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The Cash Market for Soybeans

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The Cash Market for Soybeans

Over 96 percent of the soybeans grown in the United States are sold off the farm. Thus the cash market is important in the marketing of this crop. The cash market is the one you normally use. It is simply the place where you usually take your beans and exchange them for dollars, either at harvest or after storing your beans for a while. In either case, you normally price your beans at delivery.

The Country Elevator

For most soybean producers, the country elevator is their cash market. In reality, though, the country elevator is just the first tier in the soybean marketing structure. The country elevator market is made up of thousands of individual elevators scattered throughout the major soybean producing areas. These elevators represent the most widespread type of business engaged in grain marketing beyond the farm gate.

The term *country elevator* refers to a firm that buys more than half of its grain directly from farmers. It usually has facilities for receiving, conditioning and storing farmers' grain, and then reloading it for rail, truck, or barge shipments to other handlers or processors.

Country elevators may be owned by an independent, local businessman; they may be a branch of a firm that owns other elevators or businesses; or they may be owned cooperatively by farmers themselves.

In the overall soybean marketing scheme, the function of country elevators is to absorb the harvest rush and begin the process of spreading the soybean crop out more evenly to meet steady, year-round consumer demand.

Subterminal and Terminal Markets

Country elevators can't do the soybean marketing job alone, however. They depend on successive levels in the industry's structure to provide steady cash markets and additional flexibility in distributing beans coming from the farm. From the country elevators, most soybeans move to subterminal or terminal elevators.

Subterminal elevators are elevators which receive over half their grain from other elevators. They are generally located outside the major grain concentration points or terminal markets.

Location of *terminal markets* serve several economic functions. Since they are crossroads for major transportation networks, terminal elevators typically can both receive and ship grains forward by truck, rail or barge. Terminal elevators also are major collecting, storage and merchandizing points for grain. This softens the harvest rush and permits accumulation of grains in sufficient volumes to fit the requirements of almost any buyer or shipper, domestic or export. Soybeans from a wide area of supply tend to move to terminal elevators, from which beans and their products are redistributed into areas of consumption. Terminal elevators provide much of the flexibility necessary for efficient marketing of soybeans under modern conditions.

The Transformation Market

The next stage or "channel" in the soybeam marketing structure is the "transformation market." This market includes many businesses—the feed manufacturer, the processor who transforms soybeans into oil and meal, and the exporter who transforms beans or products into overseas shipments in return for foreign exchange.

All these stages or channels are necessary to make the soybean marketing industry work.

Pricing Grain at Country Elevators

Country elevators buy grain from producers and then sell it by consigning it to a central market or shipping it directly to a terminal market or processor.

Many country elevators contract grain for future delivery immediately after purchasing it from growers, or they hedge their inventories in the futures market.

In setting their prices to farmers, elevator managers must consider costs of handling, delivering grain to buyers, and the actions of their competitors. Differences in costs and efficiencies give some elevators an advantage, but because most soybean handlers have diversified businesses, they often don't know exactly what it costs them to handle soybeans. As a result, most elevators offer growers essentially the same price offered by their competitors in the same location—based mainly on the Chicago futures price, minus handling and transportation charges.

In reality, the soybean prices paid to growers by country elevators are determined by overall supply and

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demand for soybeans, both nationally and internationally. This depends on many factors such as size of the soybean crop in major producing countries, availability and price of competing oil and protein supplies, livestock numbers, unusually large purchases by major consuming countries and carry-over stocks in any given year.

The Effect of Grade on Price

Since all soybeans aren't alike, they are graded and placed into five quality categories—grades 1 through 4, plus a sample grade for lowest quality beans. Without these grades neither grower nor buyer would be sure of a fair return for his efforts. Market reports would be vague unless they were based on precise grades. Accurate grading makes warehousing and comingling possible, as well as futures trading. And purchases of soybeans from other markets and for exporting are based on uniform grades.

