Early-November, 2001

**Basis, Carry and Cost of Storage**

As harvest winds down this fall, many producers plan on storing their corn and soybeans. Seasonal price trends indicate that both corn soybean prices tend to increase as harvest concludes. The decision to store your crop or not store should also be based on other factors discussed in this newsletter.

**LDP vs. Marketing Loan**

You can either choose the LDP or the Marketing Loan for each bushel you harvest and for which you maintain beneficial interest. You can split bushels, taking the LDP on some and perhaps use the Marketing Loan on others. The majority of both corn and soybeans are LPD’d. It’s easy to understand and you get the money right away. The largest LDP on corn thus far this fall was 21 cents on October 3rd. The largest soybean LDP was $1.39 on both October 23rd and 24th.

However, if you take the LDP and continue to store these bushels without taking other means of price protection (forward price, sell futures or buy a put option) then you are at risk of the market price going lower. If you use the Marketing Loan for some of these bushels, then you receive the county loan rate. If prices decline you can sell those bushels and pay off the loan at the lower PCP.

Thus you have downside price protection with the use of the Marketing Loan. You can also use FSA Form 697 to “lock-in” the PCP for up to a 60-day period. This provides an opportunity to capture a Marketing Loan Gain (MLG), which could be similar to the LDP.

**Basis**

Most producers understand that basis is important to their marketing decisions, but just aren’t sure how to use it. Last year’s soybean basis chart below indicates the ’00-’01 basis was historically narrow compared to the 10-year average on the top line and the previous year’s basis. A similar scenario is setting up this fall. Merchandisers buying your soybeans must narrow the basis in order to get bushels bought as harvest concludes and bushels are stored. The basis may be localized depending on the demand elevators, processors, and river terminals have for the soybeans.

Source: [www.bryceknorr.com](http://www.bryceknorr.com)

**The Strategy**

The principal concept is to “move” grain when the basis is narrow and price “grain” when futures are high. If the basis is expected to narrow when the futures are high, price your grain and use futures or options to create a price floor and wait for the basis to narrow. It sounds easy, but is difficult for most producers because of the emotions involved in making a marketing decision.
When the futures are near the season’s high, basis is normally wide because the grain is moving and the elevators and processors have little incentive to bid up the cash prices. Remember, most everyone buying your grain are “basis bidders” and use the futures to manage their price risk. Most producers don’t use futures or options, so they endure risk of both futures price and basis.

When prices are near the season’s low basis usually begins to narrow (usually as harvest concludes and the grain bin doors get locked). Basis narrows because the primary way merchandisers get grain is to “bid up” cash prices, thus narrowing the basis. After the futures bottom and start to move higher, producers may become more willing to sell the rally and the basis will then weaken.

**Carry**

Defined as the difference between futures prices for the nearby contract month and the deferred months. It often reflects what the market is willing to “pay you” to store your grain. Look at CBOT Soybean Futures closes. Note that there is “little carry” in the market, thus little reward for storing soybeans. The South American soybean crop becomes available to the world after mid-March, thus limiting carry.

Now look at the CBOT Corn Futures closes. There is carry in the corn market, thus more of an incentive to store corn vs. soybeans. Note the steeper “stair-step” component that corn has in this graphic.

**Cost of Storage**

Do you really know what it costs to store your corn and soybeans? It probably costs more to store commercially as compared to on-farm. However, don’t forget the additional labor, maintenance, utility costs and management it takes to keep the on-farm grain in condition.

Regardless of where you store, take into consideration the opportunity cost of money. If you have debt that you could pay down with the proceeds from the grain, consider this. A loan accruing interest at 8% APR will add to the cost of storing corn more than 1 cent per bu./month for corn, and nearly 2 1/2 cents for soybeans.

If you plan to store corn or soybeans this fall and winter and you feel as though prices might increase, then understand the implications of basis, carry and the cost of storage. Explore the use of other marketing tools such as use of Call Options (minimum price contracts) or new contracts such as Floored Average. Some of these tools hold less risk of lower futures prices and wider basis.

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