



# WEEKLY OUTLOOK



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## **CORN STORAGE AND BASIS**

In late March, we discussed the generally weak basis for corn and suggested that basis levels would remain weak until tighter supplies developed at the farm level. That tightness has unfolded.

In late March, the average spot cash price of corn in central Illinois was \$0.42 under July 2007 futures. The basis was about \$0.10 weaker than the average basis of the previous two years and about \$.20 weaker than the average of the previous four years. The July basis had not strengthened since harvest of the 2006 crop. On June 1, the average spot cash bid in central Illinois was \$0.095 under July 2007 futures about \$.14 stronger than the previous two-year average, \$0.07 stronger than the four-year average, and the strongest in four years.

Basis strength began in mid-April and has occurred even though the USDA's projection of year ending corn stocks has increased by 185 million bushels. In addition, spot barge rates on the Illinois and Mississippi Rivers are about 30 percent higher than in late March, suggesting that interior basis would be weak. The strengthening basis apparently reflects a combination of the ongoing high rate of corn consumption and the slower rate of farmer sales of old crop corn. Increased ethanol production capacity, a brisk rate of exports, and positive feeding margins in the livestock sector have all contributed to the high rate of corn consumption. The rate of farmer sales of old crop corn initially slowed as prices declined. The average spot cash price of corn in central Illinois declined about \$0.60 in the last week of March and first week of April. The lower prices were followed by planting delays in parts of the midwest and uneasiness about potential crop size even with the large increase in intended corn acreage. A slow rate of sales may persist until there is more confidence about the size of the 2007 crop.

Bids for harvest delivery continue to reflect a relatively weak basis. The average central Illinois bid for fall delivery on June 1 was \$3.49, \$0.34 under December 2007 futures, about \$0.055 weaker than the average basis on that date for the past two years and about \$0.09 weaker than the average of the previous four years. To some extent, the weak new crop

basis reflects concerns about adequate storage capacity during the fall harvest period. Concerns about an unusually weak fall basis may be pre-mature. If the 2007 crop is near the USDA's forecast of 12.46 billion bushels and year ending stocks are near 937 million bushels, the total fall supply of corn will be near 13.4 billion bushels. That is 900 million bushels larger than the supply of last fall. However, the basis was relatively strong last fall. The potential supply of corn is only about 170 million bushels larger than the record supply in the fall of 2005. About 390 million bushels of storage capacity was added in 2006 and more is being built this year. In addition, the fall supply of soybeans looks to be 280 million bushels smaller than the supply at harvest time in 2006 and the supply of other grains (sorghum, barley, oats, and wheat) may be only about 220 million bushels larger.

In total, the grain storage capacity issues in the fall of 2007 should not be any more severe than in recent years. Certainly, the severe storage problems that were associated with hurricane Katrina in 2005 are not expected this year. Storage capacity issues, however, may develop in those areas with large increases in production. On a percentage basis, intentions were to expand corn acreage significantly in Arkansas, Georgia, Louisiana, Mississippi, and North Dakota. In absolute terms, large acreage increases were planned in Illinois (1.6 million), Iowa (1.3 million), North Dakota (910,000), and Nebraska (900,000). Some of the intended corn acreage in western areas may not have been planted to corn due to more extensive delays in planting. Conversely, acreage may have exceeded intentions in Illinois where planting was fairly rapid. It appears, then, that storage issues may be most acute in Illinois, depending on average yields and the extent of new storage construction. On balance, storage capacity issues in other areas of the midwest may not be any more severe than in the past three years. Still significant quantities of corn will likely have to be stored in temporary facilities, as has been the case in recent years.

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