



Soybeans - Is There More to the Upside?

By Chris Lehner (Mar 2)

More soybeans are going to be planted in the U.S. for 2018. I am not too sure more soybeans will be planted than corn acres, but there definitely will be more soybeans.

The price for soybeans is better. The crop insurance price was set on March 1, 2018 averaging the February prices for November soybeans and December corn. Soybeans are at \$10.16/bushel, which is 3 cents less than a year ago and corn is \$3.96/bushel, the same as 2016.

I feel one major reason there will be more soybeans isn't the price, or for some farmers that had better yields for soybeans over the past couple of years, but cost of planting.

More acres are going to soybeans because 20% to 25% of farmers aren't getting loans to cover the expenses of planting corn. Depending on land costs and some variations on fixed and variable costs, it is roughly \$200.00/acre, some areas more, some less to plant soybeans.

Throughout last summer's crop condition reports, 25% of the corn crop condition was rated fair, week after week. Some had to do with weather, but more than many farmers will admit, it had to do with farmers who didn't put on enough nitrogen, especially the last applications with many skipping later applications all together. Anyone driving through the Midwest could see it. As for me, talking to as many farmers as I do, I was told money was tight.

Grain farming has not had the profits it did from the time the market moved higher in 2010 through 2014. Unfortunately, far too many farmers that stored unpriced corn ended up getting the low side price of the crop year along with the cost of storage on and off the farm. From the August 2012 high, many farmers waited for rallies. They stored and as we saw a year ago, moved stored crops during the summer before harvesting the next year's crop.

Grain prices have been going down at the same time inputs remain high. Yes, inputs have come down, but not in comparison to grain prices. Also, and many speculators give it no consideration, farmers have most of the everyday expenses that people working off farms have. Farmer's kids want the same tennis shoes as a kid who lives in a city. They buy cars, pay the same at the grocery store... The Federal Reserve is raising rates 3 to 4 times this year because of concerns of inflation. Farmers know about inflation. Interest rates will rise on farm loans.

In other words, it isn't the price farmers will receive and past yields that has more beans planted, but the underlying costs to plant.

The Soymeal Rally

First of all, by mid-January corn, soybeans, soy meal and wheat were begging to be bought by users. Corn cash prices in major livestock feeding areas of the Midwest were below \$3.00/bushel, soybean prices in many areas were near \$8.50/bushel and soy meal was near \$300/ton. Cattle, hog and poultry producers knew it was time to contract it. At the time, feeder cattle prices were near \$160/cwt or higher and cattle prices for early summer, June Live Cattle, were \$110/cwt to \$115cwt. Cattle producers even with cheap feed were buying with estimated losses, or on the come expecting to make money as they often do, but they needed to lock in feed costs and they did. Of course, grain prices might have gone lower, but when a corporate feedlot, livestock or poultry producer knows the possibility of larger losses that could take place, they knew to take advantage of multi-year low feed costs.

The same can be said for other users. It is one reason basis has started to narrow.

Argentina

I am sure everyone knows Argentina has turned into a new South American desert. No doubt, the crop has been hurt and, in some areas severely hurt, but until harvest, the degree of damage is speculation. Crops are more than often destroyed by analysts than actual growth of the crop. Prime examples are the crops in the Dakota's, Iowa and other Midwestern states this past year. The letters I had last year during the summer were of complete devastation. Of course, by harvest much had changed. Crops weren't destroyed as some predicted

Also, do Argentine farmers want to sell many beans? This year export taxes are dropping from 30%. However, over the next two years they will drop down to 18%. The plan drops the tax by one half a percent per month. Undoubtedly, many farmers will be looking at it when making the decision to sell or not. Don't be surprised to see heavy contracting soon for delivery during U.S. harvest time.

Also, where do soybeans from Argentina go? The top export destinations of Argentina are Brazil, the United States, China, Vietnam and Chile.* The top import origins are Brazil, the United States, China, Germany and Mexico.

With Brazil now estimating their crop of soybeans at an all-time record and with the U.S. expected to plant more soybeans than ever before, plus China increasing their soybean planted acres, will the drop in Argentine soybeans be a factor? NO!

Soybeans and soy meal have moved much higher than I previously thought. But when speculators begin to pull out, who knows where the bottom may be.

Let me know what you think. Call me at 312.242.7942 or send me an email to chris.lehner@archerfinancials.com.

**As of 2016*

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