Narrow Corn & Soybean Basis Opportunities

As year-end approaches, a combination of factors has allowed both the corn and soybean old crop basis to narrow (become less negative). Basis is now at some of the most attractive levels for the winter months as witnessed in recent history.

Remember, basis is defined as the cash price minus the futures price, so is usually negative in Central Iowa. The exception is usually the spring and summer months, depending on the U.S. ending stocks and the actual cash price being offered.

Factors for the narrow basis this year include:

- Decline in corn and soybean futures prices
- Tight U.S. ending stocks
- Good demand by processors and exporters
- Lack of year-end farmer selling.

The nearby corn futures price has fallen by more than $1 per bushel since their August 10th all-time record high. Soybean futures price has fallen nearly $3 per bushel since their September 4th all-time record high.

Many farmers struggle to sell cash bushels when the futures prices decline from their seasonal summer highs. During the late fall, futures prices are rarely as high as they were a few months ago. Seasonal corn futures tend to struggle around the holidays, as much is known about the northern hemisphere production. The exception might be soybean futures prices, as they tend to rally in December if there is uncertainty of the southern hemisphere production.

Local demand for the processing of corn and soybeans remain fairly constant during the month of December. The demand for soybeans may be larger than usual, as processors crush soybeans to meet demand for meal and soy oil. At the same time, barge and rail shippers attempt to capture global export demand. Southern hemisphere crops are not usually available until February, thus the U.S.is the primary source of soybeans until then.

Corn Basis Trends

The historical basis charts for both corn and soybeans in Central Iowa indicate a narrowing (less negative) trend at harvest through the fall and winter months.

Consider March is the nearby corn futures contract to determine the basis trend. The line graphs begin at harvest in early October and last through late February, which coincides with the first notice day of delivery for the March futures contracts.

Typical corn basis at a Central Iowa elevator for 2008 through 2011 would range from a - $.50 per bushel under basis at harvest to - $ .35 under by
mid-December. By late February, that basis improves, but only $.10 per bushel on average.

However, the 2012 corn basis was -.20 per bushel under March futures at harvest and was less than -.10 per bushel by mid-December. Look closely at the top line reflecting 2012. The basis is already more narrow than period of the time in the past 5 years, nearly $.30 per bushel better than the historical mid-December time frame.

The drought of 2012 left the much of the cornbelt with an inadequate supply of corn and soybeans. Some parts of the northern cornbelt had record yields. Since most processors have storage available for only a few days, the basis at harvest tends to be widest (more negative) as large supplies are available. By December, commercial elevators have stored large quantities of bushels and serve as the primary supplier. Processors tend to narrow their bids to make sure that adequate supplies are available, especially around the holiday period. At the same time, farmers are reluctant to sell additional cash bushels because of additional taxable income.

**Soybean Basis Trends**

Typical soybean basis at a Central Iowa elevator from 2008 through 2011 would range from a -.80 per bushel under basis at harvest to -.60 by mid-December. By late February, that basis improves but only by $.10 to $.15 per bushel on average.

However, the 2012 soybean basis was -.20 per bushel under March futures at harvest and by mid-December narrowed only slightly to about -.15 per bushel under.

**Locking the Basis Strategy**

For farmers that have already set the futures price and are waiting for an attractive basis, fixing that basis and delivering cash bushels should be considered in December. If you have not yet set either the futures or basis prices, consider your overall cash price objective. Capturing the basis via a basis contract and leaving the futures price open might be considered.

A basis contract reduces the basis risk and storage cost, but leaves the farmer open to the risk of lower futures price. Such a risk is probably greater for soybeans than corn, as the size of the southern hemisphere strongly impacts the direction for nearby futures prices. Using the strategy for corn bushels tends to be less risky, as the seasonal corn futures prices tend to move higher in the late winter into the late spring months.

**Conclusion**

As year-end 2012 approaches, a combination of factors has allowed both the corn and soybean basis to narrow to perhaps some of the most attractive December levels in memory.

While the sale of cash bushels can capture this basis and payment for income tax purposes can be deferred until 2013, the futures price is much lower than the all-time record highs recorded this past summer.

Use of marketing tools such as a basis contract can capture the attractive basis, eliminate storage costs and leave open the potential for higher prices by being “long futures.” Work with your grain merchandiser to thoroughly understand the risk of a basis contract and the fact that you are still “long futures.” The final cash settlement price will not be known until you notify the merchandiser to lift this “long futures” position. You will only receive roughly 80% of the actual cash price when committing these cash bushels to a basis contract.