Soybeans Come Full Circle

In my September column, I voiced my concerns about China, the 800-lb. gorilla, and its ability to sustain its recent economic growth and year-over-year record soybean imports. Already, there appear to be warning signs that all might not be well in China. A slowdown in demand could derail the idea that its unparalleled growth spurt has no bounds.

China imports nearly 60% of all the exportable soybeans in the world. When it comes to corn, the country is nearly self-sufficient, producing 191 million metric tons (mmt) this year, up from 152.3 mmt in 2007/08. It stands to reason that soybeans would be far more affected compared with corn on any hard landing of the Chinese economy.

In the past decade, China's growth rate has ranged from 8.3% to 14.25%, primarily due to infrastructure spending, which might not be sustainable. A 4% to 6% growth rate would be welcomed in the U.S. and Europe, but that might not bode well for China and its demand for commodities, soybeans in particular, at a time when global supply has been given an economic incentive to expand. We have been led to believe that a reduction in calorie intake can't happen, even after a decade of increases.

Soybean imports by China so far this marketing year are estimated to be 2 mmt less than last year, the first year-to-year decrease in seven years. U.S. exports to all other countries are 11 mmt behind last year, thanks in part to a near similar increase in global stocks on Sept. 1 versus last year.

Soybean prices held high for approximately a year (see chart), putting stress on demand while providing a production incentive. The nearly $3.75 drop in prices from Sept. 1 to this past month justifies previous concerns.

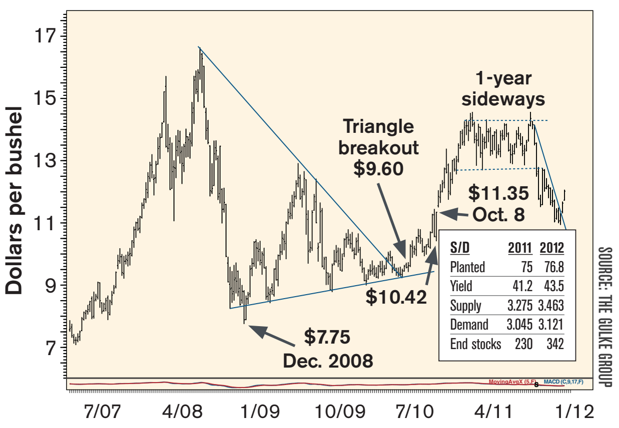
Technical Speak. After trading in a $2 range for nearly nine months, soybeans failed to break out to the upside in the first week of September, in part aided by a top being posted in the Brazilian real, making the U.S. uncompetitive and taking U.S. soybeans on a downward spiral that might not be done yet.

Notice in the chart that soybeans lost a full year's price appreciation, going all the way back to filling the weekly gap at $11.35 in early October 2010, which started the bull run in soybeans. A close below that point would suggest the South American crop is in the bag and increases in U.S. soybean acres will not be necessary (see the supply and demand estimates in the chart insert).

Should global economics make U.S. currency more palatable or deleveraging continues, there would be more price pressure on soybeans, giving us a dose of reality similar to 2008. While prices already reflect a lot of negative uncertainty, price deflation isn't over by a long shot—which means producers need to be diligent and flexible.

The weather in North and South America is still a wild card. However, the expected 7-million-acre increase in planted acres of all crops in the U.S. and perhaps 10 million or more acres in Canada means trend-line yields might not be necessary. While 2011 inventory should have been gone long ago, there is still price risk in 2012 crop. ■

Historical Perspective on Weekly Soybeans



> *Soybean prices have come full circle, losing a full year's gain. The timing and price seemed right for a South American weather-induced rally. A close below the December low means that supply can sufficiently meet perceived demand.*

Jerry Gulke farms in Illinois and North Dakota and is president of Gulke Group Inc., a market advisory firm with offices at the Chicago Board of Trade. Gulke Group recently published *Technical Analysis: Fundamentally Easy.* For information, send an e-mail to *info@gulkegroup.com* or call (815) 520-4227.