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No. 2 Yellow Soybeans

Soybeans are high in protein and widely used for making livestock feed. The two main by-products produced from soybeans are soybean oil and soybean meal. According to the North Carolina Soybean Producers Association, “When processed, a 60-pound bushel will yield about 11 pounds of crude soybean oil and 47 pounds of soybean meal” (North Carolina Soybeans). The oil is commonly used for cooking, or it is used in the production of biodiesel. Some of the common products in the United States that are made with soybean oil include margarine and mayonnaise. According to the North Carolina Soybean Producers Association, “Soybeans originated in Southeast Asia and were first domesticated by Chinese farmers around 1100 BC” (North Carolina Soybeans). Soybean production spread to Britain and in the mid to late 1800’s into America. Soybeans became popular because they flourished in the hot and humid summer weather. Farmers grew soybeans as a forage and source of protein for their livestock. World War 1 and 2 greatly impacted the production of soybeans in the United States. The production of soybeans shifted from china to the U.S following the major world wars. The top U.S producing states to date are Iowa, Illinois, Indiana and Minnesota (North Carolina Soybeans). The U.S accounts for 32% of the total world production of Soybeans (Wikipedia). Technology and the ability to genetically modify soybeans have impacted soybean yields significantly. According to website United Soybeans, “herbicide resistant soybeans were introduced in 1997” (United Soybeans). Before genetic advancements in soybeans were made, factors like insects and diseases really impacted yields. Genetically advanced soybean varieties like liberty link have allowed soybean yield to increase slightly over the years. Management practices like crop rotations have also significantly impacted yields by helping limit/control soil diseases and pest populations. Soybeans are usually grown in cool, temperate regions like the midwestern United States. According to the Agronomic Outlook, “the ideal soil temperature for planting soybean ranges from 55-60 degrees Fahrenheit and the seeding rate ranges from 100,000 to 300,000 seeds per acre” (United Soybeans). According to Crops Review, “soybeans rank 8th in production worldwide and 2nd in the U.S” (Crops Review). No. 2 Yellow Soybeans are marketed on the Chicago Board of Trade at 5,000 bushels per contract. Soybean contracts are available for January, March, May, July, August, September, and November. The termination day for a soybean contract each month is the business day prior to the 15th calendar day of the contract month. The minimum price fluctuation is ¼ of one cent per bushel or $12.50 per contract.

I will be using the fundamental trading approach, and my main focus is on supply and demand. There are many variables that I will use to help predict the price of soybeans. Political issues, government regulations, carry over (beginning stocks), carry out (ending stocks), new crop, imports/exports, disease, and weather are the important variables that I will rely on to help make my buying/selling decisions. I gathered the following information for supply and demand from a supply and demand chart off the Brock Report. I used 2017/2018 number along with the 2018/2019 projections to calculate the percent change of each variable. I do not have a percent change calculated for political issues, government regulations, disease, or weather; however, any of those variables could have a big influence on the price of soybeans.

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| --- | --- | --- | --- | --- | --- |
| **Decision Price Model** |  |  |  |  |  |
|  |  |  |  |  |  |
| **Soybeans** |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  | 17/18 |  | 18/19 | % Change |
| **Acreage** |  |  |  |  |  |
| Planted Area |  | 90.1 |  | 91 | 1% |
| Harvested Area |  | 89.5 |  | 90.4 | 1% |
| Yield |  | 49.1 |  | 50 | 2% |
|  |  |  |  |  |  |
| **Supply** |  |  |  |  |  |
| Beg. Stocks |  | 302 |  | 555 | 84% |
| Production |  | 4,392 |  | 4,520 | 3% |
| Imports |  | 25 |  | 25 | 0% |
| Total Supply |  | 4,719 |  | 5,100 | 8% |
|  |  |  |  |  |  |
| **Demand/Usage** |  |  |  |  |  |
| Crush |  | 1,960 |  | 1,980 | 1% |
| Exports |  | 2,065 |  | 2,200 | 7% |
| Seed |  | 106 |  | 105 | -1% |
| Residual |  | 33 |  | 35 | 6% |
| Total Use |  | 4,164 |  | 4,320 | 4% |
|  |  |  |  |  |  |
| **Ending Stocks** |  | 555 |  | 780 | 41% |
| Stock/Use |  | 13.30% |  | 18% | 35% |
| Farm Price ($/bu) |  | 9.00-9.70 |  | 7.75-9.00 |  |

Weather is one of the greatest threats to crop profitability. When it comes to soybean production, weather can potentially be the most influential factor. A shortage of rain may result in drought. Drought can reduce yield and drive the price of a commodity like soybeans up. The drought monitor report as of March 22, 2018 shows that most of the states in the Midwest region of the United States are not currently experiencing any drought. There is a small section of the map in the northern part of Missouri and southern part of Iowa that shows to be abnormally dry. The drought monitor shows a significant drought in the southwest states. Drought in the U.S tends to move northeast in the later months of summer. According to the National Weather Climate Prediction forecast, “the amount of precipitation for the next 1.5 months for most of the Midwest region is projected above normal or average” (David Miskus). The rain will be beneficial for the first month or so of growing season. The official CPC 3-month precipitation outlook points toward above-median precipitation” (David Miskus). The rain should help in the abnormally dry areas of Missouri, Iowa, and Illinois. Weather is a variable that we cannot control, and we can only hope to predict. A potential drought could raise soybean prices. I think weather will have an impact on the price of soybeans in 2018; however; the larger issue at hand is political at the moment.

The current trend line for soybean prices shows a decline. China may place tariffs on soybeans, and I lean heavily on selling my soybean contracts and going long in the market if that is the case. The variable that I believe will have the most significant impact on the price of soybeans is the tariff issue between China and the United States. According to the Brock Report news section, “Chinese officials have warned the U.S. that soybeans are a prime target for retaliation against tariffs imposed by the Trump administration on steel and aluminum imports” (Brock Report). The tariffs could have a huge impact on the price of soybeans considering that China accounts for 61% of the total U.S soybean exports (Brock Report). If the U.S was to decrease soybean exports to China, the Brazil would expand soybean production. In addition to the tariff issue, I calculated the percent change for the variables on the Brock Supply and Demand Report. I can see that the projected carryover of soybeans has the largest change with a projected increase of 84%. The increase in the amount of the carryover is very large, and I believe it will drive soybean prices down. According to the Iowa farmer today website, “the cost of soybean production following corn is $473 per acre (Ag Update Iowa soybeans). If the yield average is 54-62 bushels per and acre, then the cost of soybean production in Iowa per bushel basis is $7.60-$8.80. Soybeans are a risky investment. The increase in carryover and the tariff issues look to drive the price of soybeans down. I don’t think there is a lot of money to be made on soybeans if the price was to drop considering that the cost of production is high.

I took the selling position based on the information that I have provided above.

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