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TO STORE OR NOT TO STORE

The harvest of corn and soybeans has begun in the Midwest because drought-damaged crops are maturing early. The harvest is expected to increase rapidly over the next 2 to 3 weeks. Decisions about storing this year's harvest must be made soon.

In general, there are two reasons for storing a crop--to capture large carrying charges or to speculate on price. Producers can take advantage of large carrying charges by storing the crop and forward contracting or by hedging for later delivery. In either case, the producer needs to calculate the cost of storage to make sure the price for later delivery exceeds the harvest-time price by more than the cost of storage.

Current corn and soybean markets reflect relatively small carrying charges. At the close of trading on August 26, March corn futures were only 4.5 cents higher than December futures, and May futures were 1.5 cents higher than March futures. July futures were 3 cents lower than May futures. A quick check of cash corn prices in east central Illinois indicated that prices for January delivery were about 8 cents above the harvest delivery price. The price for March delivery was 4 cents over the January price, and the May price was 4 cents over the March price.

The cost of storing corn from its harvest to January includes interest on the value of the stored crop, the costs for extra drying and shrinkage, and storage charges. Interest cost alone is about 2.5 cents per month so that the option of storing and forward pricing is not a viable alternative at this time.

The carrying charges in the soybean market are also very skimpy. On August 26, January futures were only 4 cents higher than November futures, and March futures were 3.25 cents above January futures. May futures were 12.25 cents *below* March futures, and July futures were 5.5 cents *below* May futures. The cash price for January delivery in east central Illinois was only 8 cents above the harvest price, and the price for March delivery was 5 cents above the January price. With an interest cost of 7 cents per month, forward pricing stored soybeans is not an alternative at this time. Storing corn and soybeans, then, can be justified only by the expectation of higher prices after harvest. The history of short-crop years does not favor a significant price rally after harvest. There are exceptions, including the 1976-77 soybean marketing year described last week.

The case for higher corn prices is based primarily on the expectation that the farmer-owned reserve will have to be placed in release status sometime during the year ahead. If the 1988 harvest is closer to 4.2 billion bushels than to the 4.5 billion bushels estimated earlier in the month *and* if corn use is near 7.2 billion bushels, stocks at the end of the 1988-89 marketing

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year will be reduced to about 1.36 billion bushels. At the 1.2-billion-bushel level, the farmer-owned reserve would have to be released, but the 5-day moving average cash price would have to equal or exceed $2.93 for this event to happen. The greatest threat to this scenario is that use of corn may be significantly less than expected if the recent overestimate of feed use is corrected.

The case for higher soybean prices is more tenuous. Price increases large enough to cover storage costs will occur only if there is evidence that use is not being rationed by current prices or if the South American crop runs into weather problems. The probability of either of those events is difficult to estimate, but it is significantly greater than zero.

The other factor that could produce a postharvest price rally for corn and soybeans is U.S. weather. Severe soil moisture shortages that persist through the winter could result in a sharp rally next spring or summer.

For producers expecting a price improvement later in the marketing year, alternatives to storage should be considered. With small carrying charges and high interest costs, ownership in the futures market may be less expensive than physical storage of the crop. Purchasing call options to replace cash sales is also an alternative. These two alternatives may be even more attractive for corn if quality problems during storage are anticipated. The risk of owning futures, however, is the exposure to margin calls if prices decline rather than increase.

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