

TABLE I
Monthly Soybean Crush
(million bushels)

| Marketing Year | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | April | May | June | July | Aug. | Total |
|----------------|-------|------|------|------|------|------|------|-------|------|------|------|------|-------|
| 1961/62 | 23.0 | 36.5 | 38.5 | 38.7 | 41.0 | 36.3 | 38.8 | 36.5 | 38.6 | 34.3 | 34.8 | 34.4 | 431.4 |
| 1962/63 | 30.4 | 39.9 | 42.8 | 42.8 | 42.8 | 38.8 | 41.9 | 36.0 | 41.1 | 39.0 | 38.2 | 39.0 | 472.7 |
| 1963/64 | 32.2 | 40.5 | 39.4 | 39.2 | 36.0 | 34.6 | 33.8 | 35.3 | 36.3 | 35.0 | 37.3 | 37.2 | 436.8 |
| 1964/65 | 36.3 | 44.3 | 43.7 | 43.2 | 43.0 | 37.8 | 40.9 | 38.2 | 40.9 | 37.1 | 36.6 | 37.1 | 479.0 |
| 1965/66 | 30.4 | 44.1 | 48.2 | 48.9 | 50.2 | 45.1 | 49.4 | 43.9 | 50.1 | 44.7 | 42.0 | 40.4 | 537.5 |
| 1966/67 | 35.6 | 45.2 | 49.6 | 48.8 | 50.1 | | | | | | | | |

• *Fats and Oils Reports*

Past is Prologue

Another year is half gone—soybean marketing year, that is—or, put another way, we still have half the year to go. One may conclude that the past six months should provide valuable indication of events during the next six months, or it might be said that the next six months hold so many unknowns that it is too treacherous to project into the future. History strongly favors the first assumption. Using the past five years as a guide it is quite valid to make second six-months' projections based on performance in the first six. In the soybean industry history does repeat itself with remarkable regularity.

Especially is this true in the rate of crush. Soybean crushers, like many segments of industry, follow a similar pattern from year to year with only minor deviation. They buy beans to the extent possible prior to, during and after harvest as long as the cash basis is favorable for they know that later in the year the cash-price-to-futures-price relationship will narrow. Usually they stop this seasonal buying only when available storage is filled. Sometimes they stop when storage is not filled due to price action: the cash basis narrows because farmers are reluctant sellers, forcing cash prices up faster than futures in a rising market, or futures prices drop faster than cash in a declining market. By means of this type of price action, the pattern for the entire year is likely to be established. Price is the governor in a free, or relatively free, market which rations supply and regulates demand. And this is most effectively accomplished early in the year when the actual supply comes clearly into focus. From this point on the crushing pattern tends to hold rather constant, with some deviation to accommodate improving or worsening crushing profit margins. At least it has done so in the past five years encompassed in this study, and there are as yet no signs of significant deviation this year.

For any given month the crush may be more or less than for the same month last year while the following month may show just the opposite relationship (see Table I). For this reason, caution is advised lest one conclude that the annual trend is changed just because one month's crush seems to indicate a changing pattern. Price action, either in beans, products, or competitive items, has an uncanny way of restoring the necessary equilibrium.

In order to more readily ascertain the true trend of crush it is necessary to observe the cumulative totals through the progression of months in each marketing year. This technique tends to equalize the month-to-month ups and downs.

It takes four to six months for the trend to become firmly established. During this time crushers are using up the beans purchased around harvest time at a more favorable cash basis than is likely to prevail at any other time. Also during this time the users of oil and meal are replenishing stocks to the extent possible after having let them reach

