The soybean basis at many interior locations has been generally weak for the past year. The weakness has accelerated in 2008. On March 20, 2008, for example, the overnight cash bids for soybeans in Illinois, as reported by the Illinois Department of Agriculture, ranged from $11.21 to $11.47, reflecting a basis relative to July 2008 futures of -$0.60 to -$0.86 per bushel. The basis was slightly weaker than that of a year ago, $.20 to $.30 weaker than the basis of two years ago, and $.40 to $.50 weaker than the basis of three years ago.

Bids for harvest delivery of the 2008 crop were even weaker relative to futures prices. Bids in Illinois on March 20 ranged from $10.12 to $10.39, reflecting a basis of -$1.01 to -$1.28 relative to November 2008 futures. Last year, the comparable basis at this time of year was -$.30 to -$.60. In both 2005 and 2006, the new crop basis in the third week of March was in a range of -$.25 to -$.45.

The weak soybean basis likely reflects a number of factors. One factor may be the “inflated” value of futures prices stemming from increased trading activity by non-traditional speculators. Evidence of that impact is in the lack of convergence of cash and futures prices at the delivery markets at maturity of the futures contracts. Theory holds that the opportunity to deliver against a futures contract presents arbitrage opportunities that should force cash and futures prices together (futures prices down to the cash price in the current environment) at maturity. Instead, at maturity of the March 2008 contract, basis at delivery markets was in the -$.50 to -$60 range. Non-convergence of cash and futures prices has been of historic magnitude since July 2007. The lack of convergence implies a problem with the futures contract specifications. The Commodity Futures Trading Commission (CFTC) will convene a public forum on April 22 to discuss recent issues in agricultural markets, including the issue of convergence.

Another factor contributing to the weak interior basis may be the higher transportation costs. All else equal, higher transportation costs generally reduce the cash bid to producers. Weak basis, particularly for the 2008, crop may also reflect the increased margin risk to short hedgers in a period of rapidly increasing prices. It is generally acknowledged that the sharp increase in prices since the fall of 2007 has resulted in large margin payments from short hedgers, increasing financing costs and reducing operating margins for grain dealers. A weak basis bid, in anticipation of basis appreciation later on, is one way to recover some of the lost operating margin due to the escalating financing costs.
The weak new crop soybean basis has at least two implications for producers. First, effective pricing of the 2008 crop may require the producer to sell futures directly rather than forward contracting at an extremely weak basis. Second, the weak basis, along with the decline in soybean futures prices, now makes corn production in 2008 potentially much more profitable than soybean production.