Looking Forward by Looking Backward

CONSIDERABLE IMPORTANCE is likely to be attached to the September and subsequent bean crop reports. Maybe we can learn something by looking backward. The August bean estimate was a bit higher than expected, and caused some selling in new crop bean futures. It did not cause heavy selling, and the market did not stay down, for a combination of reasons, of which these are some:

1) Prices are 30¢ off the highs and at recent lows were about 20¢ over the Illinois loan. In view of the fairly close supply/demand balance, 20¢ over the Illinois loan is obviously much nearer to loan-created version of intrinsic value than is 50¢ over.
2) Many traders are still bullish on beans because they feel that the hot dry June, not relieved until July 1st, almost *had* to produce some crop damage, to an extent not yet realized. This line of reasoning is in contrast to published studies by the University of Illinois indicating that perfect bean weather is as follows:
   a) below normal moisture through all of June
   b) abundant rainfall in July, especially late July
   c) normal rainfall first half of August
   d) above average rainfall last-half-August and first-half-September
   e) cooler than an average temperatures in July and early August

It appears to me that weather this year was almost exactly in line with these "ideal" conditions. Bean yields have probably increased in the heavy producing north portions of the belt between compilation of the August report and the September report because of cool showery weather.

3) Slightly smaller than expected corn yields should imply less than ideal bean yields. This ignores the same University of Illinois study showing that optimum corn condition requires below average moisture only through the first half of June and wet thereafter, whereas we were dry through all of June. Also it ignores the fact that in the 64 crop-report-to-report changes from 1950–51 through 1962–63 corn and bean yields moved in opposite directions 28 times, indicating that the relationship of some month up-down corn changes to up-down bean changes is hardly more than random.
4) Crop observers probably have a bias toward estimat- high yield prospects when fields are lush and green than later on when harvest yields become available. This ignores history, see table which implies that if there is any August bias it is to be conservative rather than optimistic.

HISTORY OF CHANGES FROM THE AUGUST BEAN REPORT

Change from/to	Aug./ Sept.	Aug./ Oct.	Aug./ Nov.	Aug./ Dec.	Aug./ Final
Unchanged*	1	2	1	0	2
Decrease	3	3	3	3	2
Increase	9	8	9	10	8
Average decrease %	5	11	12	11	10
Average increase %	4	7	3	6	9

* Change less than 1%.

In the last 12 complete crop years, i.e. through the "final-final," August was the low report seven times and the high report only twice.

5) The high residual errors of the past two years imply continuing high residuals, i.e. structural crop over-estimations. Some observers are ascribing this to an acreage error they feel developed a couple of years ago when the USDA method of computing bean acreage was changed slightly. This might well be, although it still seems to me that a substantial portion of the 1961–62 residual was due to weathered in beans that were completely lost. The size of and reasons for the 1962–63 error are obscure but could be simply a question of failure of reporters to realize the full extent of late-season losses due to hot dry weather. We have not had much hot dry weather this season except in the mid-south where August is supposed to be hot and dry. This season then may reveal whether there is truly a basic error somewhere in the bean acre/yield estimate system. I'm inclined to doubt that there is a basic error.

All of this leads me to believe that barring a sudden shift to very unfavorable weather for the few remaining weeks of the growing season, or a complete breakdown in the above reasoning, longs in beans, soybean oil, and soybean meal can not expect much help from the crop reports. They also probably cannot expect help from subsequent monthly reports as there is a pronounced tendency for the crop estimates to drift slowly higher during the season. The first real sign of a structural overestimate cannot appear until the January stocks in all positions report. This means that short and intermediate term help must come from demand. This in turn almost surely means meal demand. Oil is in bad shape statistically, and is likely to worsen during early new crop, and probably has little or no chance of creating a major speculative buying wave.

Cottonseed oil on the other hand could gain some friends from a lower cotton crop estimate. The history of cotton crop estimates subsequent to August is that no trend is visible, indicating no particular observer bias in August. Cotton belt weather since compilation of the August crop report has been unfavorable in Arkansas, Tennessee, North Mississippi, Oklahoma and parts of Texas. It has been favorable in California, Arizona and, southern Mississippi. On balance it would appear that for the month losses more than offset gains and the September cotton report will probably be somewhat lower than the August, thus reducing further an already only middling-size crop. The August yield forecast was so high it would, under the best conditions, be a formidable figure to surpass.

Having wandered through some of the logical background we have to consider the illogical background. The latter is the reaction of the speculative element to the market situation. History implies that traders just love to be long beans and will flock to the buy side given any excuse. In this case, the excuse may turn out to be the USDA's consumption estimates. If the August "Fats and Oils Situation" is any indicator, subsequent issues of that publication will be beating the usual bullish tempo on the usual big tin drum. If traders accept all of the USDA's estimates, then analysis goes out the window and there is nothing whatever to be gained in looking forward by looking backward.

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