Agriculture by Susan B. Cohen

The commodity impact

The evidence that the market drop was rigged, the certainty that it will hurt farmers.

Commodity futures prices took their sharpest dive in postwar history in the 10 trading days ending Friday Dec. 12. The $2.00 a bushel drop in soybean prices was the biggest in the Chicago Board of Trade's memory. The immediate trigger was the latest surge in interest rates.

Betting on a tight supply situation and rising prices in all but wheat, speculators in agricultural commodities had taken large long positions in the market (they bought contracts for future delivery at specified prices). When futures prices began tumbling at midweek, there were margin calls of up to $20 million, and many speculators bailed out at a loss, pushing prices even lower.

After the markets had calmed down a bit, Chicago Board of Trade President Robert Wilmouth announced that all clearing members had met their margin calls as of 8:00 a.m. Friday morning, and everything was back to normal. But was it?

Before Wilmouth and others put the clamps on, information had seeped out about the casualties and near casualties of the recent market turbulence. On Friday, the *Chicago Tribune* carried rumors of huge losses at major brokerage houses, among them Continental Grain's ContiCommodity Services, Bache, Paine Webber, and Pillsbury. McLean II, a commodity fund sponsored by ContiCommodity, lost its $6 million in capital and collapsed. The Farmers Export Co. of Kansas City, a "super-coop" that handles exports of grain and oil seed for 12 regional farmers' cooperatives, was rumored to have lost between $30 and $100 million. Its president, James A. Layton, resigned amid the flap, denying large losses.

Less spectacular, but no less serious, was the cost to American farmers. The new price collapse tightens that much more the squeeze between farmers' production costs and the prices they receive for their products. Soybean prices, to take the worst case, dropped from $8.55 a bushel in early December to $6.05 on Dec. 11 in a representative cash market and have regained only a few cents since then. The May 1981 soybean futures contract plunged from nearly $10 a bushel to $7.99 over the same period.

Through late November, there was distress selling of grain by farmers carrying 18 to 20 percent financing charges. Even though supplies of corn and soybeans were unusually tight due to last summer's drought, cash prices were falling while futures were rising. Now both are depressed. And some producers who had tried to offset their cash market losses by buying futures got doubly burned.

There are still a lot of questions to be answered about how the recent market collapse was triggered, given the outlook for tight supplies and shortages ahead. The surge in the prime rate over 20 percent was undoubtedly a factor, inasmuch as record interest rates have made holding stocks prohibitive.

The Dec. 15 issue of *Feedstuffs,* the trade magazine of agrobusiness, added that the potential for cutoff of trade with the East bloc if the Soviets go into Poland, caused a panic about declining U.S. grain exports and more downward pressure on prices.

There is also considerable evidence of market rigging—a move by big speculators to stampede the market downward. Doug Wildin, a contributor to *American Agricultural News,* the newspaper of the American Agriculture Movement, emphasized in an interview that the big December sell-off did not reflect selling by producers; distress selling of grain earlier this fall had come to an end and that grain was already in the pipeline. The week of Dec. 8, in fact, the AAM called for a moratorium on further farm sales until the markets stabilized.

Wildin thinks that some very big, "foreign-based" speculators, among them the multinational grain companies, "leaned on the market" and started a stampede, prior to going into the market and locking up supplies of grain at cheap prices. This is what is known as "milking" the producer. *Feedstuff's* commodities column, "Bloody Price Slide May Create Opportunities," noted that there were massive unmet "sell" orders when the market closed Dec. 11—for 20 to 30 million bushels of soybeans, 12 to 15 million bushels of corn, and lesser quantities of other commodities. But instead of prices collapsing further, as expected on Friday, the market bounced back as a result of "commercial and export support."