

Research on Investment in China's Soybean Futures Market - Taking Soybean No.1 Futures Contract as an Example

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Abstract. The Chinese futures market has made significant breakthroughs in the past few years. As the operating mechanism and market norms of China's futures market gradually improve, the Chinese futures market is becoming increasingly active. Soybean futures prices have seasonal volatility, this has attracted a large number of investors, but most futures investors lack professional investment analysis skills. This article will provide investment advice for soybean futures investors, and assist them in making appropriate decisions in investment. This article mainly summarizes the market trend of Douyi Main Company in 2023. This article first conducts a market analysis of the price trend of Douyi Main Company over the past year, describing its price trend for the year. Subsequently, this article conducts a fundamental analysis of the soybean futures market, exploring how various influencing factors have an impact on the price trend of soybean futures in 2023. Subsequently, this article summarizes the influencing factors of soybean futures price fluctuations through fundamental analysis results, the influencing factors include the status of domestic soybean spot inventory in China, prices of alternative agricultural products, and international market prices of soybeans. Finally, this article conducts market prediction and investment value analysis based on fundamentals, and provides investment recommendations for investors, this article predicts that the fundamentals of soybean futures will remain bearish in 2024, and their prices may further decline. Therefore, this article suggests that investors can consider short-selling near-month contracts and closely monitor market changes to close positions at the appropriate time.

Keywords: Influence factor; fundamental analysis; market prediction; investment advice.

1. Introduction

With the gradual improvement of the market operation mechanism and market norms in China's futures market, China's futures market has achieved tremendous breakthroughs. The futures market is becoming increasingly active, and it has promoted the stable development of China's economy [1]. Soybean, as an important grain crop in China, is the main force of agricultural products. Soybeans were listed in the first batch of agricultural product futures in China. China is a major consumer of soybeans. Soybean futures have gradually become a crucial commodity in the futures market. It has a significant impact on the development of the national economy [2]. Soybean futures trading in our country is becoming increasingly active, and soybean varieties themselves have seasonal volatility and great investment charm. Many investors are seeking profits in the soybean futures market. However, most futures investors in our country lack professional investment analysis skills, and they often face loss and exit situations in soybean futures trading [3].

This article will first conduct a fundamental analysis to explore the supply and demand situation of soybean spot goods, alternative agricultural product prices, the international market price of soybeans, and how they affect soybean futures prices. This article analyzes them separately based on their specific data in the year 2023. Subsequently, this article will study the supply and demand situation and trend outlook of the domestic soybean market in 2024, and make market predictions for the soybean futures trading market.

There is a lack of literature on investment decision recommendations in the soybean futures market. This article will conduct a fundamental analysis of the soybean futures market over the past year, analyzing the Impact of Different Factors on Soybean Futures. Subsequently, this article will make market predictions based on influencing factors, and provide investment advice for soybean futures investors to assist them in making appropriate decisions in futures trading.

2. Case Description

2.1. Basic Information on Soybean Futures Contracts

Soybean futures contracts are divided into soybean futures contracts No.1 with edible quality non-genetically modified soybeans as the underlying material, and soybean futures contracts No.2 with oil quality genetically modified soybeans and non-genetically modified soybeans as the underlying material. The soybean No.1 contract mainly reflects the price trend of domestic soybeans, which reflects the quality characteristics of domestic soybeans. This article selects Douyi Main Company as the research object. The reason for selecting a main contract is that it can reflect the market's expectations and supply-demand relationship for the species at different times. The main linked contract can help investors better analyze the historical price trend of the futures product. The contract information of Douyi Main Company is shown in Table 1. The trading unit of Douyi Main Company is 10 tons/hand, the quotation unit of Douyi Main Company is RMB yuan/ton, and the minimum fluctuation unit of Douyi Main Company is RMB 1 yuan/ton.

