

## Prices and Economic Indicators

---

### MAY 1999 SUMMARY

In May, **U.S. prices** for soybeans and products plus corn all registered counter seasonal declines from the previous month. The 3.7 percent drop in May soybean prices from the previous month was the largest for that month since 1975. Except coconut oil, most oilseed and product prices weakened in May. The trade weighted index of vegetable oil prices dropped 4 percent in May to 35 percent below a year earlier. The May 1999 index of prices received for all U.S. farm products was 3 percent above the previous month reflecting some recovery in livestock, but 1 percent below a year earlier. Annual percentage changes in May 1999 U.S. prices for selected commodities were: coconut oil +19; combined livestock and products -3; and corn -14; soybean meal -17; soybeans -29; palm oil -34; and soybean oil -37. In May, prices for most selected commodities were below their respective 12-month trailing averages, except coconut oil.

During May, most **key indicators** were below their respective 12-month averages except the hog/corn price ratio and U.S. soybean oil stocks. An above-average increase in foreign oilseed supplies pressured U.S. soybean disappearance (crush plus exports) during the 12-months ending May 1999 down 5 percent from a year earlier. Below-normal expansion in foreign meal usage is also curbing U.S. oilseed and product exports and unit values. U.S. oilseed supplies account for 29 percent of 1998/99 global supplies, unchanged from its 10-year average. However, U.S. oilseed ending stock use coverage is estimated to exceed its 10-year average this season by 36 percent. In contrast, oilseed stock use coverage outside the U.S. is expected to be 10 percent below its 10-year average.

### DEVELOPMENTS WITH POSSIBLE PRICE IMPACT

**Foreign oilseed supplies** are up 4.1 percent following last year's 6.2 percent increase, or sharply above its 10-year annual average increase of 3.6 percent. The increase reflects: [a] larger Oct. 1, 1998 soybean stocks in South America; [b] expanded rapeseed output in Canada, Australia, India, the EU-15, and Poland; [c] expansion in Argentine sunflowers; [d] more peanuts in China; and [e] more soybeans and cottonseed in India.

**U.S. soybean exports** during Sept-May using Census data through March plus weekly inspections for export through May approximated 18.3 million metric tons. This was 3.2 million tons less than a year earlier, reflecting the 8.8 million-ton gain in foreign oilseed supplies.

**The U.S. soybean crush** using Sep-Apr Census data plus adjusted National Oilseed Processors Association data for May was down 0.7 million tons from the 33.8 million tons for the same period a year ago. The decline reflected lower margins and reduced demand for meal and oil exports in the face of increased South American oilseed availabilities during Oct-Mar 1998/99. In April 1999, U.S. soybean crush capacity utilization was 75.8 percent, compared with 79.5 percent a year earlier and 73.6 percent in April 1997 as capacity continues to expand.

**U.S. 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 6.3 million tons, reflecting reduced export demand for soybeans and meal. This would boost U.S. soybean stocks to 62 days of use, or 40 percent above its 10-year average. Reduced movements to the EU-15, South America and Asia accounted for 53 percent, 33 percent, and 13 percent of the cut in U.S. soybean exports this season through March. U.S. domestic demand for meal continues to grow at an above-average pace, reflecting lower prices and livestock product output expansion. However, U.S. soybean meal exports through March were down 33 percent, reflecting increased foreign supplies of soybeans, rapeseed and sunflowers and slowed demand growth in some countries. Reduced movements to the EU-15, Asia and South America accounted for 60 percent, 14 percent, and 7 percent of the cut in this season's U.S. soybean meal exports through March. Despite lower prices, lagging incomes are curbing foreign meal usage expansion to only 2.3 percent, or much less than its 10-year annual average growth of 3.3 percent.

**U.S. 1999 soybean plantings** as of June 6, were 84 percent complete, compared with a 71 percent average for that date. Crop conditions for soybeans as of June 6, were favorable with 70 percent reported to be in good to excellent condition. Variations in planting dates explained 43 percent of the U.S. soybean yield trend deviations since 1980. In 1999, earlier than normal soybean plantings could put yields above the 1980-98 trend, if rainfall is adequate. Despite much lower soybean prices in relation to corn and cotton, the favorable soybean/corn loan ratio boosted 1999 U.S. soybean plantings 2 percent above last year to record large 29.1 million hectares.

