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WEEKLY OUTLOOK

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COMMODITY CERTIFICATES REVISITED

WITH BOTH THE RECEIPT OF ADDITIONAL COMMODITY CERTIFICATES and the advent of a new tax year, many corn producers are once again interested in using certificates to redeem 1986 Commodity Credit Corporation (CCC) loans. The value of those certificates for redeeming loans prior to maturity is in the savings of storage costs. The value is also influenced by the relationship of the posted county price (PCP) to the actual cash price of corn.

__An Example__. Assume that a CCC loan was taken on 1,000 bushels of corn on October 31, 1986 and that the corn is being stored commercially. The loan matures in 6.5 months. If the storage charge is 1.5 cents per bushel per month, the savings associated with redeeming the loan in mid-January is 9.75 cents per bushel, or a total savings of $97.50.

If the PCP is $1.38 per bushel, certificates with a face value of $1,380 will be needed to redeem the loan on 1,000 bushels. If the cash price at the elevator where the corn is stored is $1.40 per bushel, the corn can be sold for $1,400. In this example, then, certificates with a face value of $1,380 are actually worth $1,497.50 to the producer. That is a premium of $117.50, or 8.5 percent.

Certificates that the producer receives for program payment could be used to redeem CCC loans as long as the selling price of certificates is less than 108.5 percent of face value. If premiums exceeded 8.5 percent, the producer would be better off to continue storing corn and sell the certificates. Similarly, the producer could afford to pay up to, but not more than, 8.5 percent premium for certificates to redeem CCC loans.

A simple formula can be used to calculate the value of certificates for loan redemption. Just divide the sum of the cash price of corn plus the cost savings per bushel by the posted county price. In the example above, the cash price ($1.40) plus cost savings ($.0975) divided by the PCP ($1.38) equals 108.5 percent.

__Other Considerations__. Three other factors should be considered in evaluating the early redemption of CCC loans. First, for corn stored on the farm, potential quality problems should be considered. For corn that is in danger of going out of condition with warm weather, early loan redemption should be considered. To avoid quality deterioration, certificates may be worth much more than the calculated value. A second factor to consider for farm-stored corn is the availability of storage space in the fall of 1987. Loans maturing after harvest could result in a shortage of storage space if most of the 1987 crop is also stored under loan. Even for loans maturing prior to harvest, there may be some delay in finding a place to move the corn once it is forfeited to the CCC. To avoid these problems, certificates may be worth more than the calculated value.

The third factor to consider is the future price direction of corn. The analysis presented above assumes that the price of corn will not exceed the loan redemption level (loan price plus accrued interest) prior to the maturity of the loan. That assumption appears safe at this time. However, in cases of low cost storage of high quality corn, there is no need to rush to redeem CCC loans.

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