Table1. Main information of Douyi's main futures contract

Trading variety	Douyi Main Company
Trading unit	10 tons/hand
Quotation unit	RMB/ton
Tick size	1 yuan/ton
Trading hours	Every Monday to Friday from 9:00 AM to 10:15 AM, and from 13:30 PM to 15:00 PM, with continuous trading hours from 21:00 to 23:00 on the previous natural day
Transaction code	A

Data source: Wenhua Finance

2.2. Market Analysis

This article will analyze the market situation by selecting the price trend of Douyi Main Company for the past year. At present, the latest price of the Douyi main chain is 4719. In the past year, with the price center noticeably moving downwards compared to the previous year, the overall trend of the price of Douyi main futures contracts has first risen and then fluctuated and fell. The index mainly fluctuates between 4800 and 5700. On February 22, 2023, Dou Yizhu reached its highest point of 5659. On January 29, 2024, it reached its lowest point of 4639, with a total decline of 18%. The price of Douyi main futures contract began to decline from its highest point on February 22, 2023. Continued to decline until May 4, 2023, reaching 4760, a decrease of 15.9%. Subsequently, the price of the main futures contract of Douyi increased, and the increase continued until July 3, 2023, reaching 5336. Subsequently, the price dropped to reach 4885 on August 3, 2023. Subsequently, the price rose to reach 5344 on September 4, 2023. Subsequently, the price fell to its lowest point of 4639 on January 29, 2024.

3. Fundamental Analysis

3.1. Changes in Domestic Soybean Spot Inventory

As shown in figure 1, the spot inventory of soybeans in China will first increase and then decrease in mid-2023. In the first half of 2023, due to a significant decrease in China's exports and a downgrade in consumption, the growth in spot demand for soybeans slowed down, resulting in high domestic inventories. According to the market analysis section, it known that the price of soybean futures

contracts increased between May 4, 2023 and July 3, 2023. The decrease in domestic soybean inventory is one of the factors affecting the price increase of soybean futures contracts. September is the peak season for domestic soybean oil demand, and the demand for soybeans begins to rise. According to the China Grain and Oil Business Network, the procurement progress of soybeans in China in September and October has significantly decreased compared to July and August. The supply of soybeans has significantly decreased, and soybean inventory has entered a destocking cycle, resulting in a decrease in inventory. According to the market analysis, it can be seen that the price of soybean main chain has rebounded in August 2023, and the decrease in soybean inventory is one of the reasons for this result.