**U.S. 1999 cotton plantings** as of June 6, were 92 percent complete, exceeding its average of 87 percent for that date. On that date, 52 percent of the cotton area was in good to excellent condition compared with 49 percent last year. Last year only 80 percent of the cotton plantings were harvested, or sharply below the long term average of 92 percent. A normal yield could reverse last year's 1.3 million ton shortfall.

**Competing exports of soybeans and meal**, as meal, from Brazil and Argentina during Oct-Mar 1998/99 totaled 10.8 million tons, or 5.1 million tons more than the same months a year earlier. In the same period, U.S. soybean meal equivalent exports dropped to 15.7 million tons, or 4.6 million tons less than the same months a year earlier. Despite sharply lower prices, combined soybean meal equivalent exports from the U.S., Brazil, and Argentina during Oct-Mar 1998/99 gained only 1.9 percent from a year earlier, reflecting slowing demand growth in some Asian countries.

**China's** 1998/99 oilseed output is now estimated at 43.0 million tons, only slightly below last year and slightly above its recent 4-year average. China's annual growth in meal and oil use during the last four years averaged 2.8 and 0.8 million tons, respectively. This year, China's oil demand growth is estimated at only 0.6 million tons and meal usage is now indicated to drop by 1.1 million tons. That would mean China's net imports of oils could decline slightly to 3.2 million tons while meal imports may drop 1.4 million tons to 3.1 million tons. In contrast, China's net imports of oilseeds will be record large at nearly 5 million tons, or 2 million more than last year. Two-thirds of China's oilseed imports will be soybeans, but four-fifths of this

year's import growth will be rapeseed from Canada and Australia.

**U.S. soybean oil stocks** on April 30, 1999 totaled 1.646 billion pounds, compared with 1.858 billion pounds a year earlier. This represents 34 days of total U.S. soybean oil use, compared with 37 days a year ago. However, by Sept. 30, U.S. soybean oil stocks will drop to 1.3 billion pounds, or only 27 days of total use.

**Malaysian palm oil** stocks on May 1, 1999, at 0.81 million tons were 29 percent more than a year earlier, despite a 2.7 percent decline in output during the 12-months ending April 1999. April 1999 marked the eleventh consecutive month of decline in Malaysia's 12-month palm oil output. During the last 15 years, Malaysia's 12-month palm oil output registered four declines which lasted between 7 months and 12 months and averaging 10 months. Based on the lagged effects of improved rainfall, the current cyclical downswing in Malaysian palm oil output will soon reverse. During the last 15 years, the cyclical upswings in Malaysia's 12-month palm oil output have lasted between 29 and 38 months.

**U.S. coconut oil imports** during the 12-months ending March 1999, at 479,400 tons, were down 26 percent from the same months a year earlier and 2 percent below its 5-year average of domestic use. The reduction in imports reflects the fact that coconut oil prices have been at substantial premiums to other oils. U.S. stocks of coconut oil at the end of April, were 140,504 metric tons, or 3 percent less than a year ago. In March, the U.S. coconut oil import unit value was \$714 per ton, or 26 percent above last year. However, the lagged effects of improved rainfall will soon boost Philippine coconut oil output and allow U.S. coconut oil importers to rebuild stocks as prices dip in 1999/00.

**La Nina will curb the oil/meal price ratio** by boosting oil yields in South East Asia. The lagged effects of improved rainfall on oil palm and coconut trees in Malaysia, Indonesia and the Philippines will expand yields and output in coming months. This will boost exportable supplies of tropical oils and pinch import requirements for other vegetable oils. Lower price prospects for vegetable oils could also curb expansion in plantings of high oil-content oilseed crops.

