ILLINOIS FARM AND FOOD OUTLOOK
COLLEGE OF AGRICULTURE
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PRICING ALTERNATIVES FOR CORN

LAST WEEK'S LETTER pointed out the potential for a shortage of storage capacity during this year's corn harvest. Alternatives for marketing "surplus" corn should be continuously evaluated, beginning now. Nonstored corn need not be priced at harvest time; there are two basic alternatives: forward pricing and delayed pricing.

FORWARD PRICING. The 1977 corn crop is potentially large, but concerns about moisture levels may offer opportunities to forward price at levels higher than anticipated at harvest. A similar situation existed last year, and cash bids for the 1976 crop averaged about 25 cents higher during July, August, and September than during harvest (mid-October to mid-November) in east-central Illinois.

Corn can be priced prior to harvest time either in the cash market or the futures market. Whether to use the cash or futures market depends on several factors: amount of corn to be priced, flexibility of cash contract, and expected basis.

Forward pricing by selling December futures will yield a net price equal to the price of the December futures minus the harvest-time basis minus commission fees and interest on margin money. During the past two harvest seasons, basis (the difference between the cash price and the December futures price) has averaged about 34 cents from mid-October to mid-November. Currently, cash bids for harvest-time delivery are ranging from 30 to 37 cents under the December futures. In terms of net price, the cash and futures market are a toss-up right now.

DELAYED PRICING. If a producer really wants to own more corn than he has or can arrange storage for, he can delay price. As in the case of forward pricing, this can be done either in the cash market or the futures market.

In the cash market, delayed-pricing contracts may be available. Under these contracts, the seller can deliver corn at harvest time and then receive the price bid on the day of his choice during the marketing year. A service charge is assessed by the buyer. The service charge varies among buyers, but typically it is a flat charge to the first of the year plus 1 to 2 cents per bushel per month beyond January.

Delayed pricing can also be accomplished by selling the corn at harvest time and replacing it with an equivalent amount in the futures market. In this manner, ownership is retained, and the owner continues to speculate on an increase in the price level of corn.

In deciding whether to delay pricing the seller must determine how much the price of corn must rise to cover costs. These costs are the service charge, any additional shrink taken, and interest on money that he receives later rather than at harvest. These amounted to about 32 cents per bushel from October, 1976 to June, 1977.

When replacing cash with futures, the seller must determine how much the cash price must increase before futures go up at all. In October, 1976 the cash price to farmers in east-central Illinois was 52 cents under the July futures. On June 15, 1977 the cash price was 23 cents under the July future. The difference of 29 cents is the futures market charge in lieu of storage. The cash price has to rise substantially before futures rise at all.

Both forms of delayed pricing require speculation that the price *level* of corn will increase. Substantial charges in lieu of storage are incurred.

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