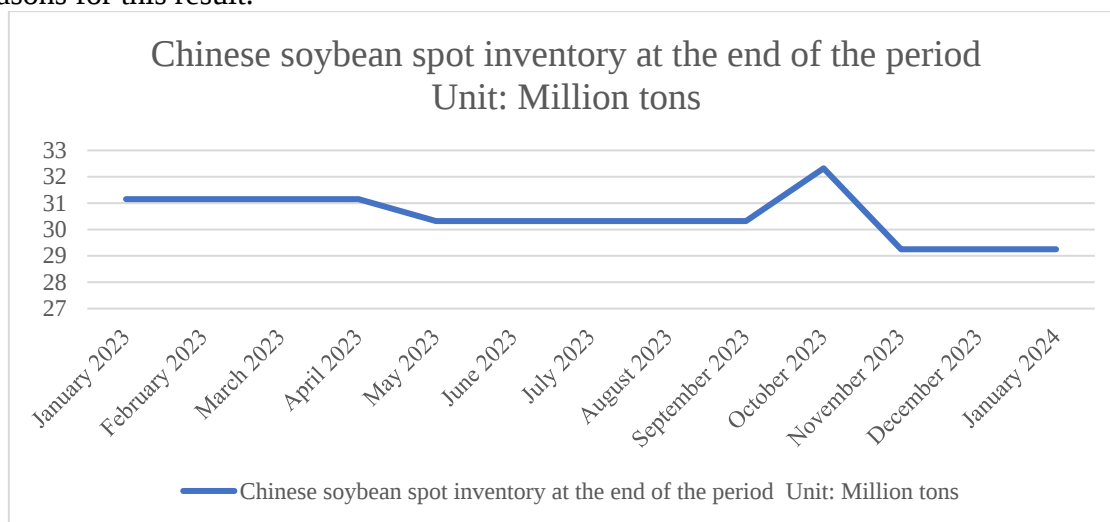


Figure 1. Chinese soybean spot inventory
Data source: Oriental Wealth Network

3.2. Prices of Alternative Agricultural Products have Decreased

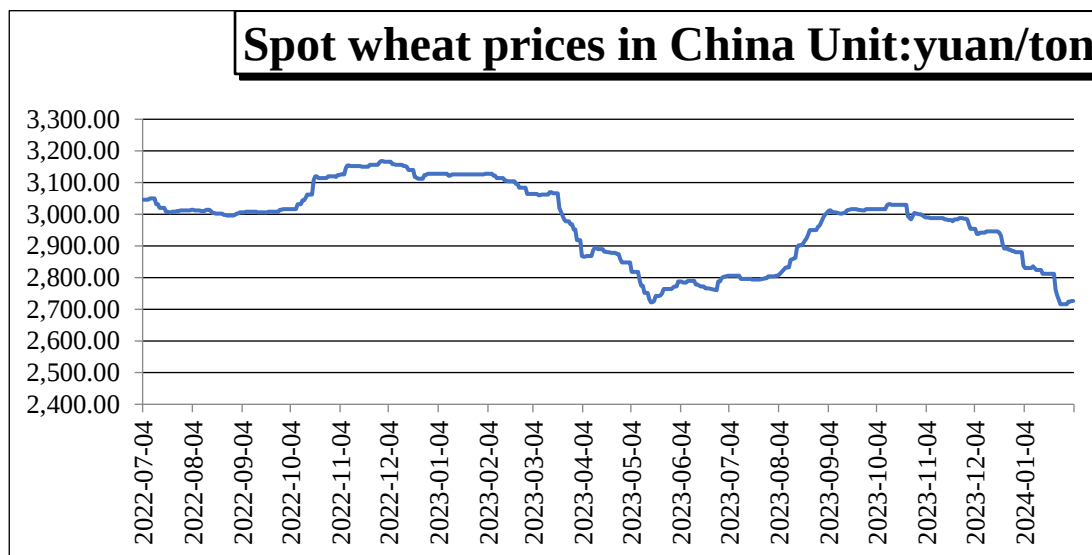


Figure 2. Spot wheat prices in China
Data source: Oriental Wealth

The prices of alternative agricultural products usually have an impact on soybean futures prices. Taking the common soybean substitute agricultural product wheat as an example, as shown in the figure 2, in 2023, the price of domestic wheat fluctuates and decreases. And the demand for wheat will correspondingly increase. As a substitute agricultural product, wheat and soybeans have a competitive relationship in the market, and the increase in demand for wheat will lead to a decrease in demand for soybeans. According to the market analysis, it can be seen that the price of soybean

futures has been declining since February 22, 2023, and the decline in wheat prices is an important factor affecting the price of soybean futures.

4. Influencing Factors

4.1. Domestic Soybean Spot Inventory Status

The theory of supply and demand is, in a sense, a decisive factor affecting the price of futures contracts. Prices in the market are formed under the dual influence of supply and demand; Changes in either supply or demand will have an impact on the price of futures contracts [4]. Specifically, when there is a shortage of soybean spot in the domestic market, soybean spot prices will rise, and the rise in soybean spot prices will lead to an increase in soybean futures prices. When soybean spot inventory is sufficient or even accumulated, soybean spot prices will decrease, and the decrease in soybean spot prices will also cause a decrease in soybean futures prices.

4.2. Prices of Alternative Agricultural Products

Alternative agricultural products refer to agricultural products that are similar in function and can be substituted for each other. There is a competitive relationship between alternative agricultural products and soybeans in the market, and the increase or decrease in sales volume of alternative agricultural products will affect the potential sales volume of soybeans. Specifically, when the price of alternative agricultural products increases, the demand for such products decreases, and the demand for soybeans with similar uses increases [5]. On the contrary, a decrease in prices of alternative agricultural products will lead to a decrease in demand for soybeans, thereby affecting the supply and demand relationship of soybeans and causing changes in soybean prices.

