



WEEKLY OUTLOOK



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CORN AND SOYBEAN STORAGE DECISIONS

As harvest of the 2009 corn and soybean crops draw near, producers will finalize decisions about storing the crops. Producers can receive returns to storage in the form of higher cash prices resulting from a strengthening basis and/or from higher futures prices.

The potential for higher futures prices depends on a number of factors that are difficult to anticipate at this time. Storing crops in anticipation of higher futures prices is very much a speculative decision. While not entirely predictable, basis patterns are a bit more stable than price patterns. A look at current new crop basis levels, then, can give some insight into the potential return to storage from basis appreciation.

As an example, bids for harvest delivery of corn at selected country elevators in east central Illinois on September 4, 2009 averaged \$2.81. That average was \$.2525 under the settlement price of December 2009 futures on the same date. The basis of about \$.25 under is much stronger than the basis of the previous two years and is similar to that of three years ago. Typically, a strong basis suggests that further basis appreciation may not be sufficient to cover the costs of storage, although storage costs vary widely. However, the carry in the futures market should also be considered in making the storage decision based on potential basis appreciation. On September 4, July 2010 futures were priced \$.315 above December 2009 futures. A cash bid for harvest delivery of \$2.81, then, was \$.5675 under July futures. Some significant strengthening of the July basis would be anticipated by the spring of 2010. If that basis strengthens to \$.15 under July futures by early June 2010, as it did in 2009, then the market is offering \$.4175 per bushels to store corn from harvest until June 2010.

For corn harvested in early October and stored until early June, the interest cost on \$2.81 at 6 percent interest would be just over \$.11 per bushel, leaving about \$.305 to cover the cost of storage. That magnitude of return would likely more than cover the out of pocket cost of storing corn in existing on-farm facilities. Depending on the quality of the newly harvested crop, the risk of storage losses in on-farm facilities should also be considered in the storage decision. In addition, the only way to "lock in" the anticipated

return to storage is to forward price the stored crop. Otherwise, the higher cash prices associated with basis appreciation could be offset by lower futures prices.

The economics of soybean storage are currently very different than that for corn. On September 4, 2009, for example, the average harvest bid for soybeans at selected country elevators in east central Illinois was \$9.09, only \$.13 under November 2009 futures. In addition to the very strong basis, the soybean market is characterized by a lack of carry in the futures market. At the close on September 4, January 2010 futures were only \$.05 higher than November 2009 futures and July 2010 futures were only \$.08 higher than November futures. The cash bid of \$9.09 was only \$.21 under July 2010 futures, making it unlikely that basis appreciation would cover the cost of storing soybeans. Interest cost alone from early October to early June 2010 would be near \$.36 per bushel.

If soybeans are stored, returns will have to come from higher futures prices. In that case, it may be less costly to own soybeans in the futures market than in the bin. In this example, soybeans could be sold at \$9.09 and replaced with the purchase of July 2010 futures at \$9.30. Returns, then, would depend on the direction of July futures, with lower prices resulting in negative returns and in margin calls. Producers considering this alternative might also want to check with someone familiar with IRS rules on tax implications of a long futures position.

An alternative to buying futures is to sell soybeans on a basis contract. Under this arrangement, producers would sell soybeans today at, say, \$.25 under July futures, deliver those soybeans at harvest, and receive a partial payment based on the cash price. The actual cash price received would be established later as \$.25 under the price of July futures at that time. If futures are higher than \$9.34, the cash price received is higher than the current bid of \$9.09, and vice versa. In this example, a basis of \$.25 is used rather than the current basis of \$.21 to recognize that the buyer will incur costs for executing and maintaining the futures position to hedge the basis contract.

Conditions may change over the next few weeks, but the current price structure clearly favors corn storage over soybean storage.

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