ILLINOIS FARM AND FOOD OUTLOOK
COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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THE GOLD CONNECTION

GOLD PRICES HAVE INCREASED DRAMATICALLY IN RECENT WEEKS. The London gold fix was $397 per ounce on September 28, an increase of 85 percent from a year ago and 42 percent higher than just 2 months ago. Gold futures for March, 1980 were trading at $416 per ounce, nearly 40 percent higher than just 2 months ago.

Action in the markets for gold and other precious metals has spilled over into agricultural markets, soybeans in particular. A lot of day-to-day price movements on soybeans are mirrors of what is happening with gold and silver. What does gold mania really mean to soybean values?

The rising prices for precious metals, exemplified by gold, are interpreted as reflecting the declining value of the U.S. dollar. Owning precious metals or precious metal futures is seen as a hedge against inflation. The argument continues that as the value of the dollar declines, U.S. agricultural products become cheaper for foreign buyers, thus increasing the quantity taken. In addition, the higher prices of gold imply that larger quantities of agricultural products can be purchased with the same amount of gold. A year ago, for example, 1 ounce of gold would buy 1 ton of soybeans; but today, nearly 2 tons. There are, however, some problems with such viewpoints.

First, the price of gold is a reflection of a number of currencies, not just the U.S. dollar. A rise in gold prices is not a direct reflection of value for the dollar only. In fact, the dollar has actually strengthened in relation to several major foreign currencies during 1979, including the Japanese yen, the Swiss franc, and the Deutsche mark. Although the dollar is weak by historical standards, it has not lost ground in 1979. If the OPEC countries actually carried through with the idea of pricing oil on the basis of a market basket of currencies, the dollar would probably be strengthened further.

Second, buyers of U.S. agricultural commodities do not sell gold in order to make purchases. The relevant comparison is the value of the dollar in relation to the European and Japanese currencies. Expectations about future price levels and currency values may influence the timing of purchases, but this is not related to gold.

the interest on stored corn. The premium, however, would not be likely to cover interest and the cost of commercial storage.

November soybean futures closed on October 5 at $7.10 per bushel; January, at $7.27; March, at $7.44; May, at $7.60; and July at $7.69-1/2. The soybean basis is also quite narrow currently in Illinois, at 20 to 25 cents under November. Again, assuming an ending basis of about 15 cents in each of the delivery months, the market is offering a return on storage that exceeds the interest cost; but the return probably would not cover the additional cost of commercial storage.

Farmers who are considering corn or soybean pricing should look carefully at their local basis and at price spreads to determine delivery dates. In many parts of Illinois, farmers with on-farm storage can earn in excess of 12 percent on the value of stored grain by pricing it now for 1980 delivery. The current price structure, however, will not pay the full cost of commercial storage in most instances. Corn that is stored UNPRICED will have to increase in value by 2.5 to 3 cents per month just to cover the interest on the grain. For soybeans, the increase would have to be nearly 7 cents per month.

D. L. Good

D.L. Good , Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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