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Corn Prices, Basis, and Spreads

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December 2011 corn futures increased by $2.00 between July 1, 2011 and August 29, 2011. That contract closed at $7.70 on August 29. Basis levels also strengthened during that period. The average cash bid for harvest delivery at country elevators in south-central Illinois, for example, strengthened to $0.28 under December futures on August 29, compared to about $0.40 under earlier in the spring and summer. In addition, the spread from December 2011 to July 2012 futures narrowed from $0.32 on July 1 to about $0.18 on August 29. Much of the price increase and reduced carry in the market was fueled by prospects of very small stocks of corn at the end of the 2010-11 marketing year and deteriorating prospects for the 2011 harvest. The market was discouraging storage of the new crop and signaling corn consumers to slow the pace of consumption in a classic “short crop” price pattern. Such a pattern is typically characterized by high prices and lack of carry early in the marketing year followed by declining prices and increasing spreads as the year progresses, resulting in the saying that “short crops have long tails”.

Corn prices dropped sharply from August 29 to September 30, with December futures closing at $5.925 on September 30. The decline reflected reports of “better-than-expected” yields, concerns about global economic conditions, and USDA’s report of September 1 stocks that substantially exceeded expectations. In classic fashion, the spread from December 2011 to July 2012 futures also increased from about $0.18 to about $0.28. Prospects of more ample supplies and weaker demand resulted in lower prices and more incentive to store the newly harvested crop. Unexpectedly, however, basis levels continued to strengthen. The average cash bid in south-central Illinois was $.09 under December futures on September 30. A strong basis was indicative of a shortage of spot market supplies of corn and tended to offset the storage signal coming from larger futures spreads.

Corn prices have recovered from the September 30 lows, with December 2011 futures closing at $6.44 on October 18, up over fifty cents. In spite of the substantial price increase, basis levels continued to strengthen and spreads in futures prices once again narrowed. Average cash bids in south-central Illinois were $.035 under December futures and the December 2011-July 2012 spread in the futures market was at $0.1825 on October 18. The average basis on the same date in the previous 5 years was -$0.265, in a range of -$0.15 to -$0.495. The average December-July spread was $0.32, in a range of $0.1975 to $0.3875.

Basis levels are currently very strong in most markets, with bids at the Illinois River and at many ethanol plants exceeding December futures. The current strong basis levels and small futures market spreads in the middle of harvest and with (apparently) much larger than expected old crop stocks is a bit of a mystery. These price relationships suggest a shortage of spot market supplies, discourage storage, and imply strong demand for corn. It is not clear why these signals are coming in the cash market rather than in the form of higher futures prices. The futures market may be reflecting longer term demand concerns or futures may be under-valued relative to actual demand strength. Historically, divergences like this one have not tended to last long. It will be interesting to see exactly how this one is resolved. Stay tuned.