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CORN AND SOYBEAN MARKETING STRATEGIES

With the midwest corn and soybean harvest drawing near, producers must make decisions about marketing that portion of the crop not yet priced. Marketing strategies will depend on a number of factors including expectations about price and basis changes, percentage of the crop already priced, cost and availability of storage, the magnitude of the carry in the price structure, and the level of cash prices in relation to the Commodity Credit Corporation (CCC) loan rate.

Short term price expectations likely depend heavily on expectations about crop size. With improved weather conditions in August, there may be a smaller drop in the soybean production forecast from the August forecast than expected three weeks ago. There is less certainty about corn, with a smaller production forecast generally expected.

For corn, harvest basis is generally much stronger than at this time last year. In south central Illinois, for example, the average harvest basis on August 24 was -$.2625. The basis has improved about $.05 over the past two months. A year ago at this time, the harvest basis was -$.3925. In addition, the carry in the corn price structure is smaller than at this time last year. The December 2001-July 2002 spread was at $.2125 on August 24, compared to $.2675 on the same date last year. As a result, the current harvest price is $.475 under July 2002 futures, compared to $.66 under at this time last year. In essence, the market is paying about $.185 per bushel less to store corn until summer than was the case last year. However, if basis is about -$.15 in July 2002, as was the case this year, the market is still paying about $.325 per bushel to store corn until summer 2002.

For soybeans, the harvest basis is also stronger than at this time last year. In south central Illinois, the harvest basis averaged $.24 on August 24, compared to -$.325 on the same date last year. The November 2001-July 2002 spread in the futures market stood at $.125 on August 24 this year, compared to $.3725 on the same date last year. As a result, the current harvest bid is only $.365 under July 2002 futures, compared to $.6975 on the same date last year. The market is paying about $.34 per bushel less to store soybeans until summer than was the case last year. If the basis strengthens to about -$.05 by the summer of 2002, the market is currently paying $.315 to store soybeans until that time.

Whether the market is offering a profitable return to storage depends in part on the cost to store the crop. At 8 percent interest, the opportunity cost of storing corn and soybeans from October 1, about $.205 to pay storage costs for corn and $.045 for soybeans. Unless the price structure changes, the market is currently not rewarding soybean storage. Other forms of ownership, such as a basis contract, might be less expensive than storage.

The average harvest bid for soybeans in south central Illinois on August 24 was $4.545 per bushel. That price is about $.90 less than the CCC loan rate in that area. The price is $.16 higher than on the same date last year. If prices remain at a large discount to the CCC loan rate, producers will be tempted to establish the loan deficiency payment at harvest and retain ownership on at least a portion of the crop. With a stronger basis than that of a year ago, the post-harvest strengthening of the basis may be less than that of last year. If so, a significant post-harvest recovery in prices would require a larger increase in futures prices, increasing the risk of the strategy. As pointed out earlier, physical storage may not be the least-cost way of speculating on a post-harvest price recovery.

The average harvest bid for corn in south central Illinois on August 24 was $2.02, $.53 higher than the harvest bid of a year ago. The price is about $.07 higher than the average CCC loan rate in the area. If the cash price remains near the current level into harvest, producers will likely consider storing a portion of the crop under CCC loan. The risk of the strategy, in addition to incurring storage costs, is the current premium of the cash price over the loan price. A small premium represents a small risk that some producers will choose to take. If the forecast size of the corn crop declines and prices move higher into harvest, in a short crop fashion, the risk of storing the crop under loan becomes greater. If prices move higher, the basis may also strengthen and spreads narrow, making harvest time cash sales more attractive.

Marketing plans for the 2001 crop do not have to be finalized at this point, but alternatives should be clearly evaluated. The USDA's September 12 *Crop Production* report will provide a better indication of potential price and basis behavior.

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