Bumper crop, sagging prices force tough bean marketing decisions

WASHINGTON, D.C. — This year's bumper crop and weak prices are forcing some tough marketing decisions for soybean growers.

While producion costs have edged higher, soybean prices at the farm declined steadily from $7.60 in April to $6.29 in mid-September, and have weakened further since. Season average prices for the marketing year that began on September 1 are likely to range from $5.50 to $7.00. What's behind those weak prices?

U.S. soybean production is forecast at 2.11 billion bushels, 18 percent above last year's drought-reduced crop.

Although wet weather delayed plantings and reduced yields in the key producing States of Indiana and Ohio, record or near-record yields are currently forecast in Iowa, Kansas, Missouri, Nebraska, North Dakota, and Tennessee. Overall, prospects point to the second largest crop on record.

Domestic demand for soybeans and products should be up from last season, but probably not as high as in 1979/80.

Soybean meal use will probably increase as poultry production continues to expand and hog producers respond to improved feeding margins. Use of soybean oil should also rise a little because of population growth and an expected improvement in economic conditions in 1982.

World soybean production could jump 12 percent, with most of the increase here in the United States.

Some gains are likely in major exporting countries in the Southern Hemisphere, even though crops there have not yet been planted. World oilseed output might be up by nearly 15 million metric tons to 175 million.

Export demand for U.S. soybeans and products should show some improvement. Along with lower prices for beans, meal, and oil, a weakening of the dollar against some major foreign currencies is expected in 1982. This would stimulate additional sales of soybeans. Because economic growth will continue sluggish in many importing countries, demand, though improved, will not be as strong as in 1979/80.

While price prospects have deteriorated, variable production costs have continued to climb. Biggest gainers from last year were fuel and lubrication, up 24 percent, and fertilizers and lime, both up 18 percent.

While total variable costs including land increased, improved yields this year are tempering that rise so that on a per bushel basis, total costs including land, show a slight decline.

Marketing the 1981 soybean crop successfully will depend on how well the price outlook is gauged with costs of production high again this year, marketing decisions are more important then ever...profits depend on them.

Use of any available marketing alternatives should be a decision based on specific individual requirements including debt repayment, costs and availability of storage, and tax considerations.

Let's look at the alternatives:

• Sell all or part of the crop at harvest. Remember that sales tend to be large and prices relatively low at that time. Over the last 8 years, more than a third (34 to 46 percent) was marketed during September-November. Also, three season average price lows occurred in those 3 months.

• Forward cash contract part or all of your crop. Cash contracting means fixing an exact amount and price of beans to be delivered at a specified time to your local elevator or buyer.

This option may be attractive if you have a sizeable amount of borrowed fund to repay, and are particularly interested in pricing enough of the crop to cover variable costs and land rent.

As an example, suppose there is the opportunity to forward contract beans for harvesttime delivery at $6.20 a bushel. If total variable costs and land rent equal $135 per acre, and the expected yield is 30 bu./acre, to cover total cash costs, the percent of the crop to contract would be: total variable costs and land rent divided by expected yeild x contract prices, or:

$$\frac{\$135}{30 \times \$6.20} = 73 \text{ percent}$$

Plug [redacted] to this equat[redacted] to sell ahead,[redacted] harvest will be sufficient[redacted] over your contracts.

• Store all or part of this year's crop and sell at intervals after harvest. With this option, weigh your storage costs and anticipated returns from delayed sales against what might be earned by selling at harvest and putting the receipts in money markets or other investments earning high interest rates.

• Place a storage hedge in the futures market.

Support the current cash price is $6.20 a bushel and you are considering storing your beans until the first week in July. How do you determine if the market is paying you to store?

Determine your target price. If in November, the July futures price is $7.50 and your extimated basis for the first week of July is $0.25, then the target price is $7.25 ($7.50 - 0.25).

Determine your asking price: If the cash price is $6.20 and the monthly storage cost is 12 cents a bushel, your asking price is: $6.20 + ($.12x9), or $7.28.

If your target price is less than your asking price, as in this example, the market is not paying you to store.

• Defer pricing. You may want to consider a no-price established contract that allows you to sell some of your beans to your local elevator but defer your pricing decision. When an NPE contract is written between the seller and the elevator, all rights and title to the beans pass to the elevator. A major advantage of this option is that it frees the producer from storage costs, including interest.

Examine your cash flow situation closely before you decide on this alternative because payment will not be made until the beans are priced some time in the future.

Payment is determined by the elevator's spot bid the day you price your beans. This method allows you to price your crop when you think prices are most favorable.

Remember, this system does not offer any downside price protection. Also, there is an opportunity cost associated with delaying payment for your crop. This cost varies with interest rates and may be significant at this time.

FCIC announces localized crop insurance

WASHINGTON, D.C. — All-risk crop insurance will be more easily accessible to farmers by a plan to localize the sale of crop insurance to farmers through local crop insurance agents.

The plan, which should be in effect in all areas of the country by spring 1982, was announced today by Wayne Fletcher, president of the U.S. Department of Agriculture's Federal Crop Insurance Corporation.

Fletcher said the use of local agents will improve service and be an added convenience for farmers presently served by a multi-county FCIC office or county office of USDA's Agricultural Stabilization and Conservation Service.

He said farmers who have not already selected a new agent by the time the multi-county FCIC offices are closed will be provided with a list of agents from which to choose.

"The choice of a service office is up to the farmer," said Fletcher. He said FCIC will assign insurance files to local crop insurance agents in cases where policyholders fail to make their own selection. These policyholders will be informed of their assigned agent when the file is transfered. However, farmers have the option of changing service agents up to the earliest sales closing date for their insured fall and spring crops, according to Fletcher.

All-risk crop insurance policies now are available from agents and agencies contracted with FCIC and from private companies reinsured by FCIC. These policies offer the same protection and cost.

All-risk policyholders have the option to buy hail and fire protection included in the basic policy or to purchase substitute protection from private companies.

"Farming today is an extremely risky business," said Fletcher. "More and more farmers and lenders are recognizing the importance of all-risk crop insurance by farmers has doubled in many areas."

Chester Holstein Club

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outstanding work with Holsteins. Her junior calf collected blue ribbons everytime she stepped in the showring this season, including the highly competitive All-American. April, 18, is the daughter of Mr. and Mrs. Kenneth L. Plumley, Pottstown.

Cochranville 4-H'er, Anthony Beiler, was honored for his outstanding achievements in the dairy field. For the past year, he has channeled much of his work into his Holstein, Frisky Acres P.G. Standout Memory. Anthony, 14, is the son of Ben and Janet Beiler.

During the business section of the evening, members elected three new directors to step in for three-year terms.

The new directors are: Stanley Guest, Pottstown — Century Oak Holsteins; Carl Yoder, Elverson — Rocky-Side Farm; Freeman Evans, Chester Springs — Spring-Aqua Farm.