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Department of Agricultural and Consumer Economics, University of Illinois Urbana-Champaign

Weekly Outlook: Corn and Soybean Storage

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August 22, 2016

***farmdoc daily* (6):158**

Recommended citation format: Good, D., "Weekly Outlook: Corn and Soybean Storage." *farmdoc daily (6):158*, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, August 22, 2016.

Permalink: http://farmdocdaily.illinois.edu/2016/08/corn-soybean-storage.html

The current USDA projections indicate that U.S. corn and soybean supplies will be record large for the 2016-17 marketing year that begins on September 1. The corn supply (production, carryover stocks, and imports) is projected at 16.909 billion bushels, 1.512 billion bushels larger than last year's supply and 1.43 billion bushels larger than the record large supply of two years ago. The soybean supply is projected at 4.346 billion bushels, 201 million larger than the record supply of last year.

These large supplies are on top of a record large wheat supply totaling 3.417 billion bushels, 500 million larger than last year's supply and 299 million larger than the record supply of 2012-13. Such large corn and soybean supplies might be expected to result in issues with handling and storing the 2016 harvest. In turn, potential storage constraints might point to a weak harvest time basis and large spreads (carry) in the futures market. This is certainly what has happened in the hard red winter wheat market. Current basis in western Kansas is generally quoted around -$1.20 per bushel while the carry from September 2016 to May 2017 futures has been trading at about $0.50 per bushel, or about $0.056 per month. Average basis in the soft red winter wheat market in west southwest Illinois is stronger, at about -$0.19, but the September 2016 to May 2017 spread is nearly $0.54, or $0.06 per month.

In contrast, harvest bids for corn and soybeans generally reflect a relatively strong basis, although conditions vary a lot from region to region. At interior elevators in south central Illinois, current harvest time corn bids reflect an average basis of about -$0.25 per bushel. That is slightly stronger than the basis at this time last year and about $0.10 stronger than that of two years ago. The carry from December 2016 to July 2017 futures is about $0.25 per bushels or only about $0.0325 per month. For soybeans, current harvest time bids in south central Illinois reflect an average basis of about -$0.245 per bushel. The basis is about $0.08 stronger than at this time last year and about $0.10 stronger than that of two years ago. The soybean futures market is mostly inverted, with the November 2016 to July 2017 carry at -$0.06 per bushel.

The relatively strong corn and soybean basis and small or negative carry in the futures market in the face of U.S. corn, soybean, and wheat supplies that exceed supplies of a year ago by more than 2.1 billion bushels is somewhat surprising. There may be a few explanations. First, a stronger than expected basis may reflect the industry's good track record of handling large supplies with the use of temporary storage facilities for corn. With generally ample handling and interior storage facilities (permanent and temporary) the speed of harvest and transportation bottlenecks would be the major threats to the strong basis levels moving through harvest. Second, relatively strong export demand may be supporting the basis and reducing the carry in the futures market. Weekly corn export inspections have been in the range of 45 to 50 million bushels over the past two months. In addition, unshipped sales for the current marketing year total 265 million bushels and outstanding sales for the 2016-17 marketing year are at 398 million bushels, compared to 222 million on the same date last year. Weekly soybean export inspections have been much larger than is typical for this time of year, ranging from 26 to 37 million bushels per week for the most recent five week period. Unshipped sales for the current marketing year total 176 million bushels and outstanding sales for the 2016-17 marketing year are at 564 million bushels, compared to 384 million on the same date last year. The strong export pace primarily reflects the shortfall in the most recent South American harvest. Third, the relatively small carry in the corn futures market and the inverse in the soybean futures market may reflect expectations of larger corn and soybean crops in South America next year, as such expectations might pressure deferred futures prices. The USDA projects combined corn production in Brazil and (mostly) Argentina in 2017 to be 790 million bushels (21 percent) larger than in 2016. Soybean production is projected to increase by 260 million bushels (five percent).

Average harvest time bids for soybeans in south central Illinois are near $9.90 per bushel, above the upper end of the range of the U.S. average farm price projected by USDA for the 2016-17 marketing year. The relatively high price, strong basis, and inverted futures market discourages storage of the 2016 crop. For those who anticipate even higher prices, ownership in the form of futures or basis contracts is likely much less expensive than commercial storage, and may be less expensive than using existing on-farm facilities.

For corn, average harvest time bids in south central Illinois are near $3.17 per bushel, near the mid-point of the range of the U.S. average farm price projected by USDA for the 2016-17 marketing year. Modest harvest time bids and some positive carry in the corn market makes storage of the 2016 crop more attractive than storage of soybeans. For example, if the average basis in south central Illinois strengthens to about -$0.10 by late spring 2017, as it has the past two years, the market is offering about $0.40 per bushel to store corn from harvest to late spring next year.

With storage space limited in some areas this year, producers may not be able to store as much of the corn and soybean crop as desired. While basis levels and seasonal basis patterns vary from region to region, the corn market is offering a better opportunity for positive storage returns than is the soybean market.