

Economic & Policy Update

E-newsletter Volume 24, Issue 8

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AUG
2024

To Store or Not to Store? Old Crop Exit Strategies

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Published: August 29, 2024

The June Grain Stocks report indicated 37% more corn and 44% more soybeans stored on-farm than last year, indicating that many producers still have grain in storage (Maples, 2024). Some of this stock has likely been sold, but many producers are still sitting on old crops, trying to determine whether to hold through harvest or sell. In this article, we discuss three facets of this decision: cutting losses (e.g. selling now), storage with an operating loan, and storage with cash flow using a **hypothetical** situation.

Assume that farmer Ethan is deciding what to do with 100,000 bushels of corn, and the cash price is currently \$4.00. He could sell, collect \$400,000 today, and use that cash to cover expenses in other areas of the operation. Or, he could also store those bushels on-farm using an operating loan or cash flow (working capital).

Using an operating loan, Ethan must continue to utilize \$400,000 (100,000 bushels × \$4.00) at a 9% interest (current rates). As prices will typically be lower at harvest due to new crop supplies, he is prepared to sell the grain in February, expecting prices to rise (6 months). Ethan's interest expense on the loan would come out to \$18,000 ($\$400,000 \times 0.09 \times (6/12)$). Dividing that by 100,000 bushels, his per bushel expense is \$0.18 (\$0.03/bushel/month), meaning prices would need to increase to at least \$4.18 to pay the interest-only portion of the storage expense. Ethan would also incur forgone interest expense by storing, which is the opportunity cost of a delayed sale. Forgone interest amounts to \$0.09/bu (\$0.015/bu/mo) in this case, which is calculated using the current CD rate of 4.5% ($\$400,000 \times 0.045 \times (6/12)$). If Ethan were to account for their delayed sale (\$0.09/bu) and the interest expense of storage (\$0.18/bu), corn prices would need to increase to at least \$4.27 to pay both the direct interest expense and the opportunity cost of storing.

The final option is for Farmer Ethan to fund some of the storage using cash. As Ethan funds more of the loan using his funds, interest costs decline. If he funds all the storage with cash, his interest expense is \$0.00. However, he would still incur the forgone interest expense of \$0.09/bu. The downfall of this method is that Farmer Ethan now has less cash on hand to fund other areas of his operation.

According to farmer Ethan's hypothetical, cutting losses or storing through harvest could be viable options for producers sitting on old crops; however, we do not know how 2024/25 marketing year prices will unfold. Futures prices and basis will likely remain low as we move closer to harvest. The choice to store or sell is highly dependent on the operation. Sometimes, making sales is the best decision because it moves focus to the next marketing year, especially if an operation does not have enough storage to hold old crop stocks and new crop supplies.

In conclusion, it is worth noting that this analysis only looks at interest expenses and touches on forgone interest (opportunity cost of storage). It does not account for other expenses that occur with storage, such as quality losses, grain handling, and capital recovery. Interest rates may also improve shortly, as the Federal Reserve has discussed lowering the federal funds rate by a half or quarter percentage point in September (CME, 2024). Finally, prices may not increase by February, and all storage could result in a loss. All grain storage calculations and further discussion of interest rate impacts on storage costs are explained in Gardner (2023).

Sources

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Recommended Citation Format:

Gardner, G. and R. Loy. "To Store or Not to Store? Old Crop Exit Strategies ." *Economic and Policy Update* (24):8, Department of Agricultural Economics, University of Kentucky, August 29, 2024.

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