



WEEKLY OUTLOOK



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WEAK CORN AND SOYBEAN BASIS TO CONTINUE?

Old crop and new crop corn and soybean basis levels remain generally weak in many areas. The weak old crop basis reflects higher futures prices and ample crop supplies, while the weak new crop basis may reflect concerns about storage capacity for the coming harvest.

The average spot cash bid for corn in the south central area of Illinois, for example, was \$3.725 on March 23. That price was \$.425 under July 2007 futures. The basis is about \$.06 weaker than at this time last year and about \$.20 weaker than the four-year average basis for the third week of March. The current July basis is at about the same level as experienced at the end of harvest last fall. The implication is that storage hedges using the July 2007 corn contrast have not yet earned a positive return, let alone covered the cost of storage. The continuation of a weak basis suggests that the flow of corn to market is sufficient to meet the accelerated level of consumption associated with larger exports and increased processing use of corn for ethanol. A weak basis is likely to persist until there is some evidence of tightness in corn supplies in the country.

For soybeans, the average spot cash bid in the south central area of Illinois on March 23 was \$7.27. That price was about \$.58 under July 2007 futures. The basis is about \$.145 weaker than on the same date last year and \$.36 weaker than the four-year average basis on that date. The current July basis is about \$.15 stronger than the weakest basis at harvest time. Storage hedges based on the July contract, then, may have earned a positive return, but that return has not covered storage and interest costs. The extremely weak basis experienced since harvest time reflects higher soybean futures prices driven by higher corn prices in the face of a surplus of soybeans. The recent slow down in the domestic crush rate, the harvest of a record large South American crop, and record levels of domestic soybean stocks suggest that the basis will continue to be weak during the remainder of the marketing year.

For the 2007 crop, the average bid for harvest delivery of corn in south central Illinois was \$3.745 on March 23. That bid was \$.36 under December futures, about \$.07 weaker than the basis on the same date last year and \$.14 weaker than the four-year average basis on that date. At least part of the basis weakness may be associated with the expectation of

a much larger corn crop in 2007 and issues with storage capacity. The USDA's March 30 *Prospective Plantings* report will provide some insight on the potential size of the corn crop, but it is likely that nationwide storage capacity issues will not be any greater than in recent years, particularly those of 2005.

A U.S. corn crop of 12.5 billion bushels, for example, would be 2 billion larger than the 2006 crop, but year ending stocks of old crop corn will be about 1.2 billion smaller than at harvest time in 2006, suggesting an 800 million bushel larger supply. The potential supply, however, is about the same as in 2005 when year ending stocks of old crop corn exceeded 2.1 billion bushels. In addition, storage capacity is being added. The USDA estimates of grain storage capacity included in the December *Grain Stocks* report indicated that 390 million bushels of capacity were added in 2006. Expansion may be even larger in 2007. Finally, the fall supply of soybeans (production plus carryover stocks) will likely be smaller than in the fall of 2006. Based on expected fall supplies, widespread use of temporary storage facilities will be required again this year, but overall use will probably not be more extensive than in recent years. However, significant storage capacity issues could develop in areas that experience a large increase in corn production and limited expansion in storage capacity. Again, the report of planting intentions on March 30 may help identify those areas.

The average harvest bid for soybeans in south central Illinois on March 23 was \$7.78, \$.38 under November 2007 futures. That basis was about \$.09 weaker than on the same date last year and \$.14 weaker than the four-year average basis on that date. The new crop basis is also weaker than the actual harvest time basis experienced in recent history, except in 2005 when hurricane Katrina closed the Gulf Port for a period of time. The weak basis currently being experienced is likely a function of high soybean futures prices resulting from high corn prices and anticipation of storage capacity issues. As with corn, the storage capacity issues may not be as extensive as expected, but with substantial regional variation possible.

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