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

<b>ENDING STOCKS IN DAYS BY REGION &amp; COMMODITY</b>	<b>97/98</b>	<b>98/99 MAY EST.</b>	<b>98/99 JUNE EST.</b>	<b>10-YR. AV.</b>	<b>JN 98/99 % DEV FM 10-YR. AV.</b>
<b>U.S. SOYBEANS</b>	<b>28</b>	<b>62</b>	<b>62</b>	<b>44</b>	<b>+40%</b>
<b>WORLD OILSEEDS</b>	<b>32</b>	<b>37</b>	<b>38</b>	<b>36</b>	<b>+4%</b>
<b>U.S. SOYBEAN OIL</b>	<b>28</b>	<b>27</b>	<b>27</b>	<b>43</b>	<b>-38%</b>
<b>WORLD VEG. OILS</b>	<b>34</b>	<b>32</b>	<b>32</b>	<b>39</b>	<b>-19%</b>

**Global 1998/99 oilseed supply-use:** Despite this month's cut in the world oilseed production estimate, global supplies are now estimated to exceed last month's estimate and push ending stocks even higher. A 1.0 million-ton upward revision in last year's Brazilian soybean output

estimate further boosted Brazil's Oct. 1, 1998 stocks. Combined soybean stocks in Brazil and Argentina on Oct. 1, 1998 are now estimated at 13.6 million tons, or 6.2 million more than a year earlier.

<b>World oilseed S/U (MMT)</b>	<b>FY-98 May est</b>	<b>FY-99 May est</b>	<b>An Ch May</b>	<b>FY-98 Jun est</b>	<b>FY-99 Jun est</b>	<b>An Ch Jun</b>	<b>FY-99 Mo Ch</b>
<b>Beg Stocks</b>	<b>17.12</b>	<b>23.98</b>	<b>6.87</b>	<b>17.12</b>	<b>24.55</b>	<b>7.43</b>	<b>0.57</b>
<b>Production</b>	<b>286.04</b>	<b>292.10</b>	<b>6.06</b>	<b>286.70</b>	<b>291.71</b>	<b>5.01</b>	<b>-0.39</b>
<b>Supply</b>	<b>303.15</b>	<b>316.08</b>	<b>12.93</b>	<b>303.82</b>	<b>316.26</b>	<b>12.45</b>	<b>0.18</b>
<b>Exports</b>	<b>53.78</b>	<b>54.13</b>	<b>0.35</b>	<b>53.66</b>	<b>53.85</b>	<b>0.19</b>	<b>-0.28</b>
<b>Crush</b>	<b>229.58</b>	<b>235.98</b>	<b>6.40</b>	<b>229.08</b>	<b>235.08</b>	<b>6.00</b>	<b>-0.91</b>
<b>Feed S &amp; W</b>	<b>49.59</b>	<b>51.11</b>	<b>1.52</b>	<b>50.19</b>	<b>51.63</b>	<b>1.44</b>	<b>0.52</b>
<b>End Stocks</b>	<b>23.98</b>	<b>28.99</b>	<b>5.01</b>	<b>24.55</b>	<b>29.55</b>	<b>5.01</b>	<b>0.56</b>

**Key shifts:** (1) Last year's 4 percent increase in global oilseed area with above-trend yields forced sharp recoveries in U.S. and global oilseed carry-in stocks; (2) Although 1998 U.S. oilseed area was about unchanged, larger carry-in stocks resulted in an above-average increase in 1998/99 U.S. oilseed supplies; (3) Foreign oilseed area registered an above-normal increase, but lower yields held 1998/99 output expansion below-normal; (4) Still, huge recovery in Oct. 1, 1998 South American soybean stocks forced an above-average increase in foreign oilseed supplies; (5) In 1998/99, despite a below-trend increase in global oilseed production, the huge increase in carry-in stocks resulted in an above-normal increase in global oilseed supplies; (6) The above-normal expansion in global supplies with below-normal growth in usage is boosting stocks and hurting prices; (7) Despite larger soybean supplies, U.S. exports dropped 23 percent during Oct-Feb 1998/99, reflecting the large Southern Hemisphere oilseed carry-in plus weak foreign demand; (8) However, in March, U.S. soybean exports rose 28 percent from the same month a year earlier, reflecting lower prices and slowing movements from Brazil; (9) In coming months, we expect significant recovery in U.S. soybean exports as remaining Southern Hemisphere oilseed supplies begin to shrink from the above-average levels of a year earlier; (10) In contrast, U.S. exports of most meals and oils may continue to lag as our competitors utilize their abundant crushing capacity; (11) Most oilseed and product prices will continue at depressed levels, reflecting the sharp buildup in stocks which will likely continue next year.