Soybean Grade Factors

1. *Test weight per bushel*—a volume measurement used to gauge the plumpness of the bean and the products that can be recovered through processing.
2. *Moisture content*—necessary because excessive moisture makes drying and storage more difficult.
3. *Split kernels*—an undesirable quality in beans for processing, since they may be contaminated with molds or dirt.
4. *Damaged kernels*—also lowers the quality of products made from processed beans.
5. *Foreign material*—any extraneous matter such as dirt, weed seeds, other grain or broken kernels of soybeans themselves.
6. *Off-color beans*—objectionable since oil may be off-color too.

These quality standards usually carry discounts which affect the price of soybeans at all levels of the industry. The country elevator usually settles with the grower on the basis of Federal standards, although official inspections are usually not made at this level. Beyond the country elevators, though, official inspections are usually made at each transfer of the beans from one owner to another.

Desirable Management Practices

With today's harvesting equipment and understanding of field losses, there's no excuse for losing large numbers of beans during harvest—or for lowering of quality or grade by improper timing or harvesting techniques.

Doing an excellent harvesting job can put lots of dollars in your pocket. Here are steps you should follow to keep losses at a minimum:

- Know where losses commonly occur and why.
- Know how to quickly measure these losses.
- Know what losses are considered reasonable from the various machine components.
- Know what machine accessories and cultural practices will help reduce losses.
- Know what machine adjustments and operating practices will keep losses to a minimum.

Good cultural practices can help you produce top yields of high quality beans. Variety selection, good seedbed preparation and good weed and insect control are especially important.

Special Markets

Be sure to check around before you decide where to sell your beans. If you are in reasonable distance from a processor, a terminal market or an export market, consider selling directly to them. The farther you can get up the handling line, the higher the prices paid for the beans.

Should You Store?

In almost every year, soybean prices rise after the harvest season enough to justify the cost of storage. During the past 15 years in the United States, there were only three years that storage was a costly mistake. So with good storage facilities and good management, you can usually make money by storing beans at harvest when prices are lowest and timing your sales for more favorable prices.

Advantages of On-Farm Storage

- *Earlier harvest*—less losses, less weather damage, longer harvest day, longer harvest season.
- *Flexibility in marketing*—may sell at harvest or later, may market beans for cash or through livestock, may take better advantage of futures.
- *Flexibility in farming systems*—may grow and store a single crop or combinations of crops, may grow both grain and feed livestock, may add feed mill.
- *Better use of labor and equipment*—may spread out chores, eliminate waiting at elevator, possibly reduce number of trucks.
- *Flexibility in tax planning*—can shift income from one year to the next.
- *Sell at seasonal high price*—usually 8 to 10 months after harvest.

Disadvantages of On-Farm Storage

- Initial capital outlay.
- Extra management and labor required.

- Must assume responsibility for quality of stored beans.
- Some shrinkage will occur during storage and drying.

Commercial Storage

Storing your soybeans off the farm can eliminate some of the disadvantages of on-farm storage. For instance, you eliminate the need for tying up capital in storage facilities. You also eliminate the extra labor and management that would be required with on-farm storage, and you shift the risk of shrinkage and quality deterioration to the elevator operator.

Commercial storage is more expensive in most cases, though, and it may not always be available when you need it. You lose some of your farming flexibility if you store off the farm rather than in your own bins.

Storage Management Practices

Producers with on-farm soybean storage must maintain the quality of their beans during storage. This means checking them frequently and keeping a small air flow moving through the beans to keep the moisture content down. Insects generally are not a problem with soybeans in storage.

The producer who stores beans must decide when is the best time to take his beans out of storage and sell them for the best price. The two times that soybean prices are usually highest after harvest are sometime in late winter or early spring and again in late summer just prior to the next harvest season.

Summary

The country elevator is the cash market for most soybean producers. Country elevators absorb the harvest rush and begin the process of spreading the crop out more evenly to meet consumer demand. Soybeans then move up the line through subterminal and terminal elevators and on to processors or the export market. Prices paid to growers depend on available soybean and competitive oilseed supplies and worldwide demand. Growers can increase their returns by anticipating market demand, keeping the quality of their beans high, selling to the right markets at the right time and storing their crop for sale after the harvest rush is over.

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