

Policy Pennings by Dr. Daryll E. Ray

Soybeans: A decade of remarkable growth

Beginning in the fall of 2006, soybean prices have seen a marked improvement from the sub-\$5.00 levels that farmers had to contend with in the 1998-2001 period. Currently soybeans are in the \$9.00/bushel range, below the \$15.00-plus-peak in mid-2008, but still at comfortable levels for producers in the US and around the world.

As we look to the coming year, let's remind ourselves how we arrived at this point. The changes in soybean prices over the last decade can be attributed to a number of factors, prime of which is the appearance of China as a major soybean importer.

Since 1999, the imports of soybeans by China has quadrupled to the point where it accounts for 53 percent of the world imports of soybeans. Soybean exports to the rest of the world have remained relatively flat since 1999. Without China's steadily increasing imports of soybeans, soybean producers in the US, Brazil, and Argentina would be facing serious problems.

Brazil and Argentina have captured 70 percent of the increase in total world soybean exports since 1999.

A second factor affecting the soybean price is the rapid development of the corn based ethanol industry in the US. The sharp increase in the demand for corn caused US farmers to replace significant soybean acres with corn acres reducing soybean production and increasing prices.

This upward movement in prices was accelerated by a large inflow of money into long-only commodity index funds so that as oil prices rose, the price of agricultural commodities rose as well without regard to market fundamentals. When the derivative crisis hit in mid-2008 and the US economy began to contract, oil prices fell hard and agricultural commodity prices fell as well.

The third factor influencing soybean prices has been the rapid increase in soybean production in both Argentina and Brazil compared to the US. Soybean

production in the US has increased by 25 percent since 1999 while the increase for Argentina has been 150 percent. For Brazil the increase in production has been 82 percent.

Weather is a fourth factor, with production problems either pushing up low prices (2003-2004) or supporting weak to falling prices (2009).

Weakness in the transportation infrastructure in Brazil has been a factor in tempering the rate of increase in its soybean production. On the other hand, improvements in highway and railroad infrastructure would significantly reduce the cost of getting soybeans produced in the interior of Brazil to distant ports, improving Brazilian competitiveness in world soybean markets.

That brings us to a recent report we read indicating that Brazil hopes to complete a rail link from the major soybean producing area to the port at Santarem on the Amazon River by July 2010. In addition, a major highway is being built from Cuiaba in the heart of the soybean producing area to a river port on the Tapajos River which flows into the Amazon at Santarem where ocean going vessels can be loaded. Certainly these developments will have an impact on the rate of increase in soybean production in Brazil over the next decade.

To some extent the wild card in soybean trade and profitability in the next decade is China. Next week we will take a look at soybean production and demand in China.

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