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The Cash Market for Corn

J. William Uhrig, Donald Hilger, David C. Lyons, Mark Miller and Gary Van Hoozer
Department of Agricultural Economics

In most years, 50 to 60 percent of the corn grown in the United States is sold off the farm with the remainder being consumed by livestock on the farm where the corn was grown. The cash market is the market farmers normally use for corn. It is very simply the place where you usually take your corn and exchange it for dollars, either at harvest or after storing the corn for a while. In either case, the corn is usually priced at delivery.

The Country Elevator

For most corn producers, the country elevator is their cash market. In reality, though, the country elevator is just the first tier in the corn marketing structure. The country elevator market is made up of thousands of individual elevators scattered throughout the major corn-producing areas.

The term "country elevator" usually refers to a firm that buys more than half of its grain directly from farmers. It usually has facilities for receiving, conditioning and storing farmers' grain, and then reloading it for rail, truck or barge shipments to other handlers or processors.

Country elevators may be owned by an independent, local businessman; they may be a branch of a firm that owns other elevators or businesses; or they may be owned cooperatively by farmers themselves.

In the overall corn marketing scheme, the function of country elevators is to absorb the harvest rush and begin the process of spreading the corn out more evenly to meet steady, year-round consumer demand.

Subterminal and Terminal Markets

Country elevators can't do the corn marketing job alone, however. They depend upon successive levels in the industry's structure to provide steady cash markets and additional flexibility in distributing corn coming from the farm. From the country elevators, most corn moves to subterminal or terminal elevators, or to livestock feeders.

Subterminal elevators are elevators which receive over half their grain from other elevators. They are generally located outside the major grain concentration points or terminal markets.

Location of terminal markets serve several economic functions. Since they are crossroads for major transportation networks, terminal elevators typically can both receive and ship grains forward by truck, rail, or barge. Terminal elevators also are major collecting, storage and merchandizing points for grain. This softens the harvest rush and permits accumulation of grains in sufficient volumes to fit the requirements of almost any buyer or shipper, domestic or export. Corn from a wide area of supply tends to move to terminal elevators, from which the corn is redistributed into areas of consumption. Terminal elevators provide much of the flexibility necessary for efficient marketing of corn under modern conditions.

The Industrial and Export Market

The next stage or "channel" in the corn marketing structure is the industrial and export market. This market includes the processor who transforms corn into food products or industrial products and the exporter who transforms corn or corn products into overseas shipments in return for foreign exchange.

All of these stages or channels are necessary to make the corn marketing industry work.

Pricing Grain at Country Elevators

In setting their prices to farmers, elevator managers must consider costs of han-
dling, delivering grain to buyers, and the actions of their competitors. Differences in costs and efficiencies give some elevators an advantage, but because most corn handlers have diversified businesses, they often don't know exactly what it costs them to handle corn. As a result, most elevators offer producers essentially the same price offered by their competitors in the same location - based mainly on the Chicago futures price, minus handling and transportation charges, or bids from processors or exporters.

In reality, the corn prices paid to growers by country elevators are determined by overall supply and demand for corn, both nationally and internationally. This depends upon many factors such as size of the corn crop in major producing countries, availability and price of competing grain supplies, livestock numbers, unusually large purchases by major consuming countries and carry-over stocks in any given year.

The Effect of Grade on Price

Since all corn isn't alike, it is graded and placed into five quality categories - grades 1 through 5, plus a sample grade for lowest quality corn. Without these grades, neither grower nor buyer would be sure of a fair return for this effort. Market reports would be vague unless they were based on precise grades which are readily understood by all buyers and sellers. Accurate grading makes warehousing and co-mingling possible, as well as futures trading.

Corn Grade Factors

1. Test weight per bushel is a volume measurement used to gauge the plumpness of the corn and the products that can be recovered through processing.
2. Moisture content is necessary because excessive moisture makes drying and storage more difficult.
3. Damaged kernels is an undesirable quality in corn since the corn may be more subject to molds.

4. Foreign material is any extraneous matter such as dirt, weed seeds, other grain or broken kernels of corn itself.

These quality standards usually carry discounts which affect the price of corn at all levels of the industry. The country elevator usually settles with the grower on the basis of federal standards, although official inspections are usually not made at this level. Beyond the country elevators, though, official inspections are usually made at each transfer of the corn from one owner to another.

Special Markets

Special markets will often yield a few cents per bushel extra for having corn at a specific place, and/or at a specific time, and/or of a specific kind or quality. The following are examples of market outlets for corn which often pay prices high enough to make them attractive to corn producers.

Special Feed Markets. Poultry feed processors particularly in the eastern and southeastern United States will sometimes pay a premium for clean, dry corn.

Distillers Market. The distilling industry requires good quality corn and will pay a premium to obtain it.

Wet Milling Industry. Corn dried at too high a temperature reduces the yield of starch, and the wet millers may be willing to pay a premium for high quality corn.

Special Export Markets. Occasionally, exporters will offer a premium price for corn at certain ports to complete the loading of a ship scheduled to sail at a specified time or to reduce the demurrage caused by the extra waiting.

Special Trucker Markets. Back haul opportunities sometimes permit truckers to offer a premium price for corn.

Drying and Storage

Drying and storing corn is a function that must be performed by someone in the marketing chain. Farmers who wish to have some market flexibility usually must
undertake drying and storage. There are two ways in which a farmer could dry and store his grain. He can construct on-farm drying and storage equipment or pay commercial elevator rates for drying and storage. There are advantages and disadvantages with both alternatives.

Advantages of On-farm Storage

Market Flexibility.
Gain control of overall harvesting operation.
Better use of labor and equipment.
Flexibility in tax planning.

Disadvantages of On-farm Storage

Initial capital outlay.
Extra management and labor required.
Must assume responsibility for quality of stored corn.
Some shrinkage will occur during storage and drying.

Commercial Storage

Storing your corn off the farm can eliminate some of the disadvantages of on-farm storage. For instance, you eliminate the need for tying up capital in storage facilities. You also eliminate the extra labor and management that would be required with on-farm storage, and you shift the risk of shrinkage and quality deterioration to the elevator operator.

Commercial storage is more expensive in most cases, though, and it may not always be available when you need it. You lose some of your farming flexibility if you store off the farm rather than in your own bins.

Storage Management Practices

Producers with on-farm grain storage must maintain the quality of their corn during storage. This means checking it frequently and keeping a small air flow moving through the corn to keep the moisture content down. Insects generally are not a problem with corn in storage.

The producer who stores corn must decide when is the best time to take his corn out of storage and sell it for the best price. The two times that corn prices are usually highest are some time in late winter or early spring and again in late summer just prior to the next harvest season.

Storage past harvest is always profitable. In years of declining prices (after harvest), the producer must hedge to make his storage profitable. Producers need to become familiar with the supply and demand statistics to help make marketing decisions.

Summary

The country elevator is the cash market for most corn producers. Country elevators absorb the harvest rush and begin the process of spreading the crop out more evenly to meet consumer demand. Corn then moves up the line through subterminal and terminal elevators and on to processors or the export market. Prices paid to producers depend upon available corn and competitive grain supplies and worldwide demand. Producers can increase their returns by anticipating market demand, keeping the quality of their corn high, selling to the right markets at the right time and storing their crop for sale after the harvest rush is over.
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