02.

CRUSH MARGINS Despite a dip in November, U.S. soybean cash crush margins were significantly above those in recent years. The improvement reflects prospects for increased soybean stocks and depressed soybean prices in the face growing demand and improving oil prices. In November, the U.S. soybean crush margin was 34 percent below a year earlier and 21 percent above its 12-month average. In contrast, November farm prices for soybeans were 8 percent below a year earlier and 7 percent below its 12-month average. Thus, crush margins now account for a larger share of soybean product value.

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