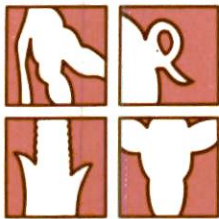




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WEEKLY OUTLOOK

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PRICING 1989 CROP SOYBEANS

Soybean producers and market advisers are anxiously watching the current weather market to decide when to sell the remaining stocks of 1987 soybeans and to price additional quantities of the 1988 crop. Some are also thinking about forward pricing some of the 1989 crop--and rightly so. History suggests that prices at current levels will not last long and that a fairly steep decline in prices will probably follow the peak of the current rally.

The dilemma is that futures contracts for the 1989 crop are at a substantial discount to prices for the 1988 crop. For example, November 1988 futures were at \$8.94 per bushel at the close of trading on June 6, and November 1989 futures settled at \$7.35: a discount of \$1.59 per bushel. The market recognizes that current prices will correct this short supply by reducing use and encouraging more production and that prices will probably be lower next year. History also suggests, however, that this short supply will be corrected before the 1989 crop is harvested. If so, soybean prices will decline from the current high level during the 1988-89 marketing year, and the discount for the 1989 crop will get smaller as that decline occurs. To avoid the current price discount, then, producers wanting to forward price some of the 1989 crop should consider hedging in 1988 crop futures and then moving the hedge forward at a later date when the discount is smaller or even becomes a premium. Consider as illustrations the last three weather-related rallies in the soybean market.

1984-85. A spring rally took November 1984 futures to its highest closing value of \$7.61 1/2 on June 21, 1984. July 1985 soybean futures closed at \$7.97. November 1985 futures were not yet trading so that hedging of the 1985 crop would have been accomplished by selling July futures with the expectation of rolling that hedge forward when new crop futures began trading. November 1985 futures traded on July 23, 1984, closing at \$6.44 or a 31-cent discount to July 1985 futures. If the hedge had been rolled at that time, a net selling price of \$7.66 in the November futures would have been received (\$7.97 - \$0.31). However, if the July hedge had been maintained until the following June, the July-November discount would have narrowed to 8 cents, resulting in a net selling price of \$7.89 (\$7.97 - \$0.08). Prices declined sharply from June 1984 to June 1985 so that November futures closed at only \$5.54 1/2 by June 28, 1985.

1983-84. A large reduction in soybean acreage and dry growing conditions led to a small crop and high prices in the summer of 1983. The highest closing price for November 1983 futures was \$9.47 1/2 on August 26, 1983. January and March 1984 futures were at a premium to November futures, but the market was inverted beyond the March contract. March futures closed at \$9.65 1/2; July, at \$9.53 1/2; September, at \$8.25; and November at \$7.64 1/2. In this case, hedging of the 1984 crop would have been accomplished by selling March 1984 futures at \$9.65 1/2 and then rolling the hedge forward as discounts diminished.

By February 29, 1984, March futures had declined to \$7.50, but July futures were at a 23-1/2-cent premium to March futures. September futures were 36 1/2 cents lower than July futures, and November futures were 15 1/2 cents below September futures. The hedge would have been moved to July futures, gaining 23 1/2 cents. July futures had declined to \$7.47 1/2 by June 29, but September futures were only 9 1/4 cents lower than July futures. The hedge would have been moved to September, losing 9 1/4 cents. September futures had declined to \$6.22 3/4 by September 4, but November futures were 3 cents higher at \$6.25 3/4. The hedge would have been moved to November, gaining 3 cents. The net selling price was \$9.82 3/4 ($\$9.65\ 1/2 + \$0.23\ 1/2 - \$0.09\ 1/4 + \0.03), minus commission fees. That price was \$2.18 1/4 higher than if the hedge had been placed directly in November 1984 futures on August 26, 1983.

1980-81. A poor growing season led to high prices in the fall of 1980. The highest closing price for November 1980 futures was \$9.05 1/2 on October 24, 1980. Deferred contracts were at a premium through July 1981, but they were discounted beyond that. July futures closed at \$9.81; September futures, at \$8.80; and November futures, at \$8.41 1/2. Hedging of the 1981 crop would have been accomplished by selling July futures at \$9.81. July futures had declined to \$6.86 1/2 by June 30, 1981, but the deferred contracts were at a premium. November closed at \$7.31. The hedge would have been moved from July to November for a 44-1/2-cent gain, resulting in a net selling price of \$10.25 1/2. That price is \$1.84 higher than would have been received by hedging directly in November 1981 futures on October 24, 1980.

The current price structure resembles that of 1983, suggesting that 1989 crop soybeans could be hedged by selling March 1989 futures with expectations of moving that hedge forward at more favorable spreads. The biggest question is still when to sell.



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