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Soybeans - Are You a Trader or Hedger?

By Chris Lehner (Aug 1)

During the late winter and early spring of 2018, agricultural reports focused on poor growing conditions in Argentina. It was as if Brazil and other South American countries had little if any significance. Analysts also didn't consider that U.S. farmers were storing more soybeans than the year before and the cash basis was extremely wide.

But when it was obvious U.S. farmers were indeed going to plant more soybeans, traders began to take notice that Brazil's soybean crop was a record and with the possibility of a big U.S. soybean crop on top of stored beans, prices moved off their highs.

Then came the tariffs and U.S. farmers who did little to no marketing were able to push the blame for cheap prices on trade wars. It is easier to pass the blame than accept it. I am not saying the trade wars haven't had a negative impact on soybean prices, but far from what many in agricultural marketing and farmers are willing, or want to admit.

Other than the rally because of poor growth in Argentina, prices in the U.S. for cash soybeans for two years have been bad. Basis for soybeans widened out in early 2017 when Brazil's crop was a record buster. It was no secret that two years ago Brazil's crop was big, bigger than they could move, and they were forced to store when ships scheduled for U.S. 2017 harvested corn and oilseeds moved north. Brazilians literally ran for cover in the last quarter of 2017 to the point that polyethylene storage bags were sold out. Another reason bags were not available in Brazil is U.S. farmers knew they would store and pre-purchased before harvest more bags than ever. Last fall I published a report on U.S. farmers storing.

In 2018 after learning a lesson in 2017, Brazilian farmers took advantage of the spring rally. But more importantly, they sold when prices were at profitable levels and scheduled ships to go beyond the "normal" sales time. It is the reason that basis remains wide in the U.S. Don't be surprised to see movement from Brazil going past December 2018 into 2019. A record crop isn't moved during normal times.

Brazil's Basis is Far Better than in the U.S.

Currently, the basis in Brazil makes U.S. farmers cry and then dream. As of July 30, 2018 the soybean basis in Sao Paulo for September 2018 was bid at $2.25 plus September 2018 soybeans and offered at $2.40 over September. Why is there such a wide positive basis in Brazil and an extremely negative basis in the U.S.? The answer is MARKETING, plain and simple! Plus, this year, logistics is a big part of it.

Posting my reports on the internet has allowed me to "meet" with hedgers and speculators from around the world. It is almost ironic because I hear from many readers that seek my help, but what I learn has been sometimes better for me. Often I hear from producers in Brazil and more often than not, they are the "marketing" person.

One obvious difference that I have noticed has to do with what they want to know. They start by telling me about their costs of production versus what I usually hear from U.S. farmers, “How high or how low are markets going to go?” They want strategies on selling and covering sales.

The reason for the basis differences between the U.S. and Brazil is not hard to figure out. Brazilian’s sold their crops. At this time there is little left to sell of old crop. However, it doesn’t have to mean exporters must come to the U.S. for soybeans. The April/May basis in Brazil for new crop is being offered at 93 cents over May without bids. As I write on July 31st at 12:00 central time, May soybeans are near $9.40. With a 25% tariff, U.S. beans would be in Chicago 9.40 + 2.35 or 11.75 and with the current Gulf basis at plus .40 cents to .55 cents from $12.15 to $12.30. Brazil’s basis at ports now equals Chicago U.S. with tariffs. Also, Brazil and China have made several trade agreements. Trade agreements assure purchases.

However, China will likely need more soybeans than they can source from Brazil. For years reports have talked about the cost China has storing grains, oilseeds and other commodities in its reserve program. Now we know why they have a reserve. China can pull soybeans from the reserves and then replace them at prices that aren’t at the tariff. But they can also source from countries such as Black Sea countries and countries in South America that also have surplus crops and oilseeds such as countries like Canada.

China has encouraged farmers for many years to grow more soybeans and less corn and slowly it has been working. Large farms that China also encourages that don’t need corn to feed, or who are not subsistent farmers, can switch. China does not pay a subsidy for corn but does pay a large subsidy for soybeans. The most recent report I found on China’s subsidy on soybeans is 28% of the crops gross value. So once again, it is about cost of production.

Will the E.U. buy enough soybeans to make a difference? It is highly doubtful. Last year China bought over 32 million metric tonnes of soybeans from the U.S. and all E.U.-27 countries bought a little over 3.1 million. So far China is down approximately 22% from a year ago. Monday’s Crop Progress and Condition report was a disappointment to some farmers. Many were hoping for crop conditions to fall. Of course, they were hoping conditions fall far from their own farm. Corn and soybeans are at least two weeks ahead of normal growth, according to most farmers I talk to on a regular basis. Soybeans can take heat and it is why the saying goes, beans are made in July. If you are counting on a drought for a rally, you are starting out on the wrong path.

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