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Convergence Issues Resurface
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Lack of convergence of cash and futures prices at locations approved for delivery of the CBOT corn, soybean, and wheat contracts emerged in mid 2005, as cash prices generally remained well below futures prices at delivery locations at contract maturity. Since late 2008, convergence has generally occurred for the corn and soybean contracts. Except for the September and December 2007 and March 2008 contracts lack of convergence persisted for the wheat contract.

The Chicago Mercantile Exchange made a number of changes to the wheat contract in 2009 and 2010 to address the general lack of convergence. These included an increase in the maximum storage rates on futures contracts, the implementation of a higher seasonal rate from July 18 through December 17, and eventually the implementation of a variable storage rate that provides a mechanism for changing rates based on the carry in the futures market. The delivery instrument was changed from a warehouse receipt to a shipping certificate and additional locations were approved for delivery.

Convergence performance for the CBOT wheat contract gradually improved from September 2008 through the July 2010 contract, when convergence was achieved. It appeared that the changes in the specifications of the contract were successful in solving the convergence problem. However, convergence did not occur with the September 2010 contact. Cash bids on the first delivery day for that contract at river delivery locations ranged from $.50 to $1.25 under the September futures price. In addition, there was a lack of convergence with the September 2010 corn contract. Cash corn bids at Illinois River locations approved for delivery ranged from $.20 to $.40 under the September futures price on the first delivery day for that contract.

While convergence had not become a widespread issue for the KCBOT and MGEX wheat contracts, poor performance at both exchanges has occurred since late 2007. The extremely weak basis at non-delivery locations in these markets at harvest time this year resulted in a sudden concern about convergence performance for both of those contracts.

While performance during the maturity of one or two contracts may not be indicative of further problems, non-convergence is back in the news.