



WEEKLY OUTLOOK

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PRICING WHEAT AND NEW CROP CORN AND SOYBEANS

The wheat, corn, and soybean markets currently reflect prices below the loan rate, generally weak basis, and relatively large carrying charges in the futures market. The price structure generally favors storage of the crops, particularly where on farm storage is available. The larger than expected wheat crop, along with relatively large old crop stocks of all three crops and expectations of large corn and soybean production, means that there may not be space to store as much of the 1999 crops as producers would like. Producer pricing and storage decisions for the new crop will depend on the cash price in relation to the loan rate, expectations about price and basis, and the cost and availability of storage.

For wheat, the spot cash price at interior points in Illinois ranged from \$1.95 to \$2.20 on July 30. For the most part, prices were below \$2.15. The cash bid for January delivery ranged from \$.48 to \$.62 over the spot bid. The large premium for January delivery reflects the current weak spot basis, a \$.30 September 1999 to March 2000 spread in the Chicago futures market, and the expectation that the basis will improve somewhat by January. The commercial cost of storage plus interest from August 1 to January 1 might be \$.35 to \$.40 per bushel. The market is paying a handsome return to storage, particularly to on-farm storage.

If the expectation is that the spot cash price of wheat will remain below the loan rate for the foreseeable future (that is, deferred futures are likely to decline to the level of nearby futures through time) producers should consider establishing the loan deficiency payment (LDP) now, storing the crop, and pricing the crop for later delivery. The delivery date should be determined by the premium for deferred delivery relative to the cost of storage. Price as for out as the premium continues to exceed the cost of storage. If, in addition, the LDP and pricing transaction are conducted on a day when prices are higher, the strategy will result in a net price well above the loan rate. For example, if the current spot price is \$1.95 and the January bid is \$2.47, a producer could lock in a net price of \$2.66 [$\$2.47 + \$0.59 \text{ (LDP)} - .40 \text{ (storage)} = 2.66$]. That price is \$.12 over the loan rate. Storing wheat unpriced until January would require the spot cash price to exceed \$3.06 to provide a higher return [$\$2.66 + \0.40 storage]. Establishing the LDP now, and storing the wheat unpriced is very risky, and would require the spot cash price to rise above \$2.47 by January to provide a higher return than forward pricing now.

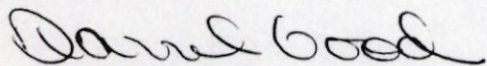
On July 30, the harvest bid for soybeans in central Illinois averaged near \$4.04, about \$1.40 under the loan rate. That price reflected a basis of about \$.29 under the November futures. The November to July spread was \$.31, so the cash bid was about \$.60 under July 2000 futures. If the

soybean basis behaved in a typical fashion, it would narrow to about \$-0.10 in May 2000. The market was offering about \$.50 per bushel to store soybeans from harvest to May. The commercial storage cost plus interest to hold beans from harvest to May would be very close to \$.50. Interest cost would be about half of that cost, so the market is offering decent return to existing on farm storage.

The preferred strategy for new crop soybeans appears to be to plan on establishing the LDP at harvest and forward pricing for later delivery if on-farm storage is available. If on farm storage is not available, establishing the LDP at harvest and selling soybeans in the spot market may be the best strategy. Assuming commercial storage costs of \$.50 (including interest) per bushel to spring, the spot cash price of soybeans would have to rise to near \$6.00 to make it profitable to store unpriced soybeans. For farm stored soybeans, the price would have to move above \$5.75.

On July 30, the harvest bid for corn in central Illinois averaged about \$1.80, or about \$.15 under the loan rate. The price reflected a basis of about \$.34 under December. With a December to July spread of \$.205 and a typical spring basis of \$-0.10, the market was offering a return of about \$.45 for storing the crop from harvest until May. Commercial storage plus interest would be about \$.35. Once again, the strategy of establishing the LDP at harvest (assuming the price remains below the loan rate) and forward pricing the crop for spring delivery would net a price of \$.10 over the loan rate for commercially stored corn and about \$.32 over the loan rate for corn stored on the farm.

Spot cash corn prices appear to have a higher probability of moving above the loan rate than either soybean or wheat prices. If that happens before harvest, there may still be a good return to forward pricing stored corn. If it does not happen before harvest, storing unpriced corn might be considered, particularly for those facing a \$75,000 payment limitation. With on farm storage (and prices below the loan rate at harvest) the spot cash price would have to move above \$2.40 to represent a higher net price than establishing LDP at harvest and forward pricing for spring delivery.



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