By Diana Klemme

"Don't it always seem to go that you don't know what you got til it's gone . . ."
(Joni Mitchell, 'Big Yellow Taxi,' 1970)

'. . . 'Til It's Gone. . .'

Hurricane Katrina provided a stark reminder of all for which we should be grateful. Businesses and houses can be rebuilt, but you can't replace family and friends; those were the important losses. But losing the Gulf export capacity — even if temporarily — revealed how critical that capacity is to agriculture. Gulf basis dropped, freight costs soared, interior basis plummeted in markets tributary to the Gulf, and the value of storage capacity rose in much of the Midwest and Midsouth. Are there lessons here for country grain traders?

As soon as the hurricane hit, New Orleans traders began asking,"When will Gulf exports resume?" Some people seemed optimistic, others pessimistic. The blunt answer was that no one could say for certain right away. Not only was there damage to assess, but power had to be restored, and employees had to balance family and work demands. The Coast Guard and other agencies had to document the status and depth of the river channel.

What could interior elevators do in the face of such uncertainty? For folks outside the Gulf region the best reply to "when?" was that the better question was "what should I do?" The answer to "what?" is that the market will always tell you what to do. The shutdown at the Gulf forced basis sharply lower and as a result, carries widened in the interior for elevators that ship to the Gulf. Then basis at nearby markets could also weaken and widen carries for other elevators. Here are some values FOB St. Louis shortly after the hurricane.

Basis:

	FOB St. Louis
FH Sep*	-52Z
Oct**	-14Z
Dec***	+7Z

** +20Z CIF, 650% StL frt, 550% Ill R. frt*
*** +36Z CIF, 450% StL frt, 500% Ill R. frt*
****+39Z CIF, 300% StL frt, 350% Ill R. frt*

Carry:

Dec basis	+7 (CZ)
Minus Sept basis	+52 (CZ)
Minus interest	-4¢
= Carry	+55¢

In this market, which ships to the Gulf, elevators that had space available for long-term storage, and that could buy corn at the depressed September basis, could lock in a gross carry of 59¢ to December. Gulf basis beyond December wasn't well-defined, but futures carries were fairly good out into the spring and summer. That was a great opportunity.

Looking even a year ahead, the potential returns were substantial. Consider corn values from a northern interior elevator's perspective:

Most elevators would be happy

Sept farm bid	-65 Dec 05
Dec05/Dec06 spread	37¢
Nearby bid vs Dec6 =	= -$1.02 Dec 06
Plus 12 mo interest *	+ 17¢
Ownership cost next September =	= -85 Dec06

** Uses $2.00 at 8.5% (assumes prices climb some and interest rates rise.)*

to fill during early harvest and have the backstop of holding for a year and owning corn basis another 20¢ cheaper than September's already weak basis!

It wasn't clear how it would take for the mess at the Gulf to sort itself out. But the Gulf basis was saying: "Don't call us, we'll call you — you buy the corn (and soybeans) and basis will reward you." For a very conservative trader, the appropriate strategy was, "buy all you can hold and sell forward to lock in the carry." For a trader who's more risk-tolerant, the strategy was, "buy all you can hold and stay long basis with it." Either way, the challenge was to buy grain after basis collapsed and hang on to it. Soaring barge freight told traders rail freight costs would follow and that traders who had to ship should lock freight in quickly.

An adjunct to that is that Delayed Price (DP) rates would rise and stay high as long as the disruptions exist. Country elevators should not offer "free DP" when carries are wide, and storage rates should reflect that space has real value. Opportunity was knocking for those who were listening!

The net impact of Hurricane Katrina to U.S. exports may not be significant when measured over the crop year, but the logistics disruptions were significant during the shutdown. Last year 593 million bushels of corn and soybeans were shipped through New Orleans between mid-September and the end of November, equivalent to 78% of U.S. corn exports and 66% of soybean exports for that 10-week period (based on USDA weekly export inspection reports). Last year that would have equated to an average of 59+ million bushels per week that would either have to have been rerouted or "backed up" to the origins. Even a one- or two-week shutdown of the Gulf can make for a serious disruption in logistics through the system.

It seemed contradictory for the cost of barge freight to soar when fewer barges were needed at the Gulf in the first two weeks after Katrina's destruction. But a large number of barges sank, which reduced the available fleet, the supply of empties coming north was cut off, and the turn times on the remainder suddenly rose sharply. Low water levels around St. Louis had already forced draft (load) limits on barges. Less tonnage per barge effectively raises the cost per ton. Barge freight disruptions spilled into the rail markets and pushed car costs higher.

As the Center Gulf/Gulf Coast region rebuilds, the long-term outlook is optimistic for those businesses and facilities. But even in the immediate aftermath, the disruption in Gulf exports sent ripples far outside the affected region.

Overseas buyers may have switched to South America for some nearby soy needs with plans to return to the U.S. later, and traders expected some contracts to be changed to other U.S. ports if logistics would allow it. PNW corn basis jumped sharply right after the hurricane, for example, providing better basis bids to shippers that could access that market (assuming they had trains available). Domestic markets in surplus areas such as the Midwest would suddenly have less competition and would be able to originate corn or soybeans at cheaper basis values. Domestic markets in deficit areas such as Texas or the Southeast might find their basis values rising due to rising rail (or barge, truck) costs.

Some countries and even some U.S. end-users may reassess their "just in time"' approach to securing food and feed. Stockpiling and warehousing may suddenly seem prudent despite the cost.

Chaos creates opportunity. The grain export embargo to Russia in 1980 also sent nearby basis values plunging and created huge basis carries for firms with space and the money to hold grain who responded to the market signals and recognized the opportunity. Will you be ready when opportunity knocks the next time? ■