The USDA National Ag Statistics Service (NASS) crop production report on Sept. 12, 2018 confirmed the adage that big crops get bigger. The corn yield estimate as of Sept. 1 was a record 181.3 bushels per acre nationwide. The Iowa corn yield estimate was 206 bushel per acre, a new record.

The USDA shows projected record yields in 7 of the top 10 corn producing states (based off the 5-year production average). The top 10 states are in the map below. The # next to the yield projection signifies a record corn yield for that state. The number below is the change from August to September’s projection. The only states here that the USDA expects there not to be a record are Missouri and Kansas, understandably with the drier summer, and Minnesota, which is 3 bushels per acre off their record from last year. Not only does NASS see the other states at a record yield, the average of those states compared to their previous record is up 8.1 bushels per acre.

Expect Seasonal Lows
After the September report, the December ‘18 corn futures dropped to new lows ($3.42½), but rebounded as funds covered their short futures positions. The decline in corn futures attracted strong export demand, which helped encourage commodity funds to lighten their short futures exposure.

It’s not unusual for harvest lows to be made in late September to early October. After all, nearly 85% of all feed grains are produced in the northern hemisphere. Remember, U.S. corn ending stocks come August 2019 will be more than 500 million bushels smaller than just 2 years prior. Expect limited global competition for U.S. corn exports, until South American corn is available in the last spring months. The $3.50 per bushel level for December corn futures should remain strong support despite the coming harvest pressure.

Basis Considerations
Pay attention to corn basis trends in your area. Basis is simply the local cash price minus the nearby futures contract. It reflects the local supply and demand for corn and can vary by processor, river terminal, feedlot elevator, or co-op facility you might deliver corn to.

The line graph provides an example of corn harvest basis trends using a Des Moines terminal elevator over the last 4 years (2013-2017). Harvest basis should remain about 44¢
under the December corn futures at the onset of harvest in October and eventually narrow by late November to about 37¢ under the December futures contract.

Remember, the last few days of November, the December corn contract will “go into delivery” and the March corn contract will be the lead month. Don’t be fooled by the sudden wider basis at that time, as there will still be about 9¢ to 12¢ carry between the December and March futures contracts.

**Carry & Cost of Ownership**

As of mid-September, carrying charges are about 26¢ per bushel between the July ’19 and Dec. ’18 corn futures contracts. Carry is a good sign of large crops and the incentive provided by futures prices for storing those bushels. However, one must consider their actual cost of ownership, which includes both storage costs and interest that might be accruing.

In the example chart provided, the dark-colored bar charts are the cash corn bids over 5 different months following harvest. The bottom solid line is the on-farm storage cost estimates from October to the following August 2019. The top checkered line is the commercial storage costs over this same time frame.

On-farm storage costs assume a 1¢ per bushel per month charge. Commercial storage costs are 16¢ for the first 90 days and 2.8¢ per bushel per month thereafter. In both cases, 6% interest is accruing on the estimated cash corn value which was $3.01 per bushel in this example.

**Marketing Tools to Consider**

Note that the on-farm storage assumptions already provide an opportunity to capture a positive net return to ownership, especially for the spring and summer months. Consider the use of tools such as a forward cash contract, also called a “storage hedge.”

However, bushels stored commercially fall short of covering those additional costs of ownership. This could limit your ability to capture the futures carry and better basis in those spring and summer months, without improvements in both.

Consider selling those bushels at harvest and using a basis contract, or “staying long deferred futures.” Another tool to consider is a minimum price contract which involves selling the cash bushels at harvest and buying a March call option. These marketing tools could better position you to benefit from a futures price rally without the cost of storage and accrued interest.

Sources: *Brugler Marketing & Mgt & Iowa Farm Bureau Spokesman*, September 19, 2018