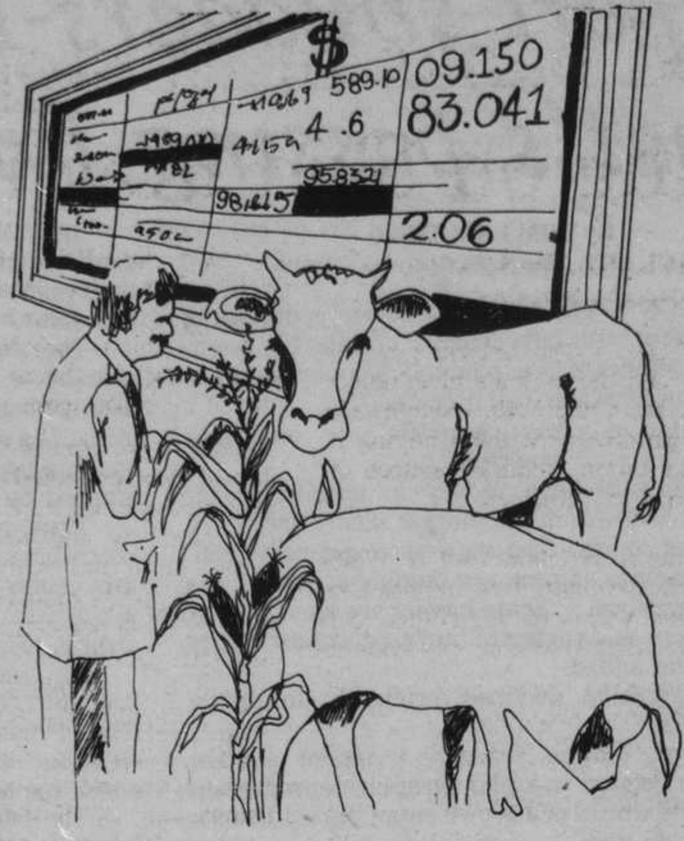
In the corn pit, a group gamble



CHICAGO — In the loose tan cotton coats they wear, they look like shoemakers. At 9:30 one recent Wednesday morning, 250 to 300 of them stood squeezed sweatily together on the steps of a small wooden pit, octagonal in shape, on the floor of a cavernous four-story room inside a fashionable downtown office building here.

Suddenly an iron gong was run, and all seemed to go berserk, shouting hoarsely at each other, leaping up and down to see and be seen, gesticulating wildly, occasionally scribbling hasty notations on cards they held in their hands.

Several feet above the pit, a calm man in a blue jacket stood in a kind of pulpit, looking down into the melee, listening closely. The man turned and spoke a few words to a clerk at his side, and seconds later, numbers flashed on huge green boards high on the walls at each end of the room.

The price of every bushel of corn in the world was two cents higher than it had been at 1:30 p.m. the day before.

The men in the shoemakers' smocks were corn traders. The wooden octagon is the corn pit on the trading floor of the Chicago Board of Trade, the world's largest, and in the case of corn, its dominant commodity exchange.

ABSENT MEMBERS

The corn that they were buying and selling has two important characteristics. One is that most of it does not yet exist. The action in the pit is the trading in corn future, mostly right now in the coming crop, the one that is still in the ground and will not be harvested until late fall.

The other fact is that this corn is not the kind you eat. It is the kind that is fed to animals, to cattle, hogs and poultry being fattened on their way to market.

There were a lot of things at stake that Wednesday in the corn pit. The main one was the price that you will pay next winter and much of the next year for meat.

The new crop will not be harvested and available in sizable amounts until October, at the earliest. In January of this year, you could have bought some of this corn for December delivery here for as little as $1.34 a bushel. On July 11, no one in the pit could sell any for less than about $1.93 a bushel, and by the time the trading stopped for the day—promptly at 1:30—the price was about$2.03.

That is an increase—in this key ingredient of what you ultimately buy as steak or ham or eggs—of 51 per cent in six months. The last time anyone can remember $2 corn like this is 1947 and 1948.

Question, then: why won't any of the men in the cotton coats sell for less?

