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What is the Corn and Soybean Cash Market Telling Us?

By Chris Lehner (Feb 23)

Last October the average corn basis in Iowa was minus 48 cents. This was about 17 cents wider than most years of around 35 cents. The soybean average state basis was minus 81 cents. This was about 25 to 30 cents wider than in many past years.

Today, the average basis is minus 37 cents under March 2018 corn and minus 77 cents under March 2018 soybeans. Thanks to the "Great State of Iowa" and a terrific agricultural marketing site, it is easy to find cash grain prices and the basis back to 1974.

http://www.iowaagriculture.gov/agMarketing.asp

Has storing corn and soybeans worked since harvest? First; basis has improved. But has it? At harvest buyers were already narrowing the basis for spring and summer delivery. They didn't want grain at harvest and for farmers willing to store it on the farm or at the elevator, buyers were narrowing corn and soybean basis by 20 cents for delivery from March through July 2018. So now the difference in corn basis posted between what farmers received in October and now is an 11 cent improvement and for soybeans simply 4 cents. Basis has improved, but if farmers took the better basis offer at harvest, they could have netted 9 more cents for corn and 16 cents for soybeans. At harvest a basis contract for March through July would have been a good idea.

A basis of 35 cents for corn for Iowa is fairly average year to year. Of course, near the Mississippi River and the Missouri River the basis would be narrower and if near large poultry, hog and cattle feeding or distillers the basis would be even better, but the average is often 35 cents under year after year. In other words, for corn the basis improvement has been good.

The 4 cent improvement for the soybean basis is a drop in the bucket. Fortunately, farmers that stored soybeans have been helped with close to a $1.00 move up since the January and harvest lows were made. But the basis and the carrying charge now through summer isn't as friendly as it seems with a $1.00 rally. I am concerned that as fast as soybeans shot up, they can drop just as fast. The large basis tells us buyers aren't knocking down doors wanting producers to sell beans.

This year, market reports seem to circulate more about soybeans than corn. Maybe they should. Corn has moved about 25 cents off the January low and soybeans have rallied almost $1.00.

Looking ahead, personally I would rather be long corn at this point forward. Yes, the Argentina soybean crop has been damaged, but new land planted to soybeans and good growth in Brazil will make up for Argentina's losses. Also, China is encouraging farmers to plant more soybeans this year as they did last year. China doesn't support corn prices, but there are incentives to plant soybeans. It doesn't mean demand for corn in China is nil. Because of increased hog production and increases in ethanol, the Chinese demand for corn grown outside of China could and will grow in 2018.

Unless U.S. farmers being surveyed are making it up, survey after survey claims U.S. farmers will grow more soybean acres in 2018. Personally, I don't think bean acres will surpass corn as some analysts believe because this year is crop rotation for corn from soybeans, but the cost of production will dictate for at least 25% of farmers to plant more soybeans.

Near term, heading into March I look for all grains to turn down. The narrower basis incentives at harvest in 2017 were too good for U.S. farmers to pass up. The $1.00 move and tighter basis gives many U.S. farmers $9.50 or more for soybeans and corn prices are $3.50 or better.

In six or so weeks U.S. farmers will or could be in southern Midwest fields planting new crop. Many storing need cash to pay off last year's operating loans before they can buy inputs and others need good old cash to pay bills. Look for March to be a heavy sales month.

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