WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

October 12, 1983

ALTERNATIVES TO GRAIN STORAGE

THE CORN AND SOYBEAN HARVEST IS PROGRESSING RAPIDLY. In addition, eligible producers in Illinois and many other states will receive their payment-in-kind (PIK) entitlements on October 15. Producers should carefully evaluate decisions that are relative to grain ownership. Although storage space is generally ample, there are alternative methods for delaying the pricing decision that may be less costly. One alternative is to sell the grain for immediate delivery and maintain ownership by buying an equivalent amount of grain in the futures market. This also can be accomplished indirectly with the use of a basis contract or a delayed pricing contract.

The cost of storage for corn, for example, includes the extra drying and shrink that are required for stored corn over harvest-delivered corn, interest on the value of the corn, and direct storage expenses. For PIK corn, the only cost for the first five months would be the interest on the value of the corn.

The direct cost of owning the futures contracts includes the commission fee and interest on margin money. However, when cash grain is replaced with futures, the producer gives up any gain in the basis that would accrue to him if he stored the grain. That potential gain, if any, should be included as a cost item. Which method, storage or replacing cash with futures, has the lower cost?

An illustration. On October 7, 1983, the price of corn in central Illinois was about $3.35 per bushel. Assuming a 1.4 shrink factor and a drying cost of 1 cent per point of moisture removed, the cost of reducing the moisture level from 15.5 percent to 14.5 percent is 5.7 cents per bushel. At 14 percent interest, the cost of holding $3.35 per bushel corn until March 15 is 19.5 cents. If the corn were stored in commercial facilities, the storage cost would total about 15 cents per bushel. The total cost of storing corn for five months, in this example, is 40.2 cents per bushel. If corn were stored in on-farm facilities, the out-of-pocket storage costs would be significantly less than 15 cents, reducing the total cost accordingly.

The direct cost of replacing corn with futures (commission plus interest on initial margin) would be about 2.5 cents per bushel. Interest costs could be higher if the price declined and additional margin money was required. If corn prices declined one dollar per bushel, for example, interest on the additional margin would total about six cents per bushel.

In addition to the direct cost, the producer should consider the potential basis gain (if any) that he forfeits by selling the corn. On October 1, the March, 1984, futures closed at $3.52 per bushel. Since the cash price was $3.35, the March basis was 17 cents. This is a relatively narrow basis, reflecting tight farmer holding of corn. Over the past five years, the March basis on March 15 averaged 17 cents, ranging from 7 to 27 cents. Based on average conditions, the producer may be giving up very little in potential basis gain. Under a tight March basis situation, the producer may be giving up about 10 cents in potential basis gain. Adding that figure to the direct cost brings the total cost to 12.5 cents per bushel.

The total cost of replacing corn with futures is less than the interest cost associated with storing corn. Even with free storage, it may be less costly to sell PIK corn and replace it with futures than to continue storage until March 15.

The interest cost for storing soybeans until March 15 would be about 48 cents. The potential basis gain from now to March 15 is about 40 cents at best. Adding the direct cost of 2.5 cents per bushel would bring the total cost of replacing soybeans with futures to only 42.5 cents per bushel. Again, storage is a much more costly alternative, particularly commercial storage.

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