

Union Pacific Railroad Expanding Shipping Capacity to Meet Demand

Grain shipments in northern tier states slowed dramatically last winter because of extended freezing temperatures and heavy snow, which caused significant rail delays. As temperatures warmed, railroads still had to deal with tremendous backlogs and growing volumes across multiple commodities while preparing for another record harvest.

Last month, Union Pacific Railroad's Assistant Vice President of Grain and Grain Products Hasan Hyder discussed with U.S. Grains Council leadership the ways Union Pacific is growing its business to support the booming grains markets.

Preparing for another bumper crop

The Union Pacific Railroad operates through much of the western United States from Louisiana to California and Minnesota to Washington. It is involved heavily in transporting grains to major exporting ports in the Pacific Northwest and the Gulf Coast. Of all agricultural products moved by Union Pacific in 2013, 68 percent were grain or grain products.

After delays last year in the Chicago area due to poor winter weather coupled with an increase in U.S. grain shipments, Union Pacific made efforts to dedicate more cars to meet demand in preparation for the 2014/2015 crop this fall. For example, the company has already increased its grain covered hopper cars from 15,000 in 2013 to 16,600 this year.

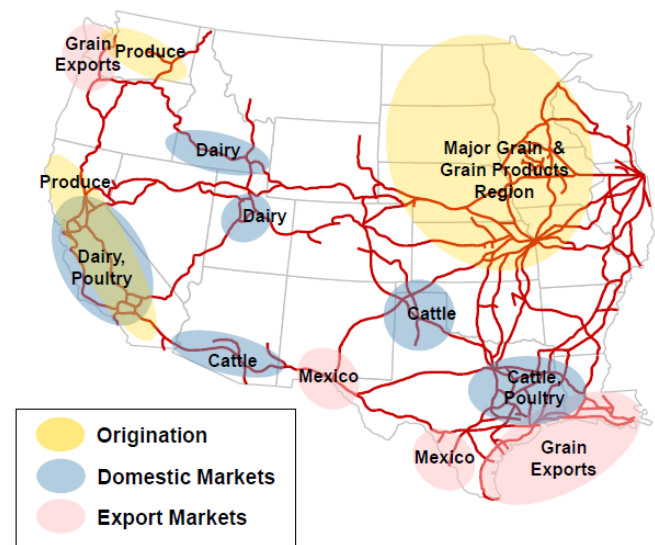
"The export terminals themselves have made significant investments over the last several years, so we have as well across our network," Hyder said. "As we look to the fall, we feel pretty confident that we'll be prepared from our side to handle the shipments to export terminals."

Record capital investments

With growing capacity demand from grain and other industries, capital investments have become a priority for railroads throughout the United States. Industrywide, railroads have spent \$210 billion on capital expenditures and maintenance costs over the past 10 years. Union Pacific alone is planning to invest \$4.1 billion in 2014, a record for the railroad.

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Source: Union Pacific Railroad

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Record Crop Expected as U.S. Corn Harvest Begins

As corn harvest begins in the United States, farmers from around the country are preparing for an abundant crop. Record-breaking numbers are expected due to ideal summer growing weather.

A Slow Start Turns to a Solid Finish

The U.S. corn crop has recovered from a cold, wet spring that delayed planting in many parts of the country. The plants grew quickly thanks to mostly good weather conditions through the summer, and began the crucial pollination stage on time.

"This will be a great year for corn across the country," said John Linder, a farmer in Ohio. "My brother and I have traveled across several states, and what we've seen for corn has been just phenomenal. It is a banner year for a lot of areas."

Yield estimates are exceeding expectations for many. The United States Department of Agriculture reports that currently the total U.S. corn harvest is estimated at 356 million metric tons with average yields at 10.5 tons per hectare.

"Our [projected] yield for this field is more than 16 tons per hectare. Our average production is a little more than 11, and a good year for us in the past has been 13," said Illinois farmer Paul Jeschke. "I don't want to count on 16 as that is probably higher than what we'll really see, but the potential is much above normal for us."

Quality Corn for 2014/2015

The 2014/2015 U.S. corn crop is also expected to be high quality, with low levels of mycotoxins. This is mainly due to limited pressure from insects. Insect damage to corn kernels allows the molds that cause mycotoxins to grow. Healthy plants and effective pest control minimize the damage.

"Mycotoxins have not been a problem for us in this area with the exception of a few minor problems in 2012, which was an extreme drought," Jeschke said. "I would expect the quality should be excellent this year and mycotoxin problems in our region of the country to be almost non-existent."

Forecasts point to another bumper U.S. corn crop for the 2014/2015 season. Good weather and low mycotoxin levels mean a high quality, plentiful U.S. corn crop is on its way. ♦

To see more, watch the video in the link below:

https://www.youtube.com/watch?v=pAou_yuhT4A&list=UUagF3PoaoyT-_hvr4nwBUoQ

Railroad Investments ... *from page 1*

Of this investment, 42 percent is dedicated exclusively to expanding Union Pacific's available capacity, including the addition of new locomotives, rail-owned cars, related equipment and commercial facilities. This will translate to 229 new locomotives and new cars for 2015 and 2016.

