Agriculture by Robert L. Baker

Soybean futures prices tumble

Per capita stocks are heading for historic lows—which ought to mean higher prices. Why are they dropping?

Minnesota Agricultural Commissioner Jim Nichols says there's a soybean shortage. In the Aug. 6 issue of the *St. Paul Pioneer,* Nichols states that the latest U.S. Department of Agriculture supply figures show that there are 125 million bushels of soybeans available in stock.

Because domestic soybean crushers use 60 million bushels of soybeans per month, and the new crop does not come to market until Nov. 1, according to Nichols, "That means there are not enough to meet our domestic and export demand." He also says there is no way the price for soybeans could be falling if supply and demand were the forces in the market.

In the same article, the reporter notes, "Cargill's startling admission that they had stopped using futures contracts for hedging soybean purchases or to cover export deliveries since last May says it all." Cargill is one of the biggest grain cartel firms.

The Minnesota commissioner's statement in fact may be too mild. In talking to the Economic Research Service (ERS) of the USDA, *EIR* was told even more interesting news. According to Ed Allen, the ERS soybean expert, the U.S. had 465 million bushels of soybean in stock as of June 1, 1989. Allen's estimate of domestic use and exports for the June 1-Oct. 1 period amounted to 128 bushels per month or 512 million bushels for the four-month period. If this is true, then the United States, for the first time in 30 years, could run out of soybean stocks before the new crop comes in.

Official USDA statistics indicate very tight supplies of soybeans before the new crop is harvested. In the August issue of *Agricultural Outlook* report, a monthly USDA publication which lists current crop statistics, 1988-89 ending stocks for soybeans will be 125 million bushels, the lowest level in 15 years. If Mr. Allen's estimate is right, the USDA is overestimating ending stocks of soybeans by at least 45 million bushels.

Now that it is an open secret that there is a shortage of soybean stocks, why are soybean futures prices tumbling downward? While the USDA and the grain companies quietly try to hide the severity of the soybean shortage, many legal, political, and congressional actions are having depressing effects on prices. As of Aug. 8, August soybean futures prices had fallen from a contract high of $9.51 per bushel to $5.92 per bushel. In 1980, when the U.S. had a large quantity of ending stocks that amounted to over 358 million bushels, soybean prices were much higher than they are today, and prices for all of that year averaged $7.57 per bushel.

Suspicion surrounds the more than coincidental fall of soybean prices at a time when a shortage occurs. The recent action by the Chicago Board of Trade, to force the liquidation of July soybean futures contracts, when an apparent shortage was about to be expressed in the market through higher prices, has many traders and farmers disgusted. Just when the market seemed poised to go up, the CBT action instigated a price drop to new lows.

At the same time, Commodities Futures Trading Commission chairman Wendy Gramm, speaking at the Chicago Association of Commerce and Industry, said, "We don't have any indication that there was any misuse of advance information." Indirectly verifying a supply shortfall, Mrs. Gramm said the CFTC believed that July soybean futures contract sales were dangerously above the soybean stocks available for delivery and were priced above the cash price.

But if soybean stocks are short, the price should be higher. Instead, it is going down.

Many market analysts are pushing the line that timely rains this summer apparently have revived production hopes for the previously drought-stricken Midwest and this is driving the market price down. But farmers and producers smell the rat of market manipulation by big cartel political interests.

A combination of happenings has depressed soybean market prices. The Justice Department has just indicted 46 traders for fraud, 19 of whom came form the soybean trading pits. The psychological impact on those traders remaining in the soybean trading pit at the CBT, undoubtedly, has a depressing effect on their trading activities.

The House Agricultural Committee is congratulating itself for changing rules and standards for the nation's futures exchanges. Nebulous provisions have been inserted which will make willful "insider trading" or using non-public information to buy and sell futures contracts a felony. The penalties, which threaten fines and a prison term, apply only to people, not firms. This, too, must hit commodities trading in a negative way, as critics think this is unworkable. What the stock market labels insider trading, the futures industry sees as perfectly respectable hedging.