



Issue Brief

More Soybeans in 2014?

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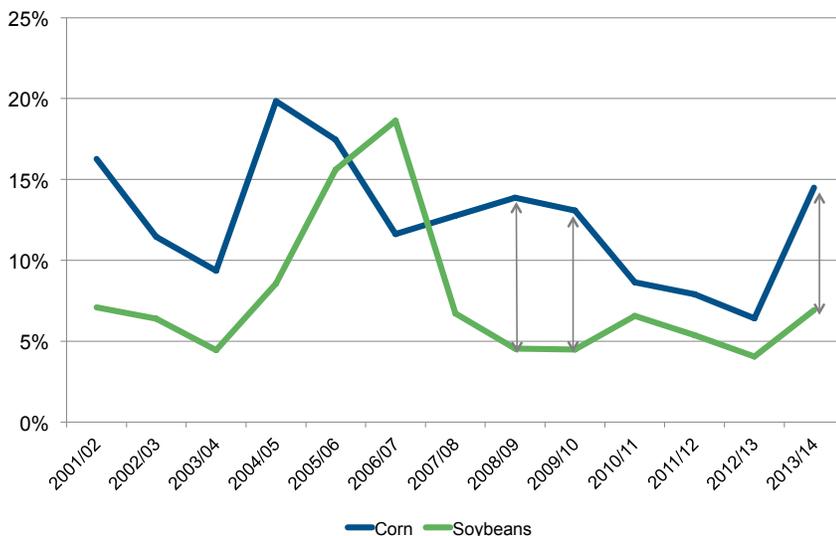
Soybean Prices Gain Versus Corn

Soybean prices for the 2013/14 season have been rising against corn at a staggering pace since early summer. The late developing crop and intensifying dryness in key growing areas have triggered a multi-month rally in soybean markets while corn has remained somewhat of a laggard. Despite the concern that yields for both crops will be less than expected a few months ago, the market is indicating that the corn crop will be large enough to avoid rationing in the coming year. The market, however, is not sending the same signal for soybeans. In fact, the soybean-to-corn price ratio for the new crop has risen to a level surpassed only once before, in 2009/10.

These market signals make sense both from a historical and fundamental perspective. Over the past three years, both corn and soybeans have been scarce, and thus the prices for both commodities moved largely in tandem. The new crop year that we've just entered is shaping up differently, though, and may more closely reflect the 2008 and 2009 crop years, when the supply situations for corn and soybeans diverged significantly. (See Figure 1.)

The rise in price for November soybeans is the market's way of indicating strong demand for soybeans as soon as they're harvested this fall. The surge in the soybean-corn price ratio is also fueling discussion that soybean plantings will gain in 2014 at the expense of corn acres. While the reasoning is sound for that argument, the 2014 corn and soybean markets haven't yet provided much incentive for such a shift. (See Figure 2.)

Figure 1. Corn and Soybean Stocks Relative to Use



Source: USDA-WAOB

South America's Seasonal Impact

While the price ratios for the 2013 and 2014 crops were the same in May, the ratio for this year's crop has risen sharply while the ratio for 2014 has risen only slightly. The divergence of the two ratios is due to the immediate risk associated with the development of the 2013 crop, and the potential that it may need to be rationed. Conversely, the need for soybeans in 2014 will only be known after this year's U.S. harvest is better understood, and the size of the yet to be planted South American crop can be accurately estimated. And South America's influence on soybean