WEEKLY OUTLOOK
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# WHO WILL SELL SOYBEANS?

SINCE SOYBEAN PRICES STARTED DECLINING LAST MAY, farmers have become very reluctant sellers of soybeans. The amount of soybean stocks held by processors has decreased steadily since then. By the end of the crop year on August 31, processor stocks totaled only 33.4 million bushels. Year-end processor stocks were at the lowest level since 1977, following the extremely small crop in 1976.

In 1977, farmer-held stocks were also quite small at the end of the crop year. We don't know how many soybeans were farmer owned, but soybeans stored on farms totaled only about 33 million bushels. In contrast, stocks of soybeans held on farms at the end of the 1980-81 crop year totaled a record 161 million bushels.

Farmer sales of 1981-crop soybeans have apparently also been very slow. This observation tends to be confirmed by the structure of the open interest in the soybean futures market. The open interest for reporting short hedgers is a barometer of selling activity among farmers. The assumption is that buyers hedge their purchases. On September 30, 1981, open interest for reporting short hedgers totaled 144.3 million bushels, the smallest amount for that date since 1977. A year ago, open interest for this category of traders totaled 401.1 million bushels.

Although farmers have been slow sellers of soybeans, the rate of soybean use has expanded rapidly. The weekly soybean crush reached a record 24 million bushels during the week ending October 14. The record didn't last long, as the crush reached 24.4 million bushels during the week ending October 21.

Soybean exports reached 25.3 million bushels for the week ending October 22. Through the first seven weeks of the marketing year, soybean exports totaled 106.9 million bushels. This volume compares to 80.1 million bushels last year and 94.4 million in the record export year of 1979.

As a result of the high rate of use and slow farmer selling, the soybean basis has narrowed considerably at interior points. As of October

26, the Decatur cash price (truck delivery) was 23 cents under November futures, compared to 30 cents just two weeks ago and 30 cents on the same date a year ago (when the soybean crop was very small). Over the same time period the Decatur soybean meal basis widened about $3 and the soybean oil basis narrowed about 45 points. On net, the cash crush margin narrowed considerably, standing at only 12 cents on October 26.

While the narrowing of the soybean basis is favorable for farmers in the short run, the slow rate of selling may not be. The narrow crush margin has resulted in some major slowdown in processing activity. The crush margin can improve if the soybean basis widens or if the product basis improves. It appears that the level of crush experienced over the last two weeks will keep the soybean meal basis wide until supplies get tight. This type of pattern will produce a very erratic rate of crush. With the large supply of soybeans available this year, the weekly crush needs to be large. Otherwise, carryover stocks of soybeans could be even more burdensome than the record 420 million bushels projected by the USDA.

A similar pattern of slow farmer selling occurred 1979-80. As a result, prices declined seasonally rather than increasing as they normally would in a more typical large-crop situation.

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