Soybean Prospects — 1971 Crop

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We see an exceptional situation developing for the 1971 crop of soybeans. Futures have traded at an unheard of price for so early in the year. During the month of January, next November and January futures contracts have traded at $2.95 and $3.00 respectively.

There have been other years when those contracts traded at those prices, but that was when the season had progressed further, a crop scare came along, and it was too late to expand acreage. Usually it was associated with a beginning bullish move which had not been anticipated earlier. Figures 1 and 2 show futures prices during the last two seasons when November made significant advances. (These are trend line charts which do not show the extreme daily highs and lows.)

What makes this season so different, It's mostly that the bullish atmosphere has been around for so long that traders have become accustomed to thinking in terms of high prices. This is understandable since the world oil market has had persistently high prices due to reduced supplies; at least supplies have not kept pace with demand, so that replenishment of comfortable inventories has been next to impossible. Furthermore, the U.S. had built surplus soybean stocks in government hands to an all-time record level of 180 myn bus in November, 1969, but now the government ownership is nil.

With still six months to go in the current season, that is of no small consequence because it means that those who need beans for domestic crush or export must attract them from the hands of farmers or the private grain trade. Just how difficult that will be remains to be seen. But it seems evident that it will not be easy since projected consumption to the end of the season (August 31) appears to leave only 70 myn bus carryout and that is not enough if we assume a September crush of a reasonable 55 myn and exports of 25 myn. Harvest starts in September but it takes time to move beans to point of use. And there is always the possibility that harvest will be delayed by weather. Table I gives a history of total stocks on September 1 for the past decade.

Finally, export committments for new crop beans during October/November/December are already uncommonly large because of the prospect of a longshoremen's strike beginning the end of December or early January 1972. The labor contract expires the end of September but it is customary for a court injunction to be issued, delaying a strike for 80 days during which negotiations theoretically could avert a strike. But historically this objective is not achieved and a strike occurs anyway. Thus it develops that anticipatory stockpiling usually takes place to some extent, depending on availability of other oilseeds from other origins.

TABLE I

Soybean Stocks in All Positions

September 1	Million bushels	September 1	Million bushels
1953	22.4	1963	46.0
1954	8.1	1964	67.3
1955	22.6	1965	29.7
1956	21.0	1966	35.6
1957	31.6	1967	90.1
1958	42.8	1968	166.3
1959	87.8	1969	324.4
1960	51.8	1970	230.1
1961	27.1	1971	70.0
1962	78.3	(Estimate)	

Thus it is plain to see why prices for the 1971 crop have been so high so far in advance. But what are the factors which could make this advance bullishness fade and maybe disappear altogether? There certainly are some and they are worthy of serious consideration.

First and foremost is the bullishness itself. In other words, when futures market prices anticipate a situation far enough in advance so that production can adjust to indicated demand, then the situation is usually accommodated and prices make the appropriate adjustment. In fact, supply may overcompensate to the point of being burdensone on demand which could cause prices to adjust sharply.

Could this happen to the 1971 soybean crop? Let's look at it this way. To an inquiry of a friend last fall about how many acres increase would be needed for the 1971 soybean crop, the answer was: "None, if all the other oilseed crops of the world expand in acreage and if they experience favorable weather and yields." It must be recognized that the current bull market is the result of disappointing yields in most of the leading producing countries for two years in a row. Thus it is safe to assume that the resulting high prices which we have experienced will stimulate more acreage, and we must assume that at least some of the countries will have more favorable weather and yields; maybe all of them will! The result will be too much supply. It is even conceivable that all of them would have favorable yields and high production, except the U.S. This would result in lower soybean production here, but it still would not be bullish because our export demand for beans and products would diminish. Soybean prices are highly responsive to export demand. The U.S. exports of soybeans from the 1969 crop were 58% of domestic crush, while SBO exports were 22% of domestic use and SBM exports were 30% of domestic use.

Currently we have in prospect a 3 myn acre increase, as revealed by the January preliminary planting intentions report. This is made possible by the total farm crop acreage expansion provisions of new farm legislation. In some other years this farm program could have stimulated an even larger acreage increase for soybeans due to their high price, but prices are also high for other grain and oilseed crops so there is real competition for the added acreage. We assume some further acreage increase is likely for soybeans when the crop is actually planted, probably a total expansion of about 5 myn. The figure could run sharply higher if blight becomes serious on early stands of corn while there is still time to plant beans.

But what happens if all the major oilseed crops of the world experience poor yields in spite of higher acreage? This would mean three disappointing crops in a row for some of them and two for others. The obvious answer is still higher prices.

This is what futures markets are for: to anticipate supply-demand situations by the function of price so as to keep the two factors in value equilibrium. For those who properly participate, the futures market does an excellent job of providing price protection as the situation changes.