CORN AND SOYBEAN PRICING DECISIONS

Cash corn prices have declined below the Commodity Credit Corporation (CCC) loan rate in many markets and cash soybean prices are very near the loan rate. A number of storage and pricing alternatives are available for producers to consider now that the loan program has come into play.

The relevant pricing alternatives to consider are influenced by a number of factors, including the portion of the crop already priced, the magnitude of storage costs, the relationship between the local cash price and the posted county price, the magnitude of price premiums for later delivery, the willingness to use futures and options contracts, and the general outlook for post-harvest price direction. Some of the alternatives are examined here, using prices relevant for Central Illinois as an example. The following discussion does not address all of the alternatives, but is intended to illustrate the numerous alternatives available.

In the case of corn, the following prices reflect conditions as of September 20 – spot cash price of $1.95, CCC loan rate of $2.03, posted county price of $1.89, and premiums for January delivery over harvest delivery of $.15. One strategy is to establish a loan deficiency payment (LDP) of $.14 and sell corn for $1.95, for a net price $.06 above the loan rate. A second strategy is to store unpriced corn with downside price protection provided by the CCC loan rate. The net price of this strategy depends on the direction and magnitude of future price changes. The strategy does establish a minimum price of $2.03 minus storage costs incurred until the crop is sold. For commercial storage, the cost includes storage charges, any additional drying and shrinkage charges below 15 percent moisture, and interest on the value of the stored crop. For on-farm storage, the cost includes cost of handling the crop in and out of the storage facility, handling and storage shrinkage, cost of drying below 15 percent moisture, interest on the value of the crop, and any quality deterioration during storage. Interest cost could likely be avoided in both instances by placing the crop under CCC loan.

A third alternative is to establish the LDP at $.14 and store the crop unpriced. The net price from this strategy is the eventual selling price plus $.14 minus accrued storage costs. No downside price protection is provided. One variation of this strategy is to store the crop unpriced, establish the LDP later, if further price weakness is expected in the short run, and to continue to store the crop unpriced in anticipation that prices will eventually move higher. A second variation of this strategy is to store the crop unpriced and lock in the LDP rate, now or later, for a period of 60 days. If the 60 day period elapses without action, the crop remains eligible for future loan benefits.

A fourth alternative is to establish the LDP at $.14 and sell corn for January delivery at $2.10, yielding a net price of $2.24 minus storage costs. In this example, the strategy is viable only if the cost of storage is less than the $.15 premium for January delivery.
A fifth alternative is store the crop and price it for future delivery (contract or hedge) and then establish the LDP before delivery. This strategy might be considered if the LDP is expected to increase before delivery and the current forward price exceeds the spot price by more than the cost of storage. It establishes a price equal to the current price for future delivery minus the cost of storage until delivery, plus the future LDP.

In the case of soybeans, the following prices reflect conditions as of September 20 – spot cash price of $5.20, CCC loan rate of $5.18, posted county price of $5.44, and the premium for January delivery over harvest delivery of $.15. One strategy is to sell soybeans for $5.20, $.02 above the loan rate. A second strategy is to store soybeans and price for future delivery if the premium for future delivery exceeds the cost of storage. If the posted county price moves below the loan rate prior to delivery, an LDP could be established. A third strategy is to store soybeans unpriced in anticipation of higher prices. This strategy essentially establishes the loan rate minus storage costs as a minimum price, if the posted county price is near the actual cash price. In this example, the posted county price is currently well above the spot cash price, but that difference will likely fade as harvest progresses.

An additional alternative for both corn and soybeans is to establish the LDP and sell the crop, for immediate or future delivery, and replacing the cash position with futures or call options. If the crops are sold for future delivery, LDP’s could be established any time before delivery, if available. Once the crop is delivered, it is no longer eligible for loan benefits. In general, this strategy might be considered if storage is not available or if the cost of storage exceeds premiums for future delivery. Options are a more expensive alternative than futures due to the premiums associated with buying call options, but provide some protection if prices decline further. A number of option spread strategies could be employed to manage the cost and yet establish some price protection.

It is recommended that producers become familiar with the rules associated with the CCC loan program. In particular, the criteria for establishing beneficial interest, the procedure for establishing multiple loans, and the rules for determining the order in which loans are repaid should be reviewed.

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