The first part of the answer is that only a relative handful of the traders in the pit are holding any great quantities of corn in their own names at any given time. Most of them are either in-and-outers, men who make their livings on quick fluctuations in prices from day to day or even hour to hour, or who are simply brokers, like stock brokers, filling orders on commission for outsiders.

A GROUP GUESS

These outsiders range from huge grain exporting corporations that may buy or sell a million bushels at a time, to small investors who think buying corn might be more fun, or more profitable, than buying shares in U.S. Steel.

As a practical matter, if corn is scarce in December, the price will be high, and if it is abundant, the price will be low. What the daily price in the pit represents is a great collective estimate of what corn supply and corn demand are going to be six or 12 months from now.

Benjamin Raskin is one of those traders who sometimes does buy corn and hold it for the price to rise—or the reverse: if he thinks that the price will fall, he will agree to sell corn at the price prevailing now, and wait to buy until the price is lower.

The only tricky part for Raskin is deciding in advance which way the price is going to go. In an interview in his office, Raskin listed some of the things he keeps tabs on, things that make the price go up and down.

It gets complicated. It is not just corn you have to watch, but things like the world wheat supply, the drought in Africa, the price of hogs, the daily ups and downs of the dollar abroad, and least predictable of all sometimes, the doings of the U.S. government.

Take wheat and drought, for instance. In many countries, and to some extent in the United States as well, wheat is grown for animal consumption as well as human. When wheat gets scarce, however, humans get it all, and animals are given other things to eat, like U.S. corn.

A LOGICAL JUDGMENT

In some African countries, drought has hurt the wheat crop. These countries have come out into the world market to buy wheat. Egypt, Raskin noted, is reportedly in the U.S. market for 400,000 tons, and "normally Egypt would go any place but the U.S. because of politics."

Deduction: Things are serious. Tentative conclusion: if they're coming out for wheat, they may soon be coming out for corn as well. That means more demand, and more demand means higher prices.

There are similar calculations to be made about U.S. demand, and that is where the price of hogs comes in. Frequently, typically perhaps, a farmer who grows corn also raises hogs. Every year he has two choices. One is to raise more hogs, feed the hogs the corn he grows, and send the hogs to market.

The other is the opposite: not spend time on the hogs, and simply send the corn to market. He does the first if hog prices are high and corn prices are low, the second if it is the other way around. If he doesn't send the corn to market, corn prices will start to rise; if he does, they won't, and may go down.

Raskin has to do whatever the farmers don't do: buy futures if farmers aren't selling corn (because the price then will go up, and he can sell out later at a profit), or sell futures if the farmers are sending their corn to market (because then the price will fall, and he can buy an equal number of futures later at a lower price, leaving him with no futures but with a profit.)

On Wednesday, July 11, however, it was neither wheat nor hogs that had the market fluttering, but corn itself, and words from Washington. On Tuesday afternoon, after the market closed, the Department of Agriculture had issued its July 1 crop report. The report contained the first official estimate of how many acres of corn U.S. farmers planted this year, what the yield per acre might be, thus how much corn might finally be produced.

EXTRA DISTRUST

Production last year was 5.5 billion bushels. The government had earlier projected, on the basis of farmers' announced intentions, that this year's production would be 6 billion bushels. The projection in the new report was close to that, just under 5.9 billion bushels.

In a normal year, projection of a big crop like that would depress corn prices, just as a low projection would send them upward. This year, however, is not normal. Many of the traders here think that the government's projection is too optimistic. The government thinks that the average yield per acre of corn will be 94 bushels this year: it was 97 last year.

The skeptics among the traders point out that a lot of this year's corn was planted late, the result of too much wet weather both last fall and this spring. The delay in planting was one of the things that sent the price up this spring. "The corn is only three feet high," one trader said last week. "It's too early to be making predictions."

A lot of the men in the cotton coats are of the view that the government is not going to let a bushel of corn go much beyond $2, no matter what. "The government's committed to just one thing," one broker said last week. "Lower food prices."

"I've been friendly to corn so far this year," this man went on, meaning he had been buying futures in the expectation that the price would rise. Now, he said, the friendship is over for a while. "I think maybe corn is fully priced for now."

He won't find out if he is right until it snows.