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No. 2 Yellow Soybean

Soybeans originated in East Asia, domesticated around 7000 B.C. in China. United States soybean production for 2017 totaled a record 4.39 billion bushels. The average U.S. soybean yield is estimated at 49.1 bushels per acre. The United States accounts for about 34 percent of the World’s soybean production followed closely by Brazil and Argentina. The largest exporter of soybeans is also the United States. In 2017, 89.5 million acres were harvested. Soybeans are planted in many states including Illinois, Iowa, Minnesota, Indiana, Nebraska, Ohio, Missouri, South Dakota, Arkansas, North Dakota, and Kansas. Soybeans need to be planted 2 to 3 weeks after the average last frost date when soil temperature is at least 60 degrees Fahrenheit. According to Purdue Extension, soybeans should be planted with a row spacing between 7.5 and 15 inches for maximum yield. The recommended seeding rate for soybeans is about 168,000 seeds per acre. Genetic diversity has helped improve yields and resistance to disease, weather, and pests in soybeans. Soybeans are mainly processed for their oil and protein for the animal feed industry. According to the North Carolina Soybean Producers Association, for every 60 pound bushel will yield about 11 pounds of crude soybean oil and 47 pounds of soybean meal. Soybeans are about 18 percent oil and 38 percent protein. Due to the high protein content of soybeans, they are a major ingredient used in the animal feed industry. A small percentage is also processed for human consumption in form of products such as soy milk, soy protein, and soy sauce. Marketing is “the business activities involved in the flow of goods and services from the point of initial production until they reach the ultimate consumer” (Kohls and Uhl 10). There are many variables affecting the price of soybeans right now. Weather, acres planted, and in particular politics affect prices currently. No. 2 Yellow Soybean has listed contracts in January, March, May, July, August, September, and November. One contract unit is 5000 bushels or about 136 metric tons. The minimum price fluctuation ¼ of one cent per bushel or $12.50 a contract. Trading ends on the business day prior to the 15th calendar day of the contract month (Soybean Futures-CME Group).

My approach to trading commodities, in particular corn, is a Fundamentalist approach. “Fundamental Analysis is a means of examining commodities in an attempt to predict the future path of least resistance for prices” (Kowalski) Supply and demand is the foundation for a fundamentalist approach. For example, if supplies are low nationwide for soybeans, then the price of soybeans is going to go up. If there is adequate supply in the U.S. or over adequate supply of soybeans, then the price will go down. Basically, if demand is higher than supply then prices go up, and if supply is greater than demand then prices go down. Looking at beginning stocks, or carryover, is a good way to get a feel for what the market might do next. Carryover is how much supply is left and carried over from the previous year. The carryover for 2018/19 is projected at 555 million bushels of soybeans, which is up nearly 84 percent from the previous year. This extra carryover could result in prices going down. The ending stock is the supply of soybeans at the end of the year after all uses have been fulfilled. A supply and demand chart from Brock report is my basis for trading soybean commodities. The chart uses numbers from the 2017-2018 and projects numbers for 2018-2019.

|  |  |  |  |
| --- | --- | --- | --- |
| **Soybean** |  |  |  |
|  |  |  |  |
| **Acreage** | 17/18 | 18/19 | % Change |
| Planted Area | 90.1 | 91 | 1.00% |
| Harvested Area | 89.5 | 90.4 | 1.01% |
| Yield | 49.1 | 50 | 1.83% |
|  |  |  |  |
| **Supply** |  |  |  |
| Beg. Stocks | 302 | 555 | 83.77% |
| Production | 4392 | 4520 | 2.91% |
| Imports | 25 | 25 | 0.00% |
| Total Supply | 4718 | 5100 | 8.10% |
|  |  |  |  |
| **Usage** |  |  |  |
| Crush | 1960 | 1980 | 1.02% |
| Exports | 2065 | 2200 | 6.54% |
| Seed | 106 | 105 | -0.94% |
| Residual | 33 | 35 | 6.06% |
|  |  |  |  |
| Total Use | 4163 | 4320 | 3.77% |
|  |  |  |  |
| **Ending Stocks** | 555 | 780 | 40.54% |
| Stocks/Use | 13.30% | 18.00% | 35.34% |
| Farm Price ($/bu) | $9.00-9.70 | $7.75-9.00 |  |

Weather is usually the greatest limiting factor for grain production and in this case soybeans. Drought drastically reduces yield, but there are drought tolerant variants that do better than other plants when in drought conditions, but still suffer in potential yield. Drought typically moves from the Southwest to the Northeast in the United States. According to the current drought monitor, the Corn Belt, where soybeans are also planted, is not in drought conditions, but Missouri is abnormally dry (Current Map). The Southwest is currently in stages of severe and extreme drought. If usual drought trends happen this year, then the Corn Belt should start entering drought conditions in late summer. A good example of the implications of drought on soybean production and markets is the year 2012. The United States experienced severe drought all across the country and had very low production for the year resulting in a huge spike in prices due to the low supply of soybeans. Prices soared past $15 a bushel. Since the production of soybeans relies so heavily on weather, especially when setting the pods, I concluded that weather is the most important variable most of the time.

The most important variable currently is the affect of politics on soybean future prices. President Trump aimed to impose tariffs on steel and aluminum, but has allowed several allies to be exempt from such tariffs until May 1st to negotiate satisfactory alternative means (). On top of the metal tariffs, Trump has announced levies on $60 billion worth of Chinese imports which provoked immediate promises of retaliation by China. The biggest target for China to retaliate against the United States is in the agriculture sector, where China imports about 62 percent of the United States soybeans. If China cuts imports drastically by buying South American soybeans, then soybean prices will drop dramatically. If carryover is also taken into account along with China’s retaliation then prices could drop even lower. The cost of production for herbicide resistant soybeans ranges from $429.62-$516.54 per acre, and $9.55-$9.39 per bushel based on 45-55 bushels per acre (Iowa State Extension). If prices drop to this threshold or lower, producers will breakeven if they are lucky or lose money. It seems the only way soybeans would go up in price significantly would be if there was a widespread drought throughout the U.S. to lower the total production of soybeans.

Due to the ever increasing tension with China over trade, I am going to sell Contracts of soybeans rather than buy. I believe prices are just going to continue to decline. Unless a severe drought strikes the U.S., which is too difficult to predict at the moment, then I do not think prices will go up.

I am selling 10 contracts of November ’18 soybeans. I am selling the contracts on a per bushel basis at $10.16 per bushel. I sold the ten contracts for a total of $508,000. I paid $11,000 in margin money and brokerage fees. A predetermined stop is $0.10, if the market goes up that amount then I will buy contracts. If the market goes down $0.05, then I will sell.

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