



# WEEKLY OUTLOOK

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## NARROW BASIS FOR CORN AND SOYBEANS

THE CASH PRICE OF CORN AND SOYBEANS IN MANY PARTS OF ILLINOIS is high relative to the futures price; that is, the basis in many areas is unseasonably narrow. The difference between the current basis and a "normal" basis varies by location. In central Illinois the basis during March was about 10 cents lower than it was during the same month in the two previous years. The soybean basis was about 20 to 25 cents lower than it was in March of 1980 and 1981.

The narrow basis is somewhat surprising since supplies of both corn and soybeans are large and the export demand, particularly for corn, is not very great. The narrow basis probably reflects tight farmer holding of both corn and soybeans. Low soybean prices have discouraged producers from selling, and for corn producers, the government loan and reserve programs have offered alternative markets. More than 2.2 billion bushels of corn are now held in either the regular 9-month loan program or in the 3-year farmer-owned reserve program.

The current tight holding pattern of corn and soybeans by producers suggests that marketings could be quite heavy later this summer. If heavy marketings do materialize, the basis may not narrow any further. In fact, it could increase rather than decrease during the summer months as it did in the summers of 1976, 1977, 1979, and 1980. The soybean basis also widened during the summers of 1976 and 1980. The primary reason for a deteriorating basis in each of these instances was heavy later sales by farmers.

One could argue that by continuing to use the government loan and reserve programs freely, corn producers will keep the corn basis narrow this summer. However, loan corn must be redeemed or forfeited to the CCC as loans mature. If one assumes that most of the loan corn will be sold when the loans are redeemed, late summer marketings could be heavy. Even if producers forfeit on a substantial portion of the loans, the corn held on farms will have to be moved to commercial storage. It is estimated that 85 percent of the 1.0 billion bushels currently in the 9-month loan program is held on farms.

Corn held in the 3-year reserve will be isolated from the market unless the trigger price (\$3.15) is reached. However, we expect that much of the reserve corn held on farms will be sold out just before harvest and replaced with new crop corn at harvest time. This "rotation" of old crop corn could put additional pressure on the basis.

In many areas the cash bids for harvest-delivered corn also reflect a relatively narrow basis. Unless the 1982 corn crop is quite small, the basis at harvest time will exceed the current one. What, then, are the chances of a small 1982 corn crop?

Corn acreage will probably be reduced as some acreage is diverted from production by the USDA's Reduced Acreage Program. Most importantly, however, weather conditions and the resulting average yield will determine production. It seems most likely that the 1982 corn crop will exceed the current annual rate of use.

Since the current narrow basis on corn and soybeans may not last, producers may want to consider moving old crop corn and soybeans to market now. If desired, ownership could be retained with a basis contract or by the purchase of futures. The same situation exists for new crop corn.

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