Whither Weather

PRECIPITATION was below normal last fall-winer in most of the soybean belt. The moisture shortage persisted through a warm spring without too much alarm. When the dry weather continued in the dog days of summer, however, soybean users and soybean shorts began to get a little nervous. To some extent nervousness was allayed by persistent Weather Bureau 5- and 30-day forecasts of above normal moisture. Eventually, the heat plus the droughty tendency, plus all the weather forecasts being hopelessly wrong, produced considerable outside speculative buying of new crop beans. Prices and open interest soared. The buying stemmed from the premise that carryover, based on present indications might not be higher than 23–28 million bu, that production might not exceed 670–675 million bu, giving a total supply of 700 million bu or less. For the current season, apparent disappearance will probably be in the area of 705 million bu, broken down as follows:

Apparent Supply	733
Crush	475 million
Exports	175 million
Seed & Feed	35 million
Errors	20–25 million
Disappearance	705–710
Carryout	28–23 million bu

New crop acreage expanded less than expected in response to high old crop and new crop prices and will be about 29 million for harvest.

To leave a reasonable carryover at the end of the new season, below average yields would require prices high enough to choke off any increase in disappearance. Whether a rally the size of the one we had would be sufficient to accomplish this is unknown. The bean-to-product relationship did not deteriorate sufficiently to imply poor crush. Any demand reduction then would probably have to come from overseas. To some extent improved recent old crop purchases of beans by the Continent may be a form of new crop demand reduction. New crop prices have rallied much more than old crop, making old crop beans cheaper than usual for this time of year in relation to new crop. Thus, price may be again performing its theoretic function of moving demand to the position of greatest net utility.

On the big bean rally, spreaders were able to keep product prices in line with beans, an insanely difficult job in this type of market. There was no problem in selling beans (obviously) and no problem in buying oil. Meal was a real headache as good domestic and export demand kept meal selling light. The ease in buying oil was due to the disappointment over export prospects that we discussed last month. This action would appear to offer a clue to what might happen if we have a resumption of weather-stimulated buying of beans, i.e. the bulk of the product buying will come to meal not oil. This season represented U.S.D.A.'s big chance to make an oil export splash. It failed to materialize. The closer we get to new crop without a visible change in export prospects for late this season or early next, the more profound will be the disappointment of oil longs. Also there will be increasing doubt that we will make next season's U.S.D.A. oil export forecast no matter what that forecast is. Meal will likely have to continue to shoulder the burden of justifying bean rallies.

Between July 3rd and 7th considerable moisture fell over extensive portions of the main belt and more is privately forecast for around July 15th (neither was forecast by weather bureau). This should allow considerable improvement in potential plant development. The areas of significant crop damage so far are not large. The areas of some eventual potential damage given continued hot dry weather encompass fairly large portions of the belt. The persistent scattered showery condition that has prevailed for many weeks has been insufficient for the crop in the apparent consensus of the market (as represented by price action). The market obviously has its teeth set for no less than a belt-wide soaking rain. This would be an unusual development during mid-summer in the U. S. midwest. Scattered showery conditions must be considered the normal pattern. Yet this normal pattern produces a poor crop almost every year. The soybean is an extremely hardy plant. It can grow well under remarkably diverse sets of conditions. It is doubtful that most traders realize the great variation in moisture supplies between northern and southern sections of the belt. Average moisture conditions in the north would be considered severe drought in the south. Yet the bean plant survives and yields about equally well in both areas. My understanding of the plants problems (an imperfect understanding) is that the only really critical time for moisture supplies is the period in the last half of July–first week in August when the plant is setting blossoms. If at that time the plant is shedding leaves and blossoms in order to conserve moisture, this reduces yields by reducing the number of pods. At any rate, the moisture received so far has been sufficient to break the market 20¢ a bu off the highs. The weakness was not surprising, since at the highs November beans were at an enormous premium over the new loan, far higher than in some other recent years when conditions were not noticeably worse than they are this year. I am afraid that for the next several months the bean market will respond sharply to every dry 5-day forecast and every wet 5-day forecast. Interest in moisture has become so intense this year as to become an obsession. Whither the market will be solely determined by whither weather.

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