CORN AND SOYBEAN MARKETING STRATEGIES

As the midwest corn and soybean harvest draws near, producers must make decisions about marketing that portion of the crops not already priced. Marketing strategies for individual producers will depend on a number of factors. These include expectations about potential changes in price level and basis, percentage of the crop already priced, cost and availability of storage, 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. Improved weather conditions during the last half of August has created some uncertainty about changes in USDA production forecasts next month. Some private survey results suggest that the corn crop may be smaller than the USDA’s August forecast. However, the market remembers the progression of crop forecasts last year, when a smaller September forecast was followed by larger forecasts in October.

For corn, the prospects for a much smaller corn crop have resulted in a very different price structure than existed in recent years. First, the harvest basis is stronger than the basis recently experienced. In central Illinois, for example, the average harvest basis on August 23 was -$0.17. That compares to -$0.25 last year and the 3-year average of -$0.31. In addition, the spread in the future market is much smaller than a year ago. On August 23, July 2003 futures were $0.0725 higher than December 2002 futures. Last year on the same date, that spread was $.215 per bushel. Assuming that the July basis narrows to -.10 by next summer, the market in central Illinois is currently offering $.1425 per bushel to store corn from harvest to the summer of 2003. Last year, the market was offering a storage return of about $.36 per bushel.

For soybeans, the average harvest basis in Central Illinois on August 23 was -$0.205 per bushel. That basis compares to -$0.245 per bushel on the same date last year and the 3-year average basis of -$0.28 per bushel. The July 2003 soybean futures were only $0.015 higher than November 2002 futures on August 23. Assuming a July basis of -$0.05 by next summer, the market is currently offering $0.17 per bushel to store soybeans from harvest to the summer of 2003. Last year on the same date, the market was offering a return of $0.305 per bushel.

For both corn and soybeans, the average return to storage in central Illinois currently offered by the market is less than the cost to store the crops. The interest opportunity cost alone of storing
corn and soybeans from October 1, 2002 to July 1, 2003 is about $0.135 and $.27 per bushel, respectively. Storing crops under loan would reduce the interest opportunity costs, but unless the price structure changes, the market is currently not encouraging the storage of either corn or soybeans this year. The failure to offer a return to storage is not uncommon for soybeans. With South American harvest coming next spring, there is no need to encourage storage of large quantities of soybeans. The lack of storage returns for corn is a departure from recent experience. Other forms of ownership, basis contracts or future contracts, appear to be less expensive than physical storage of the crops.

In recent years, the large “carry” in the corn market, along with low harvest time prices, have offered producers the opportunity to establish the loan deficiency payment at harvest and sell the crop for January delivery. That process resulted in a net price above the loan rate, even after paying storage costs. That opportunity clearly does not exist this year. In addition, it appears that corn prices will remain above the loan level for much, if not all, of the 2002-03 marketing year so that loan deficiency payments or marketing loan gains will not likely be available. For soybeans, there may be periods when the cash price drops below the loan rate. The odds of such declines will increase if the U.S. crop is larger than the USDA’s August forecasts.

Recent price strength has also increased interest in pricing a portion of the 2003 crops, particularly corn. Prices for the 2003 soybean crop are generally below the loan rate, so that pricing interest is minimal. December 2003 corn futures are currently trading above $2.50, offering a cash price well above the loan rate. The market expects an increase in corn acreage in the U.S. in 2003, so that a good growing season would likely result in prices a year from now well below the current level. However, any threat to next year’s crop could push prices sharply higher. As a results, some caution should be used in pricing the 2003 crop. Since 1973, December corn futures contracts have failed to trade above $2.75 on only two occasions (1986 and 1987). The high for December 2003 futures has been $2.69.

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