The 2019 Iowa harvest should be remembered for being mostly planted and harvested last, but also for the strongest corn basis at harvest in 5 years. The 2019 U.S. corn and soybean crops are expected to be the 6th largest in history, but strong domestic demand is supporting cash prices.

**Corn Basis Trend**

The strength in the corn basis throughout harvest was surprising. Below is a line graph that compares the 2019 corn basis (via the December nearby futures contract) and soybean basis (via the November contract). Basis for both crops are compared to the average basis for 2014 through 2018 at these same terminal elevators in Central Iowa:

**Soybean Basis Trend**

The soybean basis graph below features the harvest 2019 basis bids compared to the 5-year average. Soybean basis is trending near the 5-year average basis for this facility. However, basis is much improved compared to last year when basis was weaker (wide) due to the Chinese trade issues and a record 2018 U.S. soybean production.

**Cost of Grain Ownership Considerations**

Now compare the price of storing corn or soybeans at a commercial elevator to your own on-farm storage costs. The 2019 crop assumptions: cash corn is valued at $3.57 per bushel, and cash soybeans are $8.34 per bushel at a central Iowa elevator on Oct. 2. The bushels are stored and interest is accruing on stored grain at a rate of 6.25% annual percentage rate. On-farm storage is estimated at 1¢ per bushel per month, while commercial storage is 16¢ for the first 90 days and 2.8¢ per bushel for each
month after that. Corn is the top line graph and soybeans the bottom. Note that the green line is still below the cost of ownership lines for both crops; thus, the return to storage is still negative as of early November.

Upon delivery of those cash bushels, a farmer can collect 70% to 80% of the corn’s cash value. The merchandiser holds the remaining 20% to 30% cash balance to make potential margin calls should futures prices decline. Any excess funds minus the 1 to 2¢ service fee are returned to the farmer upon settling the basis contract. They can also defer any cash income until the next tax year but need to indicate that to the merchandiser before delivering the corn to the processor, feedlot, or elevator.

**Basis contract advantages**

The farmer needs to tell the merchandiser a date and price at which they wish to have this long futures position lifted. Consider being “long,” using the March 2020 or May 2020 corn futures contracts when using a basis contract to increase the chance of benefitting from a late winter or spring price rally. That’s when the most significant production uncertainty for the Northern Hemisphere feed grain occurs and where nearly 80% of global production occurs. Note there could be additional risks this spring with the likelihood of more U.S. corn planted acres resulting from the record prevented planting acreage experienced in 2019.

**Conclusion**

Discuss risks and rewards with your merchandiser when you’re initiating cash sales and basis contracts. Be sure you understand the risk of “long” futures and the flow of cash funds involved in the transaction. The farmer can’t take advantage of the carry offered in the futures markets with a basis contract.

However, some of the advantages of a basis contract includes helping with cash flow needs this winter, eliminating storage costs and basis risks, and minimizing the concern for on-farm stored corn quality.