NEWS RELEASE

Grain Elevators Weigh Opportunities for Improved Margins
Wide carry in futures markets, weak harvest basis and low transportation rates suggest positive prospects for elevators

DENVER (November 29, 2017) – The coming year is likely to offer opportunities for grain elevators to secure positive margins, according to a new report from CoBank’s Knowledge Exchange Division. Significant carry, a weak harvest basis and low transportation rates point to improved margins for 2018. Additionally, a wet fall in the Eastern Corn Belt and Northern Plains will likely improve drying revenue in those areas.

“A large carryover and another huge crop have created an attractive carry in futures markets, particularly for wheat,” said Will Secor, an economist with CoBank. “Current market conditions will provide elevators with better returns year-over-year if they are able to purchase the grain.”

U.S. ending stocks for corn and soybeans in 2018 are currently estimated to be the largest since 1987/88 and 2006/07 respectively, but stocks-to-use ratios remain manageable. However, the supply situation for wheat remains more burdensome, with large stocks expected to continue to weigh on the market in the coming year.

As a result of these large supplies, localized storage shortages have developed in the Western Corn Belt, especially Nebraska, Iowa and Kansas.

Carry, Basis and Transportation
The futures carry has moved wider through 2018, incentivizing many elevators to gain ownership and store wheat and corn with their relative carry advantage to soybeans, said Secor.

Corn and soybean basis in most areas is tracking lower or approximately the same as last year, with large stocks and strong production outpacing demand growth. For wheat, basis is stronger with shrinking stocks, lower production and steady export demand.

“Elevators locking in basis at this stage are likely in good shape, as basis is at or near harvest lows,” says Secor. “Basis looks to strengthen this coming year as processors and ethanol plants work through grain stocks early in the year.”

On-farm storage capacity and local end-user demand is also likely to influence basis. “This dynamic may play a large role, with farmers reluctant to sell corn at low prices and willing to store it themselves if they can,” said Secor.
Meanwhile, transportation rates are expected to remain low, with barge rates in line with the three-year average and ample railcar availability at significantly lower cost than previous years. However, diesel prices are up, which may impact margins for elevators that do not have rail or barge access.

“With strong domestic growth and tightening global corn and soybean balance sheets, many elevators should benefit from strengthening basis this year and an improvement in margins year-over-year,” concludes Secor.


About CoBank

CoBank is a $124 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

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