Behind the great soybean battle

Cartel companies compete for scarce food commodities, as exchange agreements disintegrate.

The battle over soybeans, the most important livestock feed, that erupted July 11 in the Chicago Board of Trade is the most dramatic of a series of skirmishes among the food cartel companies to obtain stocks in the face of world output decline. Cartel food companies are squaring off over cocoa, sugar, and even wheat, as low stocks, combined with huge Russian and Chinese import demands, create havoc in supply lines, after years of needlessly low farm production and liquidation of family farmers.

At present, there is a mad scramble over sugar among cartel brokers. World sugar production this year will fall at least 369,000 tons short of consumption. The Beijing regime sent a delegation to Cuba earlier in July in attempts to be certain that they will get another 300,000 tons left to go, out of an original order of 600,000 tons.

The "Great Soybean Battle" is the biggest fracas to date. On July 11, the Chicago Board of Trade directors decreed an emergency sell order that all traders had to start liquidating their soybean positions for July delivery by 20% per day, until they came down to hold no more than 1 million bushels as of July 20—because their contract deliveries were way out of line with physical stocks. This was aimed at the Italian grain merchant, Ferruzzi Finanziaria S.p.A., which held contracts for an estimated 23 million bushels of soybeans for July delivery, when only half that amount was in convenient locations if physical delivery were called for.

Last year's U.S. soybean harvest was 30% below normal. U.S. carryover stocks are estimated at about 100-120 million bushels, as contrasted with 600-800 million bushels considered normal at this time of year. The U.S. soybean harvest does not begin until September.

Ferruzzi filed a motion for a temporary restraining order against the CBOT, which was denied July 12, and the liquidation of CBOT contracts has proceeded amid great controversy. Soybean prices to the farmer were depressed by the action, and farmers are estimated to have lost $2 billion. They might have gained $7-8 billion if the trading house brokers had to try to scramble to meet July contract deliveries. Farmers are getting less than $7.50 per bushel for beans, when the parity price (a fair price to cover their costs and ability to operate in the future) is over $12.50, and a true "supply and demand" market price would be over $25 per bushel.

The grain pit traders report that Cargill and Archer Daniels Midland (allied with the Hamburg-based Toepfer group) leaned on the Chicago Board of Trade to order the soybean contract liquidation, because they would have lost a bundle, and probably defaulted on deliveries. ADM, Cargill, and Ferruzzi are the world's largest soybean dealers.

Archer Daniels Midland gained clout a few years ago by working with the FBI to have FBI agents pose as ADM futures traders in a sting operation against the Chicago Mercantile Exchange and CBOT. On July 13, a petition was put in circulation among traders in the CBOT futures market, asking for the expulsion of ADM from the exchange. Though no one thought the maneuver would succeed, 200 people signed it the first day.

The Ferruzzi group, which owns Indiana-based Central Soya, has taken the stance that they are simply trying to guarantee their commitments to the Soviet Union. Ferruzzi is expected to buy heavily in the futures market for August and September soybean delivery.

A senior representative of Ferruzzi in Europe said July 19 that Ferruzzi began securing soybean supplies beginning in May, when they took delivery on "more than 8 million bushels," leaving the Chicago Board of Trade reserves at 4 million bushels. They said that the CBOT "order to liquidate" futures positions for July contract of soybeans was extraordinary—the "first time in recent history where a commercial hedger has been ordered to liquidate hedges." The Ferruzzi spokesman confirmed that world soybean stocks are most precarious. "South America—Brazil and Argentina—are a mess; strikes, port closings, farmer price protests, all make those supplies unreliable. Demand, especially Russian demand, which is still growing and should reach between 5-6 million tons this year, is very strong. This meant the only supplies available were from the U.S."

European traders muse that the unusual intervention by the CBOT, endorsed by Agriculture Secretary Clayton Yeutter, a former president of the Chicago Mercantile Exchange, was perhaps motivated by the intent of U.S. grain and political circles to keep the monopoly on supply of soybeans to the world market in the current situation, and to prevent a European rival to dominate especially the politically sensitive Russian market.