

# WEEKLY OUTLOOK



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**MAY 24, 1999**

## **CORN AND SOYBEAN BASIS PROSPECTS**

As of May 21, the average old crop corn price in central Illinois was \$0.175 under July futures. The basis is about \$.10 weaker than is typical for this time of year. The weakness, at least in part, reflects ample supplies of corn and a slow pace of export movement. In most years, the corn basis in central Illinois is the strongest in May. The basis rarely improves in June and often becomes weaker. The one recent exception was in 1996 when the extremely strong demand and high prices generated a very volatile basis pattern from January through June. With prospects of only routine export demand and without a threat to the crop, old crop basis will likely remain weak through the summer.

The average new crop corn price (harvest delivery) in central Illinois on May 21 was \$2.07, \$.25 under December 1999 futures. That basis is about \$.07 weaker than is typical for this time of year. In most years, the new crop basis remains in a fairly narrow range until about August. From August through harvest, basis reflects prospective crop size and the pattern of farmer sales. Large crops generally result in a weakening basis during harvest (for example 1994 and 1998). Basis levels remained steady or improved at harvest in 1995, 1996, and 1997. This year, the crop in central Illinois has the potential to be quite large, which could pressure the basis at the peak of harvest. However, if prices remain low, farmer sales could remain low, resulting in a quick post harvest recovery in the basis.

Soybean basis patterns in central Illinois tend to be less predictable than corn basis patterns. Over the past 5 years, the basis in the third week of May has ranged from \$-.01 (1998) to \$-.21 (1995). The average was \$-.10. On May 21, 1999 the average basis was \$-.20. In recent years, basis has both strengthened and weakened into June. Ample supplies and a slow rate of consumption argue for a continuation of a weak basis this year. The pattern will be dictated by when producers give up and market the last of the 1998 crop.

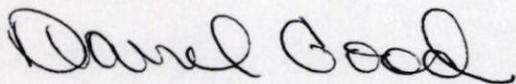
The average 1999 harvest bid for soybeans in central Illinois on May 21 was \$4.515, \$.23 under November futures. Over the past 5 years, the new crop basis during May ranged from \$-.17 (1997) to \$-.22 (1996). The basis is currently a little weak in relation to recent history. In most years, there is minimal harvest time pressure on soybean basis. The weakest basis at harvest in the last five years was \$-0.28 (1998).

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There are reasons to expect a continuation of a very weak new crop basis for soybeans this year. Further weakening may occur at harvest. Carryover stocks will be large and the 1999 crop could be very large as well. Few new crop soybeans have been sold since prices have been below the loan rate for an extended period of time. A continuation of those low prices will likely increase the demand for storage space at harvest, in a pattern similar to last year. Last year, however, many producers collected the loan deficiency payment at harvest time and stored soybeans unpriced. The anticipated price rally did not (or has not yet) materialized, resulting in a net price below the loan rate for much of the crop. It is unlikely that producers will take that risk again in 1999. More of the crop is likely to be stored under loan. For areas of limited storage, producers are likely to collect the loan deficiency payment and sell the soybeans. If the crop is as large as anticipated, harvest time sales could be quite large, resulting in a period of weak basis followed by a rapid strengthening of the basis.

The prospects for a weak harvest basis for corn and soybeans may have some implications for those producers who will need to sell some crop at harvest. If prices are under the loan rate, a weak basis will presumably be reflected in the posted county price and, therefore, the loan deficiency payment. However, isolated areas of very weak basis may not get reflected in the county average price, resulting in a net price below the loan rate. For those concerned about such basis weakness, opportunities for locking in a more attractive basis with a basis contract during the growing season might be considered. It is not obvious what would generate such an opportunity, other than summer weather problems.



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