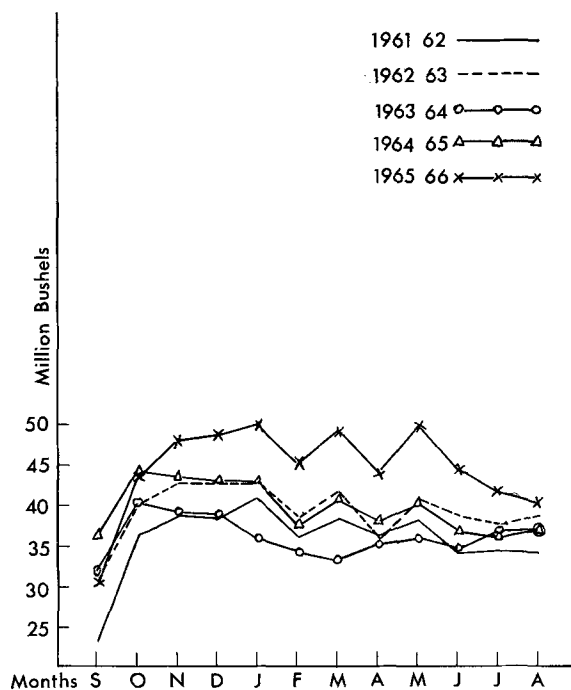


Fig. 1

near depletion levels prior to harvest. And, winter creates heavy livestock feeding demand for meal. By the time February is over, six months of the marketing year have elapsed and the trend is more clearly in view. Users of oil and meal are able to project their needs for the remainder of the year and start making forward purchases accordingly. Farmers who have stored beans begin to sell or book forward sales so as to turn their attention to the busy spring-time jobs of plowing and planting. Earlier projections of crushing demand may need to be adjusted somewhat, but by the time the year is half over the crushing industry has a good idea about how much will have to be crushed during the last six months and proceeds accordingly.

How can the market analyst ascertain the current year's crushing demand? One of the best estimating tools appears to be the monthly cumulative soybean crush expressed as a percentage of the total as shown in Table II. By using the past five years as a guide it is possible to project this year's total crush within a range. During the period of September through December there is a 3% variability range. But by the time February crush figures are known the range has narrowed to only 2%. The repetition of this pattern is so reliable that charting of five years becomes difficult due to overlapping lines, unless an unusually large scale is used.

(Continued on page 184A)

TABLE II
Monthly Cumulative Soybean Crush
Expressed as Percentage of Total

| Marketing Year | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar. | April | May | June | July | Aug. | Total |
|----------------|---------|------|------|------|------|------|------|-------|------|------|------|-------|-----------|
| | Percent | | | | | | | | | | | | (myn bu.) |
| 1961/62 | 5.3 | 13.8 | 22.7 | 31.7 | 41.2 | 49.6 | 58.6 | 67.1 | 76.0 | 84.0 | 92.1 | 100.0 | 431.4 |
| 1962/63 | 6.4 | 14.8 | 23.9 | 33.0 | 42.1 | 50.3 | 59.2 | 66.8 | 75.5 | 83.8 | 91.9 | 100.0 | 472.7 |
| 1963/64 | 7.4 | 16.7 | 25.7 | 34.7 | 42.9 | 50.8 | 58.5 | 66.6 | 74.9 | 82.9 | 91.4 | 100.0 | 436.8 |
| 1964/65 | 7.6 | 16.8 | 25.9 | 34.9 | 43.9 | 51.8 | 60.3 | 68.3 | 76.8 | 84.5 | 92.1 | 100.0 | 479.0 |
| 1965/66 | 5.7 | 13.9 | 22.9 | 32.0 | 41.3 | 49.7 | 58.9 | 67.1 | 76.4 | 84.7 | 92.5 | 100.0 | 537.5 |

