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# ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE  
DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801

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## WILL GRAIN PRICES RECOVER?

THE DECLINE IN CORN AND SOYBEAN PRICES during October was dramatic. December corn futures dropped 32-1/2 cents, from \$2.90-1/2 to \$2.58. November soybeans closed at \$6.38-1/4 on November 1, 84-1/4 cents lower than a month earlier.

The large and rapid harvest has also resulted in a widening basis in most areas of Illinois. That is, cash prices have generally declined more than futures prices. For corn, the prices paid to Illinois producers reportedly varied from \$2.07 to \$2.26 per bushel on November 1. This represents a basis of 32 to 51 cents. Soybean prices ranged from \$5.65 to \$6.10 per bushel reflecting a range in basis from 28 to 73 cents.

Both the corn and soybean basis widened rather abruptly during the fourth week of October. The deterioration in the basis is associated with the large corn and soybean crops which are taxing grain-storage facilities and the transportation system. As long as on-farm storage facilities were available, the basis remained relatively narrow. Once those facilities were filled, the demand for commercial storage increased. The wide variation in basis reflects the degree to which local storage and transportation facilities have been able to cope with the large harvest. The high barge rates and the seasonal rate increase on some rail lines have added to regional variations in the basis.

The decline in the more-distant futures contracts has not been as severe as for the nearby months. For example, on November 1, the corn futures for July, 1980 closed 37-3/4 cents above those for December, 1979—an 11-cent increase in the spread compared to a month earlier. The November-July soybean spread stood at 83 cents, an increase of 22 cents from October 1. Assuming a normal basis next spring and summer, the market is offering Illinois producers a premium of 35 to 50 cents per bushel to deliver corn next June rather than this fall. The premium for soybeans ranges from 90 cents to \$1.25 per bushel. In most cases, these premiums will more than cover the storage costs.

Once the crops are harvested and put away, the basis should narrow substantially. The size and patterns involved will depend to a large extent on farmers' marketing patterns. Cash prices following harvest will be affected not only by changes in the basis, but also by changes in futures prices.

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The next insight into the strength of domestic feed demand for corn will come from the December Hogs and Pigs Report and the January Grain Stocks Report. We are still thinking in terms of an average price for the season of \$2.60 per bushel in Illinois. That would suggest some improvement in cash prices from current levels, but a possible decline in futures prices.

Carryover stocks of soybeans could exceed 400 million bushels at the end of the 1979-80 marketing year. A supply of soybeans that large would suggest that the prices of soybean meal will have to be low enough in relation to corn prices and relative to livestock prices to encourage a high rate of feeding; also, that soybeans will be priced low enough compared to competing crops to get a cutback in the 1980 acreage. An average price for the season of \$6.25 to \$6.50 per bushel still seems likely for soybeans.

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