New Crop Basis Much Stronger Than That of a Year Ago

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On March 18, 2009, average new crop cash bids for 2009 harvest delivery of corn in the seven Illinois price reporting districts used by the USDA’s Agricultural Marketing Service ranged from $.40 to $.49 cents under December 2009 futures. On the same date in 2008, average harvest delivery bids in those regions ranged from $.53 to $.72 under December 2008 futures. The stronger basis this year reflects the general trend towards more normal basis levels, particularly the spot basis for the 2008 crop. The problems with the convergence of cash and futures prices at futures delivery markets that were common over the past two years are not being experienced so far in 2009. Still, the new crop basis is generally weaker than existed prior to 2007 and is much weaker than the old crop basis relative to what has been considered normal for this time of year. The magnitude of the new crop basis over the next few months will be at least partly influenced by the prospective size of the 2009 crop. The larger the crop appears to be, the weaker the harvest bids are expected to be. The first indication of potential crop size will come with USDA’s March 31 Prospective Plantings report. Most do not expect intentions for 2009 to exceed acreage planted in 2008. Any significant reduction in acres intended for corn would point to potential for a stronger new crop basis.

The year-over-year strengthening of the new crop soybean basis is even more dramatic than for corn. On March 18, 2009, average cash bids for 2009 harvest delivery in the seven price reporting districts of Illinois ranged from $.55 to $.68 under November 2009 futures. A year ago, average harvest delivery bids were $1.07 to $1.21 under November 2008 futures. Still, new crop basis levels are relatively weak compared to the period before 2007 and especially compared to the very strong old crop basis currently being experienced. Buyers are not expected to aggressively bid for new crop soybeans, given the experience with margin calls on short futures positions of a year ago. If the USDA’s plantings report shows an increase in acreage intended for soybeans in 2009 buyers may be even less aggressive in bidding for the 2009 crop. More acres along with a return to a trend yield in 2009 would result in an exceptionally large crop.

The largest year-over-year improvement in new crop basis in Illinois has occurred in the wheat market. On March 18, 2009, average cash bids for harvest delivery in southern Illinois were about $.85 under July 2009 futures. A year ago, new crop bids averaged about $2.25 under July 2008 futures. While new crop basis is still weak by historic standards, the trend of a stronger basis may continue, even as problems with convergence of cash and futures prices at futures delivery markets continue. Further strengthening of the soft red winter wheat basis is expected to come as a result of prospects for a much smaller crop in 2009 and declining stock levels by the end of the 2009-10 marketing year that begins on June 1. Smaller crop expectations stem from the
USDA’s estimate of winter seedings released in January. Seedings of soft red winter wheat are down sharply following the large increase in 2007.