



Harvest of plenty widens basis

By DUANE DAILEY

HIGH prices for grain on the boards of trade don't necessarily show up at local elevators. Farmers harvesting record yields this fall are finding cash prices well below futures prices, says Melvin Brees, University of Missouri economist.

"The price difference is not a grain market collusion; it is simply supply and demand," says Brees, grain marketing specialist at the MU Food and Agricultural Policy Research Institute.

The futures price on the Chicago Board of Trade is an offer for grain at some future time and at a specified delivery point. The local cash price is an elevator's signal for how much grain it wants, or doesn't want, today, he explains.

Farmers are seeing a \$1 or more price differential, or basis, for a bushel of soybeans. Market basis is the difference between the price on the board of trade and the price at the local elevator.

"With record harvests coming in, local elevators can't handle much more grain," Brees says. "If an elevator buys more grain than it can store, it must start piling that grain on the ground, which increases their risk."

One traditional measure of basis is how much it costs to move grain from a local elevator to market in Chicago.

"Today, there are higher freight costs to move grain," Brees says. "Fuel costs are higher, which makes trucking less attractive."

At many locations, there is greater competition for railcars to move dry commodities and for barges to move grain on the rivers.

Key Points

- Local grain prices fall below futures as elevators fill up.
- There is greater demand for railcars and barges to move grain.
- Producers should keep a close eye on markets and calculate their budget.

"All of those things push cash bids down," Brees notes. "Even with the dollar drop in basis, most commodity prices are at historically high levels."

In the past 20 years, corn has been higher in only 10% of the months. Soybeans have been higher in only 4% of the months. "Wheat is at record prices and has been higher 0% of the time," Brees adds.



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On Sept. 11, basis differentials from Glasgow in central Missouri to the Chicago Board of Trade were:

Corn: cash bid \$2.99 per bushel and CBOT December 2007 contract \$3.41 for a minus basis of 42 cents.

Soybeans: cash \$8.21 and CBOT November 2007 \$9.05 for a minus basis of 42 cents.

Wheat: cash \$7.61 and CBOT December 2007 \$8.90 for a minus basis of \$1.29.

Demand pull

While local elevators face grain gluts at harvesttime, traders in futures contracts in Chicago or Kansas City look at a bigger picture of worldwide trade.

"Wheat is a food crop in short supply around the world," Brees says. "Drought in Australia greatly reduced their exports. We will be exporting as much as we can."

When it comes to corn, the U.S.

Corn Belt dominates the world market. However, corn faces increased demand from ethanol producers and livestock feeders at home.

"As soon as elevators get the harvest glut into storage, ethanol plants and livestock feeders will have to bid to get it out," Brees says.

U.S. farmers are major players but not dominant in soybean production. South America is a large competitor, and soybean prices depend on how Brazilian growers respond to these prices.

Around the corner

"Futures traders see growing demand and possible short supplies in years

ahead," Brees says. "Three crops — corn, soybeans and wheat — will be competing for acres."

Futures prices will help farmers decide which crop to plant next season.

"As we go into the winter and spring, markets will still be bidding for acres," Brees says. "These are good prices. When soybeans are over \$9 per bushel, you don't usually get those prices at harvesttime."

Producers will have to look at the futures price, and then calculate a budget for their own farm, based on their own costs, Brees says. "For now, pay attention to what the market will give for that crop."

Storage management is vital

MANAGEMENT of grain storage requires careful planning, including proper sanitation, protection from insects and alternate strategies to move grain to spread risk, according to a University of Missouri Extension grain specialist.

Sanitation includes cleaning bins and handling equipment, eradicating potential pests, and removing all old-crop grain from the storage facility, says Bill Casady, MU crops engineer. Here are his recommendations:

- ✓ Clean trucks and combines. Make it part of your routine maintenance when you inspect fans, dry floors, and prepare and lubricate augers and other components. Routine cleaning when the job is completed helps to avoid forgotten piles of grain that can make a home for grain pests.
- ✓ Use self-cleaning components wherever possible to make cleaning easier and complete. A little leftover grain can act as an inoculant that will contaminate any new grain introduced to the system.
- ✓ Spray walls and other parts of structures with residual insecticides to protect grain from infestations. This is advised if storing grain for a long period.
- ✓ Set the combine to harvest good, clean, high-quality grain.
- ✓ Store only high-quality, clean grain.

Management of quality grain even in ordinary bins requires good planning. Be sure to have several strategies for moving commodity crops to spread the risk. There are several options for better marketing grain, and on-farm storage is just one of them, Casady says. "If yields are likely to overfill bins, plan to take a portion of the crop to commercial storage. Flat storage, as opposed to storage in bins, is for emergency, temporary storage only."