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

<b>PRICES AND PRICE RATIOS</b>	<b>10-YR MAY HI</b>	<b>10-YR MAY LO</b>	<b>10-YR MAY AV</b>	<b>MAY 1999</b>
<b>SOYBEANS, CASH (\$/BU)</b>	<b>8.40</b>	<b>5.56</b>	<b>6.52</b>	<b>4.46</b>
<b>SOYBEANS, JUL. FU (\$/BU)</b>	<b>8.67</b>	<b>5.79</b>	<b>6.72</b>	<b>4.71</b>
<b>SOYBEANS, NOV. FU (\$/BU)</b>	<b>7.76</b>	<b>5.92</b>	<b>6.47</b>	<b>4.84</b>
<b>CORN, CASH (\$/BU)</b>	<b>4.14</b>	<b>2.14</b>	<b>2.64</b>	<b>2.01</b>
<b>SOYBEAN/CORN PRICE RATIO</b>	<b>3.12</b>	<b>1.86</b>	<b>2.51</b>	<b>2.22</b>
<b>48% SOYBEAN MEAL (\$/ST)</b>	<b>306</b>	<b>159</b>	<b>206</b>	<b>133</b>
<b>SOYBEAN OIL (CENTS/LB)</b>	<b>29.1</b>	<b>20.2</b>	<b>24.2</b>	<b>17.8</b>
<b>SOY MEAL/CORN PRICE RATIO</b>	<b>3.19</b>	<b>1.65</b>	<b>2.21</b>	<b>1.86</b>
<b>SOY OIL/MEAL PRICE RATIO</b>	<b>3.54</b>	<b>1.54</b>	<b>2.45</b>	<b>2.68</b>

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

<b>PRICES &amp; RATIOS</b>	<b>MAY 99 % DEV. FM MAY 10-YR AV</b>	<b>MAY 10-YR. AV. % DEV. FROM 10-YR OCT-SEP AV.</b>	<b>MAY 99 % DEV. FM CURRENT FORECAST</b>	<b>MAY 99 CHANGE FROM APR 99</b>
<b>SOYBEANS</b>	<b>-31.6%</b>	<b>+4.5%</b>	<b>-10.8%</b>	<b>-3.7%</b>
<b>CORN</b>	<b>-23.9%</b>	<b>+6.0%</b>	<b>+0.5%</b>	<b>-2.0%</b>
<b>SOYBEAN/CORN</b>	<b>-11.6%</b>	<b>-0.4%</b>	<b>-11.2%</b>	<b>-1.8%</b>
<b>48% SOY MEAL</b>	<b>-35.2%</b>	<b>+0.3%</b>	<b>-1.3%</b>	<b>-1.0%</b>
<b>SOYBEAN OIL</b>	<b>-26.3%</b>	<b>+4.0%</b>	<b>-0.8%</b>	<b>-5.0%</b>
<b>SOY MEAL/CORN</b>	<b>-15.8%</b>	<b>-3.9%</b>	<b>+2.2%</b>	<b>+1.1%</b>
<b>SOY OIL/MEAL</b>	<b>-24.1%</b>	<b>+4.7%</b>	<b>+3.2%</b>	<b>+2.5%</b>

In May 1999, prices for soybeans, corn and soybean products made counter seasonal declines. The soybean/corn price ratio and the soybean oil/meal also registered counter seasonal declines in May, while the soybean meal/corn registered a below-normal increase. All selected prices and ratios were significantly below their 10-year average. In the past, counter seasonal declines in May have preceded further declines in the following year.

## **SUPPLY-DEMAND PROSPECTS FOR Y2K**

**U.S. 1999 soybean plantings set a record** reflecting the favorable loan price ratio relative to corn. Depressed wheat prices and relatively high vegetable oil prices encouraged expansion of oilseed plantings (soybeans, canola and sunflowers) in traditional wheat growing areas.

**U.S. soybean supply prospects are favorable** reflecting early plantings and abundant moisture which should benefit yields. With normal weather, this year's 4.7 percent increase in area will result in record large U.S. soybean output. Record output plus the large increase in carry-in stocks will push ending stocks to about 80 days of use, or 81 percent above its 10-year average. Even a drought would likely not prevent further recovery in stocks and lower prices next year.

