

2015

Strive to capture storage margins

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Farmland leasing meetings will increase understanding of rental agreements, continued from page 1

Farm tenants and land owners are encouraged to attend in July and August

Attend a local meeting

The leasing meetings being held across Iowa are facilitated by farm management specialists with ISU Extension and Outreach. A listing of county extension offices hosting the meetings is available on the ISU Extension and Outreach online calendar for July and August, and at Ag Decision Maker.

For registration information, contact the local ISU Extension and Outreach county office. Preregistration is encouraged, as an additional fee may be added if registering fewer than two calendar days before the meeting date.

The Ag Decision Maker leasing section also provides useful materials for negotiating leases, information on various types of leases, lease forms and newly updated Decision Tools.



Strive to capture storage margins

By Steven D. Johnson, PhD, farm management specialist, 515-957-5790, sdjohns@iastate.edu

A famous Swiss psychiatrist, Elisabeth Kübler-Ross, in her 1969 book, references emotional stages experienced by survivors of the death of a loved one. Those five stages are denial, anger, bargaining, depression and acceptance.

Without a major weather event impacting 2015 crops this growing season, by harvest the farmers who are still storing both old and new crop bushels without futures price protection may be going through some of these stages of loss. Old crop corn futures prices declined nearly 80 cents per bushel from their December highs to their spring lows. Soybean futures slipped \$1.20 per bushel. However, old crop basis has remained strong this spring.

As the size and availability of the 2015 crop is confirmed, farmers can expect basis to widen and futures prices could remain under pressure. However, the threat of fewer soybean acres being planted and reduced yield potential rallied soybean futures by over 70 cents in late June.

Fundamentals

The June 10 USDA Crop Production and World Agricultural Supply and Demand Estimates (WASDE) reports forecast U.S. ending stocks to remain large for the 2015 crops, both corn and soybeans. The last time the U.S. had back-to-back years with ending corn stocks greater than 1.7 billion bushels was the 2004 and 2005 crops. The U.S. ending stocks for soybeans were projected to rise to 475 million bushels by August of 2016. That number is now uncertain with the impact of the late planting of this year's U.S. soybean crop. However, you can expect South America to make up for any shortfall in U.S. planted soybean acreage.

Basis trends

Soybean basis has remained narrow (strengthened) during the spring as nearby soybean futures prices declined. Corn basis also held strong during the spring, but it began to widen (weaken) in June as farmers began moving stored corn to make room for the 2015 crop.

Strive to capture storage margins, continued from page 2

Size-up your storage earnings

You can evaluate returns to storage in several ways. One is to pit storage costs that rise as the storage season progresses against the change in grain price after harvest. Another is to add monthly storage costs to the price you could have received for grain at harvest, which gives the breakeven price to justify storing grain. Then pit the harvest price plus storage cost value against the current grain price. The objective is to sell the cash grain when the cash price is at its widest margin above the harvest price plus storage cost line as illustrated in the charts.

Cost of grain ownership

So what does it cost to store old crop corn and soybeans since last fall's harvest? A lot depends on whether those bushels were stored on-farm or commercially. Interest is another factor. It can be interest cost or interest lost. Interest cost is payment on borrowed money. Interest lost is earnings you forgo by tying money up in grain rather than investing it elsewhere.

The two graphs indicate that recent corn and soybean cash prices have fallen below the example cost of ownership line (6 cents per bushel per month). This considers commercial storage costs at 4 cents per bushel per month and 2 cents per bushel per month for interest charges. The cash price is the actual cash price bid by a Central Iowa elevator tracked each Wednesday since harvest (October through mid-June).

Note that the highest weekly cash price for corn was \$3.71 in March. But it did not give the largest return above ownership costs. That return occurred in mid-December 2014 at \$3.66 per bushel, which was 50 cents above the cost of ownership.

Note that the highest weekly cash price for soybeans was \$10.03 per bushel in late December, which was more than 80 cents above the cost of ownership.

Figure 1. Weekly central Iowa elevator corn price and example cost of ownership



Highest cash price doesn't necessarily generate the most margin. Chart courtesy Ed Kordick, Iowa Farm Bureau

Figure 2. Weekly central Iowa elevator soybean price and example cost of ownership



Eroding cash soybean prices sharply tightened 2014 crop storage margins. Chart courtesy Ed Kordick, Iowa Farm Bureau

This should indicate that once bushels are put into storage, the highest price is not necessarily the best objective. Capturing the greatest margin above ownership costs should be the goal. Many farmers who are still storing corn and soybeans

Strive to capture storage margins, continued from page 3

at this point in mid-to-late July face deadline pressure to empty the bins to make room for the new crop. What is your plan for stored bushels?

The Iowa Commodity Challenge

Every year since 2010, the ISU Extension and Outreach farm management team and the Iowa Farm Bureau Federation have partnered to create the Iowa Commodity Challenge. Participation is free, and fictitious bushels stored in a Central Iowa elevator allow for the use of a variety of futures, options and cash sale marketing tools.

Bushels need to be marketed by early March or participants receive the cash price bid minus grain ownership costs. A similar activity for new crop bushels takes place beginning in March for pricing new crop bushels. Thus, participants in this learning exercise have new crop bushels on 600 acres of corn and 600 acres of soybeans to market by mid-October using a variety of marketing tools.

A page on the Ag Decision Maker website provides a 60-page Marketing Tools Workbook with weekly tracking tables, market planning activities along with recorded webcasts. You'll find this information and instructions for participating in the Iowa Commodity Challenge at www.extension.iastate.edu/agdm/info/icc.html.

Conclusion

Proper use of grain storage can increase a farmer's net income. However, maximizing storage returns results from selective rather than continuous use of both on-farm and commercial storage facilities. Consider the costs of storing grain versus selling at harvest, including: storage facility cost, interest on grain inventory, extra



corn drying, shrink and handling costs in addition to grain quality deterioration in on-farm storage facilities.

The Ag Decision Maker website has two recently updated publications and decision tools (Excel spreadsheets) to help farmers with grain storage and alternative storage strategies.

Information Files

- Cost of Storing Corn: www.extension.iastate.edu/agdm/crops/html/a2-33.html
- Grain Storage Alternatives: An Economic Comparison: www.extension.iastate.edu/agdm/crops/html/a2-35.html

Decision Tools

- Monthly Cost for Storing Grain: www.extension.iastate.edu/agdm/crops/xls/a2-33.xlsx
- Grain Storage Investment Comparison: www.extension.iastate.edu/agdm/crops/xls/a2-35.xlsx