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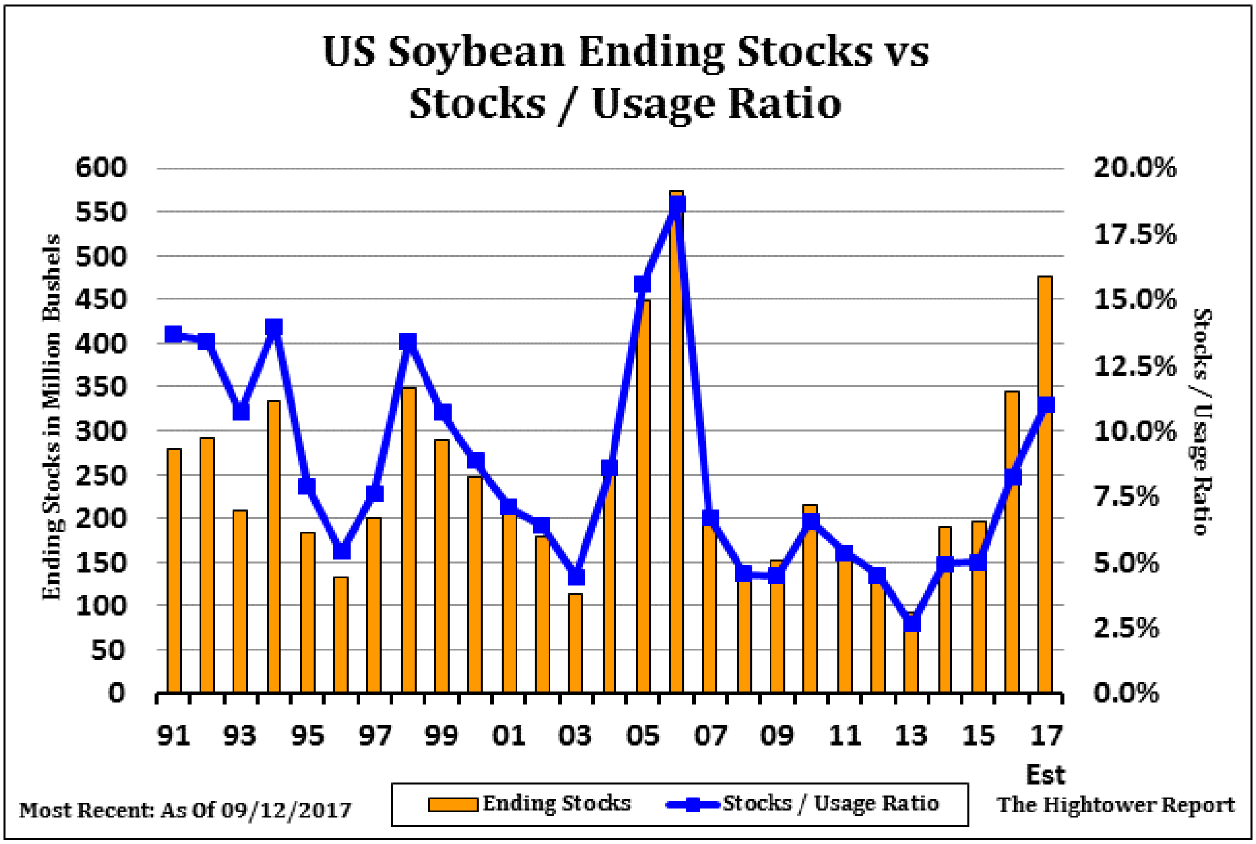
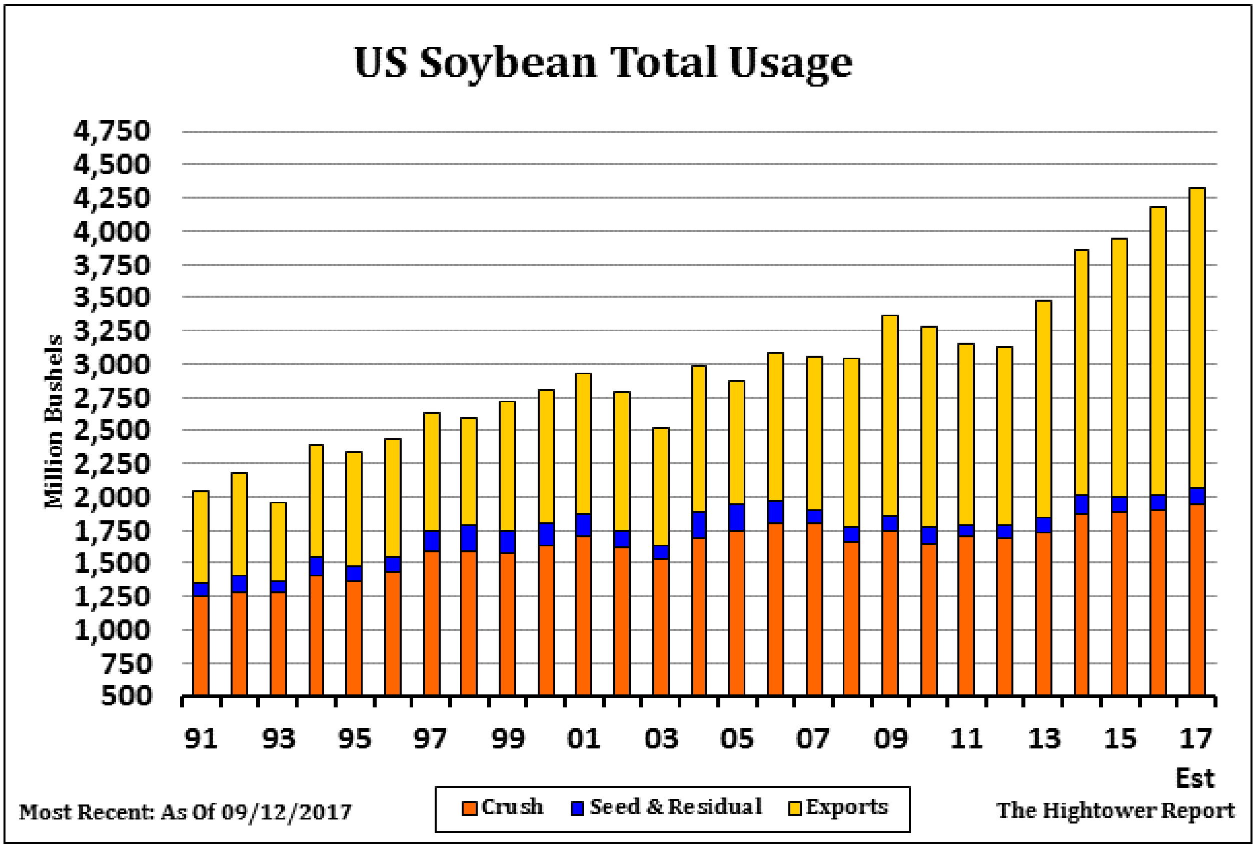
ARE THE LOWS FOR SOYBEAN PRICES IN PLACE?