**U.S. export sales of 1999 crop soybeans** as of the first week in June were only 0.2 million tons, compared with 0.4 million tons a year ago and 2.5 million tons, two years ago. Lagging new crop export sales may reflect the fact that new crop soybean futures in May were \$0.49 per bushel over the midpoint of the current new crop price forecast range. Also, South American exporters have already moved and/or committed above-normal shares of their exportable supplies. Thus, U.S. soybean exports could register above-normal seasonal strength in the second half of 1998/99. At lower prices, U.S. exports are expected to recover in Y2K and beyond.

**U.S. feed profitability indexes are recovering** with declining feed ingredient prices and this will spur meal demand, except in some countries where weaknesses in local currencies are shrinking usage. Next season, any acceleration in meal demand, with the recovery in South East Asian vegetable oil output will likely kick vegetable oil prices to lower levels as stocks rebuild.

**U.S. soybean ending stock use coverage in Y2K** will fall short of that in 1986 and foreign oilseed stock use coverage could decline. Never-the-less, both U.S. and global oilseed stock use coverage are expected to expand next year and this will drive most oilseed prices lower.

**Global vegetable oil stock use coverage will recover in Y2K.** This is because: (1) meal usage is likely to accelerate and result in some recovery in seed oil stocks; (2) more importantly, the lagged effects of improved rainfall in the Malaysia, Indonesia and the Philippines with expanding bearing tree numbers will boost supplies of tropical oils following a period of below-normal supplies and relatively high prices; (3) India's vegetable oil imports will likely slow next year following this season's 1.0-million ton increase; and (4) China the world's leading vegetable oil importer has been taking a much larger share of its needs as seeds, rather than products. Thus, global pipeline stocks of vegetable oil which have been at below-average levels in recent years could recover to above-average levels next year and beyond.

**Canadian 1999 oilseed area** expansion will slow sharply from that in recent years, reflecting a less favorable rapeseed price in relation to wheat. Below-normal rapeseed carry-in stocks and below-normal growth in area will curb 1999/00 oilseed supplies and this could stem the growth in Canadian exports. Furthermore, dry weather could result in below-normal yields.

**India's 1999 oilseed plantings** may dip slightly, but output will be heavily dependant upon a

timely monsoon. Without widespread rains, soil moisture may be insufficient for timely oilseed plantings and could result in below-normal yields. In 1998/99, India produced 26.5 million tons of oilseeds, or 7.9 percent more than last year. The 0.65 million-ton increase in soybean output should boost India's meal exports, but oil imports are record large 2.7 million tons, reflecting growing incomes and domestic use.

**In Y2K, meal demand will drive the crush and with recovery in tree crop oil output, global oil stock use coverage could increase to the highest level since 1996.** U.S. indigenous oilseed supplies could exceed 102 million tons, or 11 million more than in 1998/99. Even if foreign oilseed production stagnates at the 1998/99 volume of 207 MMT, global oilseed supplies in Y2K would register an above-average increase of about 10 MMT. Thus, world oilseed supplies in Y2K would approximate 326 MMT, or 3.1 percent above a year earlier. That would be the third consecutive year in which global oilseed supply expansion exceeded its 10-year annual average increase of 2.7 percent.

**If global oilseed usage in Y2K achieves a normal increase of 3.2 percent, global usage would grow about 9 MMT to 296 MMT.** That could boost global oilseed ending stocks nearly 2 percent to about 30 MMT, or 37 days of use coverage. However, U.S. soybean ending stocks could bulge to 80 days of use, the largest since 1986.

**With this scenario, most oilseed prices in Y2K will drop to their lowest levels since the early 1970's.**

**What would it take to brighten the price outlook?** The possibilities are many, but the odds are slim: [a] Asian countries recover from their economic slump; [b] Real income growth accelerates in other major market countries; [c] Foreign oilseed producers significantly switch oilseed plantings to more profitable competing crops; or even less likely that; [d] Widespread adverse weather and/or plant pestilence cuts oilseed yields in a number of major producing countries.

**Beyond Y2K, unless unforeseen changes occur, the normal oilseed inventory cycle will be prolonged and stocks could continue to build.** This could result in even lower prices for most oilseeds and products in the new millennium. Prolonged periods of depressed price could have a widespread ripple effects including: reduced factor input purchases by U.S. and foreign producers; increased bankruptcies; lower land values; slowing investment in R&D; and some deflationary impact on tertiary industries.

---

For further information contact Alan Holz Ph (202) 720-0143; FX (202) 720-7670