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LDPs Are Back

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Just over 5 months ago, cash corn prices in Illinois were over $3 and cash soybean prices were over $10. Now, corn prices are well under $2 and soybean prices are under $5. Prospects for large crops, following soybean shortages and early crop worries for corn, have been the primary factor driving prices down. Corn and soybean prices have dropped below the Commodity Credit Corporation loan rate and Loan Deficiency Payments (LDPs) are once again in positive territory.

The LDP, or Marketing Loan Gain (MLG) for crops stored and placed in the CCC loan program, is calculated and updated daily. The payment is equal to the county loan rate minus the Posted County Price (PCP) from the previous day. In Illinois, the PCP is equal to the higher of the terminal prices at the Gulf minus an announced differential and the track bid (basically the Decatur bid) minus an announced differential. The differentials for each market are composed of a fixed component and a component that can change daily. The differential is established to reflect transportation costs and differences in market conditions at terminals and in the county.

Currently, the PCP for corn in many Illinois counties is lower than actual spot cash prices, resulting in surprisingly large LDP rates. For example, in Champaign County the loan rate is $2.03, local elevator bids on September 24 were near $1.87, and the PCP was $1.69. The LDP rate was $.34. The large LDP rate is a windfall gain for that portion of the crop that was forward contracted at higher prices and is now being harvested. The large difference between the actual cash prices and the PCP also offers producers the opportunity to sell additional quantities of corn at a net price ($2.21, in this example) well above the loan rate. With bids for January delivery $.15 to $.20 higher than the spot bid, producers with low cost storage have the opportunity for an even higher net price on corn sold for January delivery.

For a portion of the corn crop, those with low cost storage may opt to establish the LDP (immediately or in the near future) and store in anticipation of higher prices later in the marketing year. A high rate of consumption and worries about next year’s crop could eventually generate a decent recovery in cash prices. This alternative carries the risk of lower prices. The current LDP rate could be locked in for a period of 60 days and an LDP established after 60 days if it is higher than the locked rate.

For soybeans, the actual cash prices in Champaign County were running near the PCP. The LDP on September 24 was only $.04, but was likely higher on September 27 following the large price decline on the 24th. With modest LDPs and cash prices near the PCP, storing soybeans unpriced is a relatively low risk strategy. However, as LDPs
increase, producers will be faced with some of the same alternatives as for corn. Establishing the LDP and holding soybeans in anticipation of higher prices may carry more risk than the same strategy for corn. If a large South American crop materializes, soybean prices could remain low or even decline further.