WEEKLY OUTLOOK
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OPEN INTEREST IN CORN AND SOYBEAN FUTURES

AT THE END OF EACH MONTH, the Commodity Future Trading Commission (CFTC) publishes a report showing the commitments of traders in commodity futures. The report provides a breakdown of month-end open interest for markets in which traders hold positions equal to or in excess of the reporting levels established by the CFTC. A futures contract is said to be open when it has been entered into but not yet liquidated. Contracts that are open are referred to as open interest. For corn and soybeans, traders who hold 500,000 bushels or more of any future month must report their positions daily.

The CFTC's report shows open interest by reportable and nonreportable positions. In addition, for reportable positions, data is provided on commercial (hedging) and noncommercial (speculative) positions. The magnitude and distribution of the open interest, as well as the change in open interest from month to month, may give some insight into the grain markets.

First a look at the structure of open interest for corn. Open interest for long hedgers increased sharply during August and remained large through October. The November 30 report is not yet available. Historically, there seems to be some correlation between the magnitude of open interest for long hedgers early in the year and the eventual level of exports. The one major exception was 1980, when corn exports were disappointing in spite of record large open interest for long hedgers on October 31.

Open interest for short hedgers increased starting in July and stood at an exceptionally high level on October 31. Large open interest for short hedgers suggests that producers have sold relatively large quantities of corn as prices moved up. Selling began when the drought became obvious in July. Sales of PIK and reserve corn may have accounted for a significant part of the total sales.

Reporting hedgers were net long on September 30 and October 31, but the margin was small on October 31. The reporting speculators have been net long since June 30, while nonreporting positions have been net short most of the time.

In the case of soybeans, open interest for long hedgers has increased each month since April and stood at 243 million bushels on October 31. This is a high level from a historic perspective and suggests that processors hedged large crush positions as prices moved up. Export buying also accelerated as the seriousness of the drought became obvious.

Open interest for short hedgers moved up sharply in July and August. Since then, open interest in this category has declined but remains at a very high level. Producers have apparently sold a large quantity of soybeans and a major portion of the sales have not yet moved through the market. Reporting speculators and nonreporting positions have been net long since March.

The structure of the open interest in soybeans and corn suggests that farmers have been eager sellers this year. For the most part, exporters and processors have been buying. This situation has put the burden of carrying the market on the speculative community, particularly for soybeans. We don't really know the make-up of the speculative community. However, there are indications that an increasing percentage of speculative trading is in the form of managed accounts. In addition, speculative trading has been increasingly technically dominated. As a result, the market has been extremely volatile.

The recent decline in soybean prices, in particular, was probably influenced by the nature of speculative trading. As a result, the decline was more severe than expected and may be overdone.

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