



# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**NOVEMBER 1, 1999**

## **CORN AND SOYBEAN BASIS OPPORTUNITIES**

Corn and soybean basis and basis patterns have been somewhat unique this year. Patterns in central Illinois are used to illustrate some pricing opportunities that are currently available.

The spot corn basis in central Illinois was unusually weak through the harvest period this year, averaging about  $-\$0.34$  (relative to December futures) in the month of September and  $-\$0.32$  in the first week of October. The basis was about equal to that of last year, but much weaker than the average of  $-\$0.16$  in 1997 and  $-\$0.07$  in 1996. The weak harvest basis, and relatively large spread in the futures market, the past two years has favored storing the crop and forward pricing for later delivery. Forward pricing with futures contracts or hedged-to-arrive contracts were favored over standard forward cash contracts because the contract prices often reflected a weak basis as well.

For soybeans, the average basis in central Illinois in September was about  $-\$0.30$  (relative to November futures). That weakened to about  $-\$0.34$  in the first week of October. Basis during that same six week period averaged  $-\$0.26$  last year,  $-\$0.12$  in 1997, and  $-\$0.17$  in 1996. The spread in the soybean futures market was much smaller this year than during harvest last year. The November 1999 - March 2000 spread averaged about  $\$0.17$  and the November 1999-July 2000 spread averaged about  $\$0.25$ . Last year those spreads averaged about  $\$0.21$  and  $\$0.40$ , respectively. The smaller spread this year made the strategy of storing and forward pricing less attractive than last year.

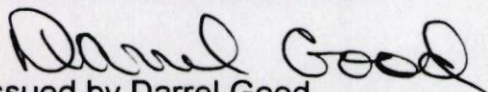
By the end of October, the corn basis in central Illinois had strengthened to an average of  $-\$0.225$ . Further strengthening is expected as harvest is complete and farmer sales for immediate delivery are very light. Basis will likely strengthen, assuming futures prices remain in a narrow range, to attract additional sales. Last year, the basis moved to about  $-\$0.06$  during the last half of November, about the same level as in the two previous years. Such an improvement this year would provide an opportunity to price any corn for which the loan deficiency payment (LDP) is established or which is under loan with a fixed repayment rate for 60 days. Hopefully, basis strengthening will not be offset by lower futures prices. That is a possibility, however, if the November crop estimate is larger than expected. Producers may want to consider selling futures or using an hedged-to-arrive contract to capture any basis strengthening by year end without risking lower futures prices. Forward contracts will generally



not allow that since forward bids currently reflect a very weak basis. On October 29, bids in central Illinois for January delivery reflected an average basis of  $-\$.225$  (relative to March 2000 futures). That compares to the actual basis in January of about  $-\$.10$  in 1999,  $-\$.12$  in 1998, and about  $-\$.07$  in 1997.

On October 29, the average spot soybean basis remained very weak, at  $-\$.27$ . That is about  $\$.03$  weaker than last year, but  $\$.17$  weaker than in 1997 and  $\$.19$  weaker than in 1996. Basis relative to March 2000 futures (on October 29) averaged  $-\$.47$ , similar to the level of the basis on the same date last year. By January last year, the basis had strengthened to an average of  $-\$.12$ , compared to  $-\$.06$  in 1998, and  $-\$.08$  in 1997. The bids for January 2000 delivery in central Illinois currently reflect an average basis of only about  $-\$.29$ . As with corn, there is an expectation that the soybean basis will continue to strengthen. Basis strengthening, if it occurs, could add  $\$.15$  to  $\$.20$  to the price of soybeans for which the LDP is taken or for soybeans entered into the loan under the new provision that locks in the repayment rate for 60 days. The risk of lower futures prices over the next 60 days can be eliminated by selling futures or entering into a hedged-to-arrive contract.

While hedging of stored corn and soybeans for a relatively short period of time has the potential to earn an attractive basis gain, it eliminates the opportunity to benefit from higher futures prices over the next two or three months. An alternative might be to hedge with the purchase of put options. The premium for at the money ( $\$2.10$ ) March 2000 corn put options is  $\$.09$  per bushel. The premium for  $\$5.00$  March 2000 soybean put options is about  $\$.29$ . Since  $\$5.00$  put options are about  $\$.09$  in-the-money, the effective premium is  $\$.20$  per bushel. For corn, the expected basis gain will more than pay for the put options. For soybeans, the premium is a little larger than the expected basis gain.



Issued by Darrel Good  
Extension Economist  
University of Illinois

First Class  
U.S. Postage Paid  
Permit #75  
Champaign, IL

U of I Extension Newsletter Service  
University of Illinois  
at Urbana-Champaign  
528 Bevier Hall, MC-184  
905 S. Goodwin Ave.  
Urbana IL 61801  
Return Service Requested