The Importance of Knowing Your Seasonal Basis Patterns

As the 2018 harvest wraps up, farmers are expected to be storing large volumes of unpriced corn and record amounts of unpriced soybeans. Across Iowa, corn stored in giant bunkers at elevators and “ag bags” on-farm are common sights. Expect the abundant overflow bushels to impact the local cash basis throughout the winter and well into the spring and summer months.

Cash prices will need to increase enough to provide a profit margin above the cost of owning those bushels. Despite the large futures carry in the deferred futures contracts, cost of grain ownership is important. While the futures prices may be telling producers to store these bushels, farmers can only earn these unusual carrying charges if the bushels are sold using a tool that prices futures in those distant months.

Seasonal Basis Patterns

The line graphs below are examples of the corn and soybean basis at a Central Iowa Elevator versus the March futures each year since the 2014 crop. The lines begin with harvest in mid-October and ends in early March.

Corn Basis vs. March Futures Example

Source: Iowa Commodity Challenge, Nov. 7, 2018

Note the pattern for the widest basis to occur during harvest for both corn and soybeans. The 2018 corn basis is favorable compared to recent years as the U.S. corn use is projected to be record 15.08 billion bushels. That’s despite the 2018 production projected at 14.626, nearly identical to the 2017 corn crop but 500 million bushels smaller than the record 2016 crop.

Now look at the soybean basis trends below. The 2018 basis is at its widest level in memory. That’s due to a record U.S. soybean crop of 4.6 billion bushels. In addition, U.S. exports are forecast at 1.9 billion bushels due to the ongoing Chinese trade dispute and 25% tariff on U.S. soybeans.

Without a trade resolution with the Chinese government, don’t expect basis to approach the levels seen the previous 4 crop years. However, the trend for basis to narrow roughly 10¢ to 20¢ per bushel from harvest until late December. Farmers will likely be reluctant to sell soybeans at current cash prices, despite the likely receipt of the new USDA Market Facilitation Program (MFP) that is currently estimated at $1.65 per bushel.

Soybean Basis vs. March Futures Example

Source: Iowa Commodity Challenge, Nov. 7, 2018
The 2018 crops are large, but corn use is projected to be record which should support most local basis trends. Despite some storage capacity challenges, expect corn basis to strengthen throughout the late fall into the early winter months.

As harvest is nearing completion, farmers tend to lock their grain bin doors and slow movement to the processors. As a result, processors typically push out attractive cash bids for the month of December to entice delivery of bushels. Elevators and co-ops will likely respond by delivery bushels when basis becomes attractive.

This narrowing of soybean basis is already occurring and should appear in corn by mid-November. This narrowing of basis in central Iowa usually lasts until at least late December. By mid-January, expect basis to widen as temporary stored bushels need to move, farmers move bushels to meet cash flow needs and storage quality concerns emerge.

Soybean basis will likely follow this same trend this winter. With record soybean production and lack of export demand to China, expect basis to narrow post-harvest, but not to approach levels seen in recent years. Then soybean basis will likely remain exceptionally wide throughout the winter months.

Making the Most of Basis

So, what might be some strategies that you could incorporate if you know your own basis patterns and they are similar to the example of this Central Iowa Elevator?

1. Typical elevator basis in the Western Corn Belt will likely be wider than normal, especially soybeans, and stay that way for most the winter months.
2. Processor basis will likely be narrower than that of a nearby elevator by 20¢ per bushel for corn and 40¢ to 50¢ per bushel for soybeans. With the amount of corn stored temporarily, don’t expect that basis opportunities until the spring months.
3. Time your cash sales for periods when basis strengthens. This is typical in the last half of December, especially with the two 3-day weekends around Christmas and New Year’s.

Processors may need additional bushels and narrow the basis to assure adequate supplies are delivered. Start checking your processor bids!

4. It’s okay to store grain and wait for better cash prices, especially if the bushels are stored on-farm and you do not need to sell these bushels for cash flow purposes. However, you need to monitor grain quality in those on-farm stored facilities every couple weeks.

5. Maintain realistic price cash price expectations for bushels stored into the winter, spring and summer months. Large ending stocks for corn and record stocks for soybeans are forecast for the 2018-19 marketing year. These ending stocks will limit the upside futures price potential without a major weather threat or surprising increase in export demand.

Other Strategies to Consider

Some farmers may elect to use the Farm Service Agency (FSA) marketing loan program to generate cash flow this winter. The amount that can be borrowed per bushel is limited to your county loan rate and must it must be repaid within 9 months. The marketing loan is simply access to a low interest loan currently at 2.625 percent Annual Percentage Rate (APR). This is not a marketing plan, just access to cheaper interest. You’ll need to contact your local FSA office to apply for such a loan.

Farms with large 2018 yields have a much lower actual breakeven cost. These farms might go ahead and sell additional bushels and avoid costs of ownership and quality concerns that triggers the likelihood of a wider basis in the late winter months.

It’s important to understand your local basis trends and cost of storage; both on-farm and commercially stored bushels. Consider your own cash flow needs and the interest that may be accruing on operating and term notes. Cash prices reflecting basis must be an important consideration in determining the marketing strategies and tools you might consider using. You might spread your risks with these additional bushels, especially those held in commercial storage with higher cost of ownership.