By Dennis Smith October 12, 2017

The September supply/demand report projected soybean ending stocks at 475 million bushels, which compares with current ending stocks of 345 million. So the record large acreage combined with decent, but not record high yield will net the U.S. producer a record large soybean crop. World stocks, which will be updated on the same day this report was submitted for publication was last projected at 97.5 MMT compared to year's estimate of world ending stocks of 96.0.



The positive part of the soybean story, facing the U.S. producer in times of record high production is the fact that demand is also excellent. Boiling demand down further, let's just say that Chinese demand is record large. The improving growth of the global economy is good news for soybean producers. Increased global economic growth translates into higher job growth, an expanding middle class, and in the broadest concept, increased meat consumption. Rising meat consumption translates into rising feed needs and higher meal consumption, etc. You can see where I'm going with this discussion.



U.S. competition in the soybean market comes from South America. My main concern with this competition is that Brazilian producers are a lower cost producer of soybeans than is the U.S. Midwestern producer. This means in times of excessive supply, such as now, producers in Brazil can continue to expand acreage and production, yet still earning profits while Midwestern producers are losing money. Barring drought, it's easy to see this is not going to end well. Part of the problem is the U.S. farm bill contains no provisions for reducing acreage. This forces U.S. producers to compete on other issues such as quality, infrastructure and reliability. U.S. producers have an edge here, thankfully.

Solving this problem, in the absence of major drought in either South America or in the U.S. is going to be difficult. The profitable survival of the Midwestern farmer, almost solely dependent upon drought in either the U.S. or South America is not a pleasant prospect.

So, returning back to the question in the title of today's article; are the lows in soybean prices in place? Assuming the USDA is going to provide confirmation in the October and November supply/demand reports of slightly higher yield, possibly higher total harvested acreage and thus a larger "record" large crop, in tandem with the outlook that it will begin raining in Northern Brazil and they'll get their crop planted, I'm anticipating a serious test of the August lows. If penetrated, however, we're not expecting substantial downside follow through. Thus, $9.20 to $9.30 should prove to be major support.

Call or email me with any questions about soybean futures markets. I can be reached at 312.242.7905 and dennis.smith@archerfinancials.com.

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