



Grain Elevators Braced for a Challenging 2016

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Key Points:

- Grain merchandisers are starting the new-crop growing season with weaker financial opportunities than in recent years, though their balance sheets generally remain strong.
- Elevator managers commonly report that last year's harvest was the driest in recent memory, with revenues gleaned from grain drying services typically falling to one-third of normal.
- The grain and oilseed basis markets continue to drift sideways with risk of widening amid the ample inventories in the U.S. and a lackluster export market, thereby limiting opportunities for elevators to profit on basis appreciation on the little amount of grain owned by the elevators.
- Grain handlers will be grappling with the prospect of further weakening in old-crop basis as wheat and soybean meal imports into the U.S. from overseas create a more competitive environment for the Southeast hog and poultry feed markets.
- Higher than normal farmer-owned grain and oilseed stocks have left grain handlers exposed to the risk of insufficient space this fall should farmers continue holding on to old-crop supplies held in commercial storage.
- Grain handlers will continue to keep a wary eye on weather developments, particularly as they pertain to the timing and intensity of La Niña and the risk of a dry fall crimping grain-drying revenue.
- Following 2015's weak financial ending, grain elevators will be keen on controlling costs, chasing modest profits in carry when offered in the futures markets, and collecting storage fees from farmer clients.
- Recent volatility in the grain and oilseed futures markets has complicated hedging for commercial grain handlers.
- Pressure for consolidation will likely persist in the year ahead in an environment of slimmer profit margins.