4.3. International Market Prices of Soybeans

China has a high dependence on soybean imports, and international soybean prices can be transmitted to domestic soybean prices through direct import pathways, import product cost pathways, and other channels [6]. There is a close relationship between the international and domestic prices of soybeans, and the fluctuations in domestic soybean prices are deeply influenced by the fluctuations in international soybean prices. Specifically, as international soybean prices rise, domestic soybean prices will also rise [7].

5. Investment Value Analysis

The construction of variety system is increasingly improving. The Dalian Commodity Exchange, in response to the national call, has split the original soybean contracts. The subject matter of the first soybean contract is non-genetically modified domestic soybeans, while the subject matter of the second soybean contract is imported genetically modified soybeans and domestic non-genetically modified soybeans. After years of improvement, China has established a complete futures market variety system[8].

Soybean, as a crop, has cyclical and seasonal characteristics. The sowing, growth, and harvesting of soybeans will all have an impact on soybean futures prices. The seasonal characteristics of soybeans can help investors better predict the future supply and demand situation of soybeans, thereby helping them make appropriate investment decisions.

6. Suggestions

Prediction of price trends in the soybean futures market in 2024. In 2024, the fundamentals of China's soybean futures market remain bearish, and it is expected that soybean futures and spot prices will continue to decline. There may be fluctuations during the price decline process. In the first half of the year, soybean imports remained high, and it was difficult to increase soybean demand in the

short term. Spring was the off-season for domestic soybean consumption, and domestic soybean inventories remained high, leading to a decline in soybean futures prices. Around May, the government may introduce policies to increase soybean demand through increasing national reserves. This policy will reduce soybean inventories and lead to a rebound in soybean futures prices, but this trend will not continue. Soybean futures prices will still return to fundamental dominance. In the second half of the year, domestic soybeans will enter the planting stage. Due to the significant price drop of alternative agricultural products such as wheat and corn in 2023, the price of soybeans will be higher. Farmers will choose to expand the planting scale of soybeans, and the supply of domestic soybeans will increase. In 2024, the domestic soybean futures market will still face a situation of oversupply, and soybean futures prices are expected to remain low [9].

According to the above prediction of the soybean futures market, it is known that there is a high probability that the price of soybean futures will continue to decline in 2024. But the government is supporting the expansion of soybean planting area, and there may be subsidy policies to alleviate the pressure. This article provides investors with the following investment suggestions.

According to market analysis, it can be found that the current price of the far month contract of Douyi Futures is lower than the price of the near-month contract. Specifically, the latest price for Douyi 2501 is 4607, while Douyi 2403 is 4738. The former is priced lower than the latter, indicating a reverse market. According to the market forecast, it is highly likely that soybean futures will continue to decline in 2024. In a reverse market, when the market situation declines, near-month contracts are more affected than far-month contracts, and the decline may be greater than far-month contracts. Therefore, as investors, one can choose to short and sell near-month contracts. Investors should closely monitor market changes after establishing positions and close their positions at appropriate times.

7. Conclusion

Through fundamental analysis, the study found that the spot supply of soybeans in China was significantly greater than the demand in 2023. In May, the government introduced measures to increase reserves to alleviate the pressure, but it will still return to the fundamentals in the future. Soybean spot prices will still face an oversupply situation.

In 2023, the prices of alternative agricultural products such as corn and wheat have all experienced a significant decline. The increase in demand for corn and wheat will correspondingly reduce the market demand for soybeans. Moreover, from the perspective of agricultural product planting benefits, farmers will expand their soybean planting, and the subsequent increase in soybean production and decrease in demand will exacerbate the situation of strong soybean supply and weak soybean demand.

Based on the above information, it can be seen that in the bearish pattern of oversupply of fundamentals in China's soybean futures market, its price is expected to continue to decline in 2024, and may rebound due to government encouragement policies. However, it will still return to fundamentals in the future. Investors are advised to closely monitor market changes and consider short-selling near-month soybean futures contracts and closing positions at the appropriate time.

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