After a challenging 2013/2014 marketing year impacted by weather and increasing volumes, Union Pacific is preparing itself to meet demand for the new crop year. Significant investments in new capital will ensure that the company continues to stay ahead and meet the growing needs of its customers. ♦

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Russian Food Bans Hurt Consumers but Won't Affect Exports

In August, Russian officials announced the country would ban or limit many agricultural imports from the United States, the European Union, Norway, Canada and Australia. This was done in retaliation for sanctions imposed by these countries on the Russian banking, energy and defense industries in response to Russia's intervention in Ukraine. Conversely, Russia has no plans to cease grain exports out of the country, which are imported by several countries in the Middle East, Africa and Asia. The bans have already led to larger than expected inflation and higher food prices in the country.



Source: Kirill Kudryavtsev/AFP

Food Inflation

The one-year Russian bans or limitations include meats, fish, dairy products, fruits and vegetables, among other agricultural imports.

The effects of the ban are already reaching consumers, as inflation in Russia worsened throughout August. Prices are 7.6 percent above where they were last year, exceeding the country's inflation target of 5 percent.

In a Bloomberg article, Bank of America's Chief Economist for Russia Vladimir Osakovskiy stated: "The acceleration is mainly due to the stronger-than-expected impact of the recent import bans. We expect another precautionary 50 basis-point rate hike later in the year, but the

likelihood of a move in September is rising and will depend on the future trajectory of inflation."

Black Sea Region to Continue Grain Exports

Russian officials have also publically stated that bans on various U.S. and EU agriculture imports will not affect Russian grain exports. They expect to export more grains in the 2014/2015 marketing year compared to last year, at approximately 28 million metric tons.

"I don't think the sanctions have fundamentally changed anything," Macquarie Group analyst Christopher Gadd told Reuters. "Russia is still competitive on the export market and production looks likely to have exceeded expectations."

Prices for grains out of the Black Sea region – in particular wheat – stayed high in August due to continued fighting in the Ukraine near Crimea. However, grain prices dropped recently to their lowest point in three weeks as leaders in Russia and the Ukraine agreed to take steps toward easing the conflict.

In the short-term, Russia's food import bans have already affected Russian food prices more than expected, as inflation increased over the last month. The bans are also not stopping the country's involvement in the grains trade since Russia still expects to see surpluses for export. However, the long-term effects of the bans have yet to be seen and only time will tell the true impact of these trade-disrupting measures. ♦

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Global Financial Markets for Grains Commodities Expecting Changes

Following the trend of the last decade, financing for grains commodities will continue to be readily available next year. As liquidity remains high and interest rates remain low, financing risk should also remain low.

"In the last decade, we've had tremendous amounts of liquidity on a global basis," said Terry Barr, senior director of CoBank's Knowledge Exchange Division. "The central banks have made significant infusions into the financial markets. The last decade has been a very atypical period with near zero interest rates and very accommodative central banks across the globe."

Commodity Supplies Continue to Grow

The last few years have also been characterized by significant increases in supplies of all grain commodities, as growing countries continue to expand operations. The United States, for example, has had three record-breaking corn crops since 2008, and is expecting another record crop this year.

A larger supply drives commodity prices down, as has been seen in U.S. corn marketing with its 2013/2014 corn crop. The price dropped more than 30 percent in 2013, and has dropped another 20 percent this year. This trend, coupled with plenty of available capital, means the cost for importing grains over the next eight to 12 months will be low.

The Transitioning Market

Looking toward the future, expectations are that the competition for capital will increase as markets normalize from an unusually long period of high liquidity and low interest rates.

As interest rates rise to this new normal, financing risk will increase along with costs. However, these costs are not expected to outweigh the total value of lower prices from growth in commodity supplies.

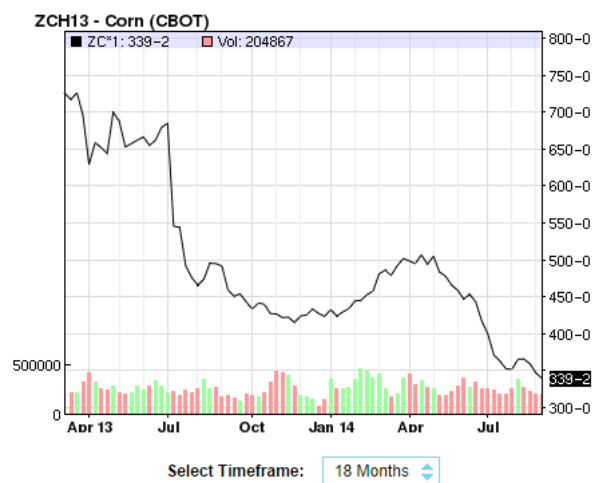
"Once we get to a transitioning period with these commodity markets, I would expect to see increased costs going forward," Barr said. "But it's certainly not going to reach a magnitude that is going to offset all the benefits that would occur to the importer from lower grain and oil food supply prices."

This year will be defined by ease of financing and low interest rates, as has been the case for the past several years. After this year, the markets will become more regular after the current period of unusually high liquidity and low interest rates and move to a more competitive capital landscape. However, larger crop supplies will keep driving prices down, leading to minor impacts on overall commodity prices long term. ♦

Corn

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Source: NASDAQ

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