



# ILLINOIS FARM AND FOOD OUTLOOK

## COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801

October 11, 1978

### GRAIN STORAGE AND BASIS PATTERNS

THE DIFFERENCE BETWEEN THE CASH PRICE of grain and the price of grain in the futures market is referred to as the "basis." This difference is normally greatest at harvest time and narrows during the marketing year. The basis is expected to narrow because substantial costs are involved in storing and holding grain, but minimal costs are involved in owning futures contracts. Cash prices therefore are expected to gain on futures during the storage season. This narrowing of the basis is the market's payment for storage--a pattern that would be expected to occur regardless of price-level changes during the storage season. That is, if grain prices decline during the storage season, cash prices would be expected to decline by a smaller amount than futures prices. If grain prices increase, cash prices would be expected to increase more rapidly than futures prices. Each year, however, the pattern of basis narrowing is different.

For a variety of reasons producers who place grain in storage at harvest time may be interested in pricing the grain for future delivery. One way to do this is by selling a futures contract, which will be purchased when the grain is actually taken out of storage and sold. The price received for grain sold in such a manner will be the harvest-time price plus basis-narrowing. Before forward-pricing in such a manner, the producer should decide if the expected basis-narrowing exceeds the cost of storage.

**CORN.** Currently, cash bids to central Illinois farmers for harvest delivery are 50 to 55 cents per bushel under the July, 1979, corn futures price. By next spring and early summer this basis will be narrower. Based on history prior to the 1976-77 crop year, a 15-cent basis might be expected next summer. But the large ending stocks of the past two years as well as transportation difficulties have widened the basis. In fact, in the last two seasons there has been a widening of the basis after May. Similar problems for the year ahead may yield a basis of 20 to 25 cents next May. Basis-narrowing would total about 30 cents per bushel.



What does it cost to store corn from October to May? With on-farm storage costs of 10 cents per bushel for overhead, handling, and insurance and an interest cost of 9 percent, the storage cost becomes 20 cents a bushel to May 1. Commercial storage notes are variable, but might total about 18 cents per bushel to May 1. Adding the interest cost would bring the total to about 28 cents, still slightly less than the expected basis-narrowing.

**SOYBEANS.** Cash bids to central Illinois producers are currently 50 to 60 cents under the July, 1979, futures. Based on historical patterns, the basis next June might be 10 to 15 cents. If so, the total basis-narrowing would be 45 cents per bushel. On-farm storage costs to June 1, including interest on the current value of soybeans, would be about 47 cents a bushel. Commercial storage costs might total about 57 cents. In both cases, the FULL cost of storage exceeds the expected basis-narrowing. For existing on-farm storage facilities, however, expected basis-narrowing would more than cover out-of-pocket costs.

The decision to forward price or not depends on the cost of storage compared to the expected basis-narrowing AND on price expectations for the remainder of the season. Currently, central Illinois farmers can price corn for May, 1979, delivery at \$2.25 to \$2.30 per bushel. Soybeans for June delivery can be priced at \$6.75 to \$6.80.

*D. L. Good*

*D.L. Good, Extension Specialist, Prices and Outlook.*

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

Official Business  
Penalty for private use, \$300

FIRST CLASS

POSTAGE AND FEES PAID  
U.S. DEPARTMENT OF  
AGRICULTURE  
AGR 101

