Western Kentucky corn and soybean storage returns and risk management potential

Eric Schwenke and Todd Davis
Department of Agricultural Economics, University of Kentucky

Background:

• Managing storage provides another way to improve profitability by avoiding sales at harvest.
• Returns to storage is a challenge given limited appreciation and cost of on-farm and commercial storage.

Assumptions:

• Opportunity cost of corn and soybeans is the prime interest rate for each year + 1/2% (Dhuyvetter, 1999).
• Cost of shrink for corn stored on-farm is 1.25% of harvest price. Commercial shrink charged 1.4% of harvest price (Edwards).
• Monthly on-farm storage charged $0.02/bushel/month and commercial storage charged $0.05/bushel/month (Knorr).

Conclusions:

• Cash corn price had an average appreciation of 18% from October to May for the 2000 to 2006 crop years with appreciation of 21% from 2007 to 2013.
• Soybean appreciation from October to June/July averaged 21% for 2000 – 2006 and 2007-13 periods.
• The 2014-16 average corn appreciation was 15% from October to June.
• Soybean appreciation for 2014-16 also muted with maximum average appreciation of 10% from October to July.