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WEEKLY OUTLOOK

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MARKET SAYS STORE WHEAT AND GET READY TO STORE CORN

With wheat harvest fast approaching, the decision of what to do with wheat will soon need to be made. Most often, Illinois and Indiana farmers sell wheat "off the combine" or within a few months after harvest. In 1996 as an example, 89 percent of the wheat in Indiana was marketed in June, July, or August, leaving only 11 percent of the crop for scattered selling in the other nine months.

Farmers do not store wheat long-term because they want to have empty bins in the late summer for corn and soybean harvest. However, current depressed prices for wheat, and strong storage incentives being provided by Chicago futures markets should encourage more long-term storage of wheat.

When there is a large crop and carryover stocks are abundant, as expected from this summer's harvest, carrying charges in the futures market increase. On May 29, the futures carrying charge from July 1998 to March 1999 (Chicago) was 40 cents per bushel. In contrast, the corn futures carrying charge from December 1998 to July 1999 was only 18 cents per bushel.

Anticipated storage revenues are not just related to carrying charges in the futures market, but also to expected basis appreciation. From 1987 through 1996, the wheat basis on the Ohio River in the Southern Illinois and Indiana area has appreciated, on average, about 14 cents per bushel from late-June into the following March. Adding the 40 cent of futures carrying charge to the 14 cents of basis appreciation gives an expected wheat storage revenue of 54 cents per bushel. Subtracting 19 cents of on-farm storage costs to cover, interest, insurance and taxes, provides an expected storage return of 35 cents per bushel.

Now compare the expected wheat storage return to the expected storage return for corn this fall for the Ohio River market. Basis appreciation has averaged 13 cents from harvest into late-June over the last 10 years. Adding the 13 cents of basis appreciation to the current 18 cents of futures carrying charge provides an expected corn storage revenue of 31 cents. Subtracting 17 cents for on-farm storage costs to cover interest, insurance and taxes, provides only 14 cents per bushel of expected storage return for corn, compared to 35 cents for wheat.

In central Illinois and Indiana, the results again favor long-term wheat storage over corn, but the magnitude of the difference is smaller. Using basis appreciation of 7 cents for wheat and 19 cents for corn, and the same on-farm storage costs, the expected storage returns are 28

cents for wheat and only 20 cents for corn. Location differences can greatly affect basis, and therefore producers will want to look at the long-term wheat versus corn storage situation in their individual areas.

Those who do not have sufficient space for long-term wheat storage as well as corn and soybean storage will have to choose. At this point, wheat appears to be a better bet than corn. But there may be a more important point for all producers to understand! The wheat market is providing a large financial incentive to store because of anticipated surpluses and lack of storage assistance from the federal government as has been the case in the past. The excess will have to be carried by farmers, elevators, and end users, and they will need a monetary incentive to do so. If the 1998 corn and soybean crops are at least normal, it is likely that greater storage incentives will have to be provided in those markets with larger carrying charges in the futures market and greater basis appreciation.

There are two important messages. First, get ready to store all crops produced this year, as greater portions of crop revenues will likely come from storage than in previous years. Second, seek on-farm solutions to storage needs since commercial warehouse managers also see the incentives for storage. This means that commercial storage charges will likely be higher than in previous years. On-farm solutions can include the addition of space this summer, reconditioning of seldom used older farm bins, leasing a neighbors excess bin space, or converting a portion of a machine shed or other building for corn storage this winter.

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