



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.

APRIL 24, 2000

SLIGHT IMPROVEMENT IN CORN AND SOYBEAN BASIS

The average cash price of corn in central Illinois on April 20 was \$2.10 per bushel. That price was \$.2575 under July 2000 futures. The July basis has strengthened about \$.14 since mid-January and \$.05 since the first of April. The basis improvement since mid-January has occurred in spite of a \$.02 increase in the May to July futures spread.

The July corn basis in central Illinois is still weak by historic standards, even weaker than last year's relatively poor performance. On the same date last year, the average basis was \$-.20. In 1998 and 1997, the basis in late April averaged \$-.15 and \$-.12, respectively. Typically, the basis in central Illinois is strongest in May, averaging \$-.09 in 1998 and \$-.06 in 1997. Last year, the basis only improved to \$-.17 before weakening to \$-.24 near expiration of the July futures contract.

Some additional improvement in the July basis over the next month should be expected. Corn consumption is continuing at a relatively high pace and producers are holding fairly tightly to old crop supplies as they plant the new crop and wait to see which way the weather market goes. If the weather pattern favors a good start to the 2000 crop, producers will start moving old crop supplies and basis improvement will be small. Often times, producers hold large supplies of the old crop into the summer months in anticipation of a late weather market. If one does not develop, rapid pre-harvest movement of old crop supplies pressures the basis during July and August.

The average central Illinois bid for harvest delivery of new crop corn on April 20 was \$2.25. That price was \$.2875 under December 2000 futures. The new crop basis is also weak for this time of year. Last year the new crop basis on the same date averaged \$-.255. For the three previous years, the basis was \$-.19, \$-.19, and \$-.17, respectively. Typically, the new crop basis makes a gradual, but small improvement into late summer, with actual harvest time basis varying considerably. Last year, the basis weakened into August, averaging about \$-.34, and then strengthened normally into December, finishing at about \$-.06. The new crop basis pattern during the upcoming growing season will likely follow crop prospects. Prospects for another large crop will keep basis on the weak side, while weather concerns would allow for some strengthening of the basis.

The average cash price of soybeans in central Illinois on April 20 was \$5.125. That price was \$.365 under July futures. The July basis has strengthened only about \$.04 since late January. Most of that small improvement occurred in March. Like corn, the current July soybean basis is unusually weak for this time of year. The average basis was \$-.28 last year, \$-.08 in 1998, \$-.14 in 1997, and \$-.24 in 1996. July basis is typically the strongest in May and early June. That was

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also the case last year, but the basis only strengthened to about \$-.17 before weakening into July. Typically, the basis in May and early June is near \$-.05.

There is potential for some further improvement in old crop basis due to a high rate of consumption and tight farmer holding. In spite of a high rate of use, this is the time of year when South American supplies result in a seasonal decline in consumption of U.S. soybeans. With an additional 1 million acres of soybeans expected to be planted in the U.S. this year, favorable yield prospects would keep old crop basis on the weak side. Worries about low yields would likely result in a more significant strengthening of the old crop basis.

The average central Illinois bid for harvest delivery of new crop soybeans on April 20 was \$5.33. That price was \$.285 under November 2000 futures. That basis was \$-.27 on the same date last year, \$-.21 in 1998, \$-.20 in 1997, and \$-.24 in 1996. Typically, the new crop basis strengthens slightly into late summer, becomes volatile at harvest, and strengthens into November. Last year, the basis weakened to about \$-.35 in mid-August, narrowed to only \$-.26 in September, widened to \$-.34 in October, and narrowed to only \$-.14 near expiration of November futures.

There is potential for some modest strengthening of the new crop soybean basis from current levels. Unless crop problems develop, however, that basis will likely remain on the weak side.

The current weak basis levels have implications for pricing decisions. For old crop supplies held on the farm, producers might want to consider hedging or hedged-to-arrive contracts for any sales that are made near term. That strategy would capture basis improvement into May or early June. For new crop sales, the weak basis implies that producers want to avoid cash sales for harvest delivery. Futures or hedged-to-arrive contracts would allow producers to capture post harvest basis improvement, which could be significant again this year. For those who prefer cash contracts, January 2001 bids may offer a higher net price than harvest bids. With prices below the loan rate, large new crop soybean sales still do not appear attractive.

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