



Urbana, Illinois 61801

ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

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SEASONAL PRICES OF SOYBEANS

THE CHANGES IN SOYBEAN PRICES DURING THE MARKETING YEAR consist of changes in the basis and in the price level (change in cash price, minus basis change). The cash price of soybeans typically gains on futures prices after harvest. This basis gain is payment for storage--normally occurring whether the price level increases, decreases, or remains stable. Changes in price level are calculated after subtracting the basis change.

BASIS PATTERNS. Because substantial costs are involved in storing and holding soybeans but very minimal costs in owning futures contracts, cash prices are expected to gain on futures prices during the storage season. This pattern of basis gain is not exactly the same each year, however. The supply and demand for storage as well as the amount of price variation affect basis behavior.

A review of the last five years reveals a wide range of basis patterns in east-central Illinois. From September through January, the basis narrowed an average of 25 cents per bushel, ranging from 11 cents in 1974-75 to 50 cents in 1972-73. The basis gain from harvest time to March averaged 39 cents per bushel, with a low of 8 cents in 1976-77 and a high of 75 cents in 1972-73. The basis gain to June showed the least variation, ranging from 31 to 41 cents and averaging 36 cents per bushel.

It is difficult to calculate a typical cost of soybean storage in east-central Illinois because of variations in commercial storage charges and in the type and capacity of on-farm storage facilities. With a commercial storage charge of 14 cents per bushel to January plus 2 cents per month beyond January and an interest cost of 8 percent of the value of soybeans at harvest, the storage cost becomes 60 cents per bushel to June 1. The average basis gain from September to June 1 has been 36 cents, which is less than the cost of storage. Only in 1972 was the average basis gain greater than the cost of storage.

With on-farm storage costs of 8 cents per bushel for overhead, handling, and insurance and an interest cost of 8 percent, the storage cost becomes 44 cents to June 1. The average basis gain from September to June 1 has been 36 cents, which is less than storage costs. The average basis gains to January and to March have exceeded the cost of storage.

PRICE LEVEL. Over the past five years, cash prices for soybeans in east-central Illinois have declined an average of 33 cents per bushel from September

to January. The price level has increased an average of 2 cents from September to March and 85 cents from September to June. However, these averages mean little because of great year-to-year variations.

In 1972, the price level rose steadily throughout the year, increasing by \$6.85 per bushel from September to June. The opposite pattern occurred the next two years. The price declines from September to June totaled \$1.03 and \$2.87 per bushel in 1973 and 1974, respectively. In 1975, soybean prices dropped from September through March and then rose rapidly in the summer of 1976. The prices for 1976 soybeans have followed a pattern similar to that of 1972, rising steadily from September, peaking in April, and remaining relatively high in June. The price gain from September, 1976, to April, 1977, totaled about \$4 a bushel, but has declined by an equal amount since then.

IMPLICATIONS. Over the past five years, soybeans sold in the late spring and summer have yielded the greatest net return on the average. However, substantial year-to-year variations meant that no one pricing strategy produced the highest return in all five years. Every crop year must be analyzed individually. To date, the 1977-78 crop year has many similarities to 1973-74. The current year is one of increasing acreage after a year of tight supplies, rising prices, and minimum carry-over. The soybean basis for the 1977 crop is now quite wide in east-central Illinois. If this pattern continues into harvest, the basis gain through next year may well exceed storage costs. A large 1977 crop coupled with a declining rate of utilization may indicate a stable or declining price level during the year. The domestic rate of use for soybean meal may be the key, and should be watched closely over the next few months.

D. L. Good

D.L. Good, Extension Economist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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