WEEKLY OUTLOOK
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FARMER HOLDING IS INFLUENCING CORN AND SOYBEAN PRICES

THE STRUCTURE OF CORN AND SOYBEAN PRICES has changed dramatically over the past month. On November 4, corn futures for July, 1983, closed at $2.46 1/4, exactly 6 cents *less* than on October 4. The December, 1982, futures closed at $2.22, 4 1/2 cents *higher* than those a month earlier. The December-July spread narrowed by 10 1/2 cents. On November 4, the average price of corn in central Illinois was quoted at $2.08, 15 1/2 cents *higher* than on October 4. The basis (the difference between December futures and the cash price) had narrowed from 25 cents on October 4 to 14 cents on November 4.

A similar change also occurred in the soybean market. From October 4 to November 4, the November-July spread in the futures market narrowed from 48 1/4 cents to 37 1/2 cents. The basis in central Illinois (the difference between November futures and the cash price) narrowed from 34 3/4 cents to 16 cents. The cash price increased by 56 1/2 cents to $5.40 per bushel.

On Friday, November 5, December corn futures closed 8 3/4 cents higher at $2.30 1/4, while November soybeans closed 12 1/2 cents higher at $5.69 3/4. These closing prices were the highest since the last week of August.

The recent strength in cash prices stems primarily from the very tight holding of corn and soybeans by producers. Low prices and the availability of CCC loans on soybeans and part of the corn crop have made farmers reluctant sellers. The movement of grain from the farm is slow, and exporters and processors need corn and soybeans to meet the commitments they have made. The failure of an improving basis to generate farmers' sales may have triggered part of the rally in futures prices. Narrowing spreads also reflect lower interest rates.

The sudden change of events has at least two important implications for producers. First, the narrowing basis and spreads make storage less attractive. In the case of corn, the cash price is only 36 1/4 cents lower than July futures. By June, 1983, that difference might be as small as 10 cents. The market, then, is offering about 26 cents premium for corn delivered 7 months from now. A wider basis in June would result in a smaller premium. With a CCC loan, the interest cost for holding corn 7 months is 13 cents. The cost of commercial storage might be 12 cents. The total storage cost is 25 cents, about equal to the premium. If an individual farmer is paying more than 10 percent for money, the storage cost would be even higher.

In the case of soybeans, current cash prices are about 53 cents less than July, 1983, futures. A narrowing to 10 cents by June would result in a return to storage of 43 cents. Interest and storage costs for the next 7 months would total 45 to 60 cents, depending on the rate of interest being paid.

The market is saying that corn and soybean storage is at best about a breakeven proposition. A month ago, the market was offering a premium for storage that more than covered the cost.

The second implication of recent price activity is that prices now exceed most expectations for prices this early in the marketing year. The current cash price of soybeans in the eastern Corn Belt is near $5.50 a bushel. The price offered for summer delivery is about $5.95. The average price being offered, then, is $5.72. The average price of corn calculated in the same manner is $2.30. For producers who have not yet priced any of the 1982 harvest or who must add to sales before the end of the year, current prices look attractive, particularly for soybeans.

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