A Market in "Ifs"

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On one recent day, a friend asked me to explain my conviction that soybean oil prices would perform very well through 1970.

By way of reply, I enumerated these circumstances which were probable and those which were possible that would be market-influencing factors. To this my skeptical friend made reply, "Those are some mightly big 'ifs' old buddy!"

He was exactly right, those were some mighty big "ifs." But that is what markets are made of, especially futures markets. Those who buy and sell in futures contracts are putting a monetary valuation on the "ifs," the probabilities and possibilities of the months ahead.

They choose to in order to protect their cash business if they are in the cash business, or in order to make speculative profit if they are speculators. In either case, however, the objective is to make money. Sometimes the "ifs" do not come out as expected, which means that the trader may be wise to liquidate the market position. Other times the "ifs" *do* work out and a substantial gain is realized. That is precisely why we have a futures market: to provide a flexibility for trading in those commodities where there are a lot of "ifs." As these "ifs" develop or fail to develop, it is a relatively simple matter to enter the market or liquidate a position when dealing in futures. To do so in the cash market is often times more difficult.

The point is this: there is more to be gained by trading as though the "ifs" were coming true, than there is by remaining skeptical until proof is in hand. In the first instance, the trader would be able to capitalize on at least part of the price move while waiting for confirmation or refutation of the "if" situation. In the second instance, the trader has missed most or all the price move should the "if" be confirmed; but he can say, "I told you so," should it be refuted. Thus, the skeptic's only reward is satisfaction from reminding his friends that he was right on some occasions, and hoping they will forget the times he was wrong and the major market move was missed.

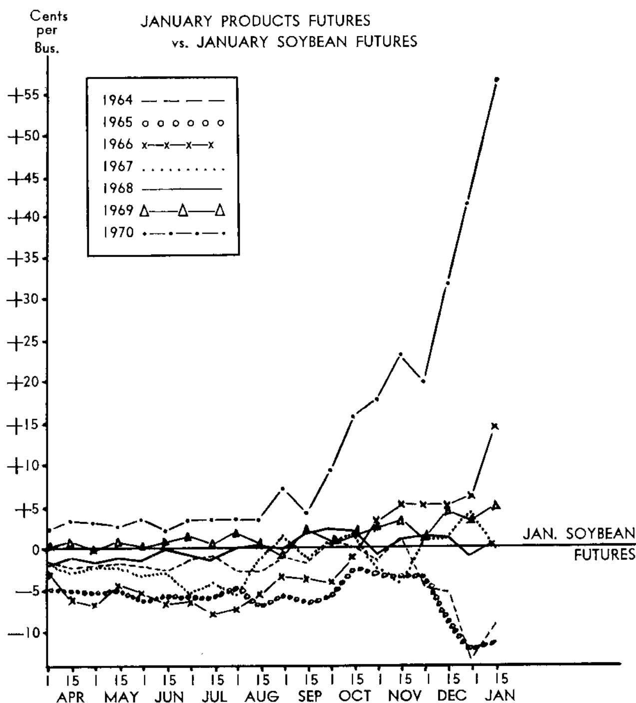

Fig. 1

This season has already provided some classic examples of how soybean traders have been confronted with a market in "ifs." The best illustration of this is in the price relationship between beans vs. the combined product value of oil and meal. This is sometimes called the "crushing margin." Figure 1 shows several years' history of how this relationship has worked out for the January futures contract. Note that there is a general area between —5¢ and +3¢ which could be considered a usual pattern of trade, with repetition likely in most years in some part of this range depending upon conditions existing that year.

Then there is the 1969–70 season which shattered all precedent. No one could logically predict it. But there were some clues pointing in the right direction *if* certain things came to pass.

1. *If* the 1969 soybean support price was reduced, demand would be stimulated.
2. *If* soybean prices were lower, then prices of soybean oil and meal could be very competitive with other oils and meals.
3. *If* Russian sunflower seed production was not as large as in 1968, as early reports indicated, then European demand for other oils would increase significantly.
4. *If* Peruvian fishing results showed no steady improvement, then world demand for other meals and oils would increase sharply.
5. *If* CCC sells soybeans at the formula minimum, then the combined value of oil and meal can float free of any usual price relationship with soybeans because of the large product demand.

These were the major "ifs" with which the market has had to deal, and they have all come to pass. Certainly there were many other "ifs," some pointing in the same direction as the five major ones, and some in the opposite direction. Traders who recognized these factors and acted accordingly have been well rewarded. Traders who were skeptical and awaited confirmation missed the major market move. And those who improperly evaluated the situation, of course, found themselves on the wrong side of the market.

Meanwhile, market uncertainties persist and will continue to persist, for there will always be conditions in the future about which no one can be positive. Should the time ever come when both buyer and seller know everything for certain about forward market conditions, then the futures market will cease to exist. Until then, futures will continue to serve a vital function where buyer and seller can trade in "ifs."

U. S. Margarine Consumption Up

Americans last year continued to use more of the "less expensive spread" while remaining legal bars to margarine continued to go down. Consumption of the food in 1969 reached a record of about 2,182 million lb., or about 10.8 lb./person on the national average, according to government figures just released. This compares with consumption of 2,140 million lb. in 1968. Commercial purchases of butter in 1969 are estimated to have been 1,063 million lb., or an average of about 5.3 lb./person, compared to consumption in 1968 of 1,101 million lb. Margarine retail prices generally have not reflected the rise in food costs. The average consumer price reported by the government last year was 27.8 cents/lb. Butter's comparable average was 84.6 cents. The outlook for increased consumption in 1970 is good, according to S. F. Riepma, president of the National Association of Margarine Manufacturers. A substantial part of this will be owing to the marketing of new products, Riepma said. Margarine last year utilized some 1,745 million lb. of refined American-produced oils and fats, reflecting a greater use of vegetable oils. Principal ingredients are soybean oil (1,333 million lb.) and corn oil (172 million lb.).