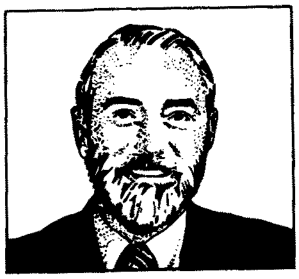
# Viewpoint

## It seems like the good old days



*(The following article was prepared by David M. Bartholomew, oilseed specialist for Merrill Lynch Futures Inc. at the Chicago Board of Trade, in mid-October as U.S. soybean growers were in the midst of their annual harvest. Bartholomew notes similarities between the 1968/69 market conditions and those for 1985/86.)*

People get nostalgic for "the good old days." Memory tends to retain only the favorable aspects of the past while discarding the tensions and disagreeable factors. It's nature's way of helping people cope with difficulties of the present by giving hope that things will be better in the future. As one philosopher put it: "The good old days used to be 'these trying times' ".

Whether present markets are seen as one or the other, the fact is we've been here before. The year was 1968/69. It was the third consecutive season of soybean production exceeding demand by a significant amount. Prices hugged the support loan level in a horizontal channel. The action was boring and monotonous—better to call it "inaction." Certainly it was not overwhelming. Can the opposite be called "underwhelming"?

USDA projects that carryover at the end of the present season will be 600 million bushels (16.3 million MT). That would be a record quantity, but not quite a record when expressed as percentage of consumption for the season ending. This would be 33%. The record was 1969, when it reached 35%. Here are the figures, in million bushels, for the past 20 years:

| Season | Consumption | Sept. Stocks | Per Cent |
|---|---|---|---|
| 1964/65 | 738 | 30 | 4 |
| 1965/66 | 840 | 36 | 4 |
| 1966/67 | 874 | 90 | 10 |
| 1967/68 | 900 | 166 | 18 |
| 1968/69 | 946 | 327 | 35 |
| 1969/70 | 1,230 | 230 | 19 |
| 1970/71 | 1,288 | 99 | 8 |
| 1971/72 | 1,203 | 72 | 6 |
| 1972/73 | 1,283 | 60 | 5 |
| 1973/74 | 1,436 | 171 | 12 |
| 1974/75 | 1,201 | 185 | 15 |
| 1975/76 | 1,486 | 245 | 16 |
| 1976/77 | 1,430 | 103 | 7 |
| 1977/78 | 1,706 | 159 | 9 |
| 1978/79 | 1,858 | 173 | 9 |
| 1979/80 | 2,079 | 358 | 17 |
| 1980/81 | 1,843 | 313 | 17 |
| 1981/82 | 2,048 | 254 | 12 |
| 1982/83 | 2,099 | 345 | 16 |
| 1983/84 | 1,805 | 176 | 10 |
| 1984/85 | 1,719 | 318 | 18 |
| 1985/86 | 1,826 | 600 | 33 |

Many things, too many to enumerate here, happened following 1969 to reduce inventory and increase price. Most of those could not be repeated presently. Some could, however, and probably will be. The U.S. dollar could weaken, improving demand more than presently projected. Inflation could heat up, but probably won't as much as in the 1970s. Soybean support price could be reduced by 5 or 10% (to \$4.75 or \$4.50 per bushel for 1986 crop).

Government officials and politicians in 1969/70 finally realized that the soybean support had been set too high and dropped it 10%. Farmers who could achieve yields better than average were guaranteed a profit at the higher support. The same is true presently unless they have large debt obligations at excessive interest rates.

New farm legislation approved by a 2 to 1 margin in the House of Representatives allows soybean support to be reduced a maximum of 10% in 1986. The Senate probably will agree. But this time such a development may not help cure the low price problem as it did in 1970. Here's why:

The house has demolished the price support concept for grains by making a new provision allowing farmers to pay off crop loans when due at whatever the market price, rather than at the loan rate plus interest. The objective is to avoid large Commodity Credit Corporation (CCC) inventory costs. The Senate probably also will approve this concept. Certainly USDA and other agencies are pushing for it so as to achieve budget economies. It's a new idea, and most politicians have seized upon it as a panacea to solve the farm surplus problem and the bloated budget problem at the same time.

What likely will happen is that farmers will plant more soybeans, even if support price is reduced. This would be especially attractive to those who for one reason or another do not participate in the feed grain or wheat programs. Even those who traditionally grow grain for feeding their own livestock will be induced to grow soybeans instead and buy grain from a neighbor who is a program participant. He won't care what price he receives for his grain, because the government will make up the difference.

There's still time for Congress to change these circumstances, but presently there appears no sign that they will. The situation needs to be watched closely.

Demand could be much better than presently projected. Factors to watch are these: Prices are attractively low, as expressed in U.S. dollars. They are becoming more attractive as expressed in foreign currencies, and that can continue to look even better since major industrial nations now are serious about doing things to realign currencies. The largest factor in this regard is the U.S. Congress and the White

House moving toward a balanced budget. In this context, it will be especially significant if the U.S. and USSR can cool off the arms race and spend less for military programs and material.

Meanwhile, soybean prices have settled at about the equivalent of the loan level to somewhat below it in some locations. Clearly this will be a season when most of the price play will be in cash basis, for beans and for oil and meal as well. Crushers and exporters will need only to pay an incentive above loan to get an adequate supply of beans. Users of oil and meal will need only to pay a premium sufficient to keep crushers operating. Futures will be largely ignored as far as hedgers are concerned, except for fixing final prices, until something comes along that could stimulate prices to come out of their lethargy.

One of the possibilities for such stimulus would be continuation of the drought which has begun in northern crop areas of Brazil and appears to be spreading toward the south. There presently is adequate time for this problem to be corrected, but it will be watched with increasing anxiety if it continues. Meanwhile it should be observed that the intended switch from soybeans to other crops probably will not take place since time has passed for planting of those crops. Thus if rains come soon, the Brazilian soybean crop will not decline as originally predicted. Only if it stays too dry through most of November will the crop be smaller than expected.

An intriguing consideration for the long term relates to the initiation of Spain and Portugal into the EEC "club" in 1986. As usual there will be a prolonged transition. During this time, SBO produced in those two countries should begin to flow to other EEC members instead of to the Mediterranean Basin, the USSR and south Asia where it has been going until now. That will allow North and South American origin to move again toward the latter destinations while losing out in the EEC market. This is because Iberian origin will gradually shift into duty-free status on shipments to other EEC members. The quantity involved the past three seasons has been between 420,000 and 500,000 MT, but for the past 10 months SBO exports have been about half what they were in those years.

Other things can happen and probably will. Just how much of "the good old days" will be repeated, and for how long, is going to be the real test of patience. But it seems that the world political and economic climate is much less stable at this time, and that may be the clue that "these trying times" will again be the correct interpretation.

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