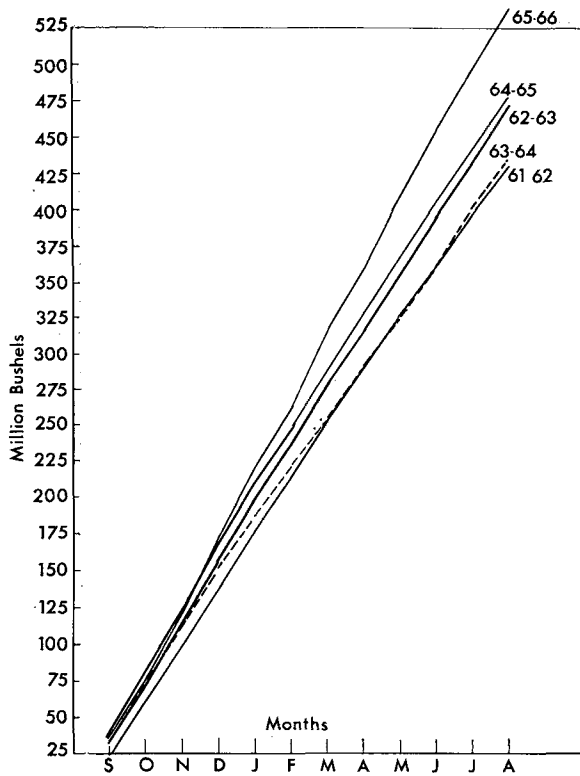


Fig. 2

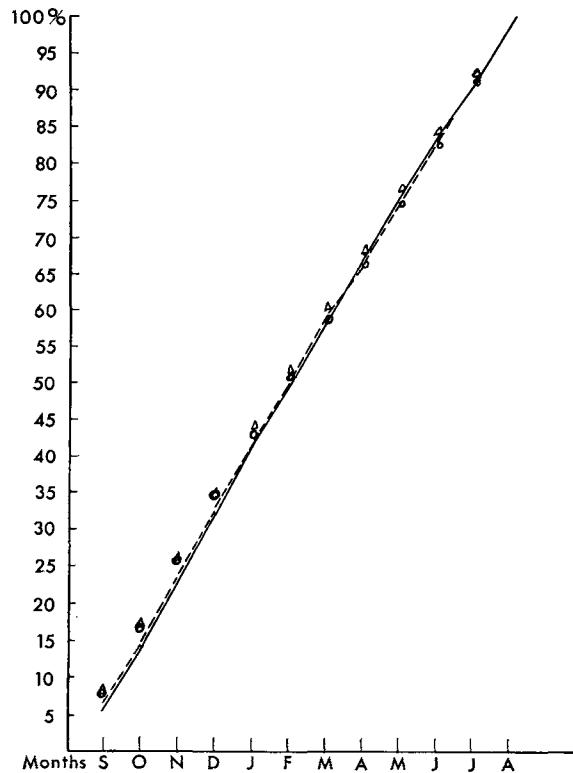


Fig. 3

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As of the date of this writing, crush figures have been reported through January and the February crush is estimated at between 43 and 44 million bushels. We shall use 43.3. Now then, referring to Table II the five-year range of cumulative percentage of crush is 49.6% to 51.8%. This indicates that the total crush for this year will be from 526 to 550 myn bushels. Such a range is obviously so wide as to have considerable market impact,

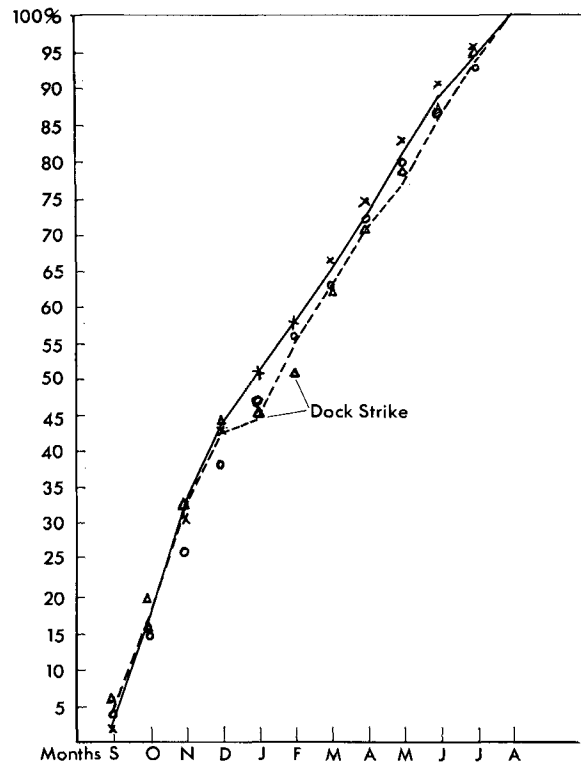


Fig. 4

especially on the low side, since government forecasts of crush started out at 585 and have lately been scaled down only modestly to 575 million bushels. It therefore remains for the market analyst to evaluate conditions and pick a likely figure within the 526 to 550 range. In view of the futures market relationship of beans to oil and meal it appears that the amount crushed so far will represent from 49.6 to 50.5% of the total, which means the total for this year will be between 540 to 550 million bushels. Further reductions in the government estimate are therefore anticipated by most observers.

Exports of soybeans can also be anticipated by the same techniques as described for crush projections, with one exception. Allowance must be made for the seasons 1962/63 and 1964/65 when dock-workers strikes caused disruption of patterns in the January/February figures. Exports thus far this year (September through February) are approximately 146 myn bushels. In recent non-strike years this period has represented 55.3 to 57.6% of the annual total. A comparison of conditions indicates we have probably exported from 56% to 57.3% of the yearly total, which would place the total figure between 255 and 260 myn bushels. The government projection has been 275 myn bushels.

By combining the crush and exports we have an annual disappearance projection of 800 to 805 million bushels. To this can be added the government feed, seed and residual use figure of 56 million bushels for a total disappearance figure of 856 to 861 million bushels. Then by subtracting from the total supply at the beginning of the year of 967 million we should have a year-end carryover of 106 to 111 myn bushels. This carryover should not be too disturbing to the market in view of the government program to permit farm-stored beans to stay under loan into the next marketing year. It does mean, however, that market prices should not be too attractive in relation to the loan price during the balance of the year, or heavy loan redemptions are sure to occur and the cash market just doesn't need all those beans. If by some unforeseen circumstance large loan redemptions do occur, then a significant downward price adjustment can be expected, which would induce increased exports and maybe modestly increased crush.

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