

Country Elevator Applications of the CME Grain Sorghum Futures Basis Contract



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WELCOME



Country Elevator Applications of the CME Grain Sorghum Basis Futures Contract



PROBLEM STATEMENT



Country Elevator Applications of the CME Grain Sorghum Basis Futures Contract

Problem Statement

Without CME Grain Sorghum futures, **farmers, Country Elevators, End Users** & the trade overall have had *increased* price risk with *reduced ability* to manage that risk effectively - largely because corn futures are a less effective cross hedge substitute.

- a) **Increased Price Risk**
- b) **Lack of Efficient Price Discovery & Market Transparency**
 - **“Flat Price Risk”** (*direct price discovery*) & **Basis Risk** (*no convergence of futures-cash @ delivery*)
- c) **Greater Market Asymmetry** ⇒ *Unequal Market Power & Information Availability*
- d) **An Inefficient Corn Cross Hedge Mechanism** ⇒ *due to increased Basis Risk*
- e) **Limited Market Liquidity**

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Why has it not worked in the past...?

During the **1970's**, grain sorghum futures traded at the Chicago Mercantile Exchange (CME) & the Kansas City Board of Trade (KCBT) for 3 years. There was very little trading interest among grain market participants in either contract at that time.

Then, in **1988**, KCBT revised its grain sorghum futures contract and resubmitted it to the Commodity Futures Trading Commission (CFTC). The second KCBT grain sorghum contract was expected to succeed where previous versions had failed as it attempted to correct the underlying contract design & delivery process problems that existed in the earlier contract. These 1988 Sorghum contract changes included:

- a) Adding three more delivery points in addition to Kansas City;
- b) Restricting the standards for delivering No.3 sorghum; &
- c) **Allowing that "Storage-In-Transit" (SIT) rail billing through a terminal market, as opposed to freight paid to a final destination.**
 - ⇒ Concentrated physical market
 - ⇒ Corn futures as a *"Good Enough"* proxy for cross hedging purposes...



CONTRACT TERMS & SPECIFICATION



Country Elevator Applications of the CME
Grain Sorghum Basis Futures Contract

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Milo / Sorghum Futures

- 1) CME Group is launching physically delivered Sorghum futures, traded as a differential to Corn futures.
- 2) Sorghum futures will be available for trading on the CME Globex electronic trading platform & for submission for clearing via CME ClearPort.
- 3) The first trading day will be **Monday, August 24, 2026**.
- 4) The listed months available at launch will include **December 2026, March 2027, May 2027, July 2027, September 2027 & December 2027**.

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Contract Specification

SORGHUM FUTURES SPECIFICATIONS	
LISTING EXCHANGE	CBOT
CONTRACT UNIT	5,000 bushels
PRICE QUOTATION	U.S. cents per bushel
MINIMUM PRICE FLUCUATION	\$0.0025 per bushel (\$12.50 per contract)
PRODUCT CODES	CME Globex: MILO CME ClearPort: MILO Clearing: MILO
LISTING SCHEDULE	Two Decembers and all preceding March, May, July and September contracts listed annually following the expiry of the December contract
TRADING HOURS	CME Globex: Monday – Friday, 8:30 a.m. – 1:20 p.m. CT CME ClearPort: Sunday 5:00 p.m. – Friday 5:45 p.m. CT with no reporting Monday – Thursday from 5:45 p.m. – 6:00 p.m. CT
TERMINATION OF TRADING	Fourth to last business day preceding the contract month (first holding day for Corn futures)
SETTLEMENT METHOD	Physically delivered via shipping certificates
FIRST DELIVERY DAY	First business day of the contract month
LAST DELIVERY DAY	First business day of the contract month
DELIVERABLE GRADES AND QUALITIES	U.S. No. 2 at par; U.S. No. 1 at a 1.5 cent premium Maximum 14.0 percent moisture
DELIVERY LOCATIONS	Facilities registered on the KC HRW Wheat futures contract (with existing differentials of KC at contract price, Wichita at 6 under, Hutchinson at 9 under, and Salina/Abilene at 12 under, plus an additional 1 cent discount outside the switching district)
BLOCK MINIMUM	10 contracts

Source: CME Group: [Sorghum - CME Group](#)

Physical Delivery – Key Features

- **Physical delivery in the heart of Sorghum country**
 - Sorghum futures feature physical delivery of shipping certificates and loadout via **Road Truck** or **Railcars**.
 - By utilizing the existing **KC Hard Red Winter Wheat** delivery footprint in the nation's largest sorghum-producing state, the contract provides a seamless, trusted mechanism for commercials to take title or load out physical grain.

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Physical Delivery - Quality

Grain Quality Specifications

- **USDA Grades and Grade Requirements for Grain Sorghum - § 810.1404**
- The CME is currently recommending the acceptable grade of grain sorghum eligible for delivery be **USDA No.2 Sorghum**.
- The most common grade standard for grain sorghum trade into the U.S. domestic and export market is **USDA No.2 Sorghum**.
- It is noted maximum 14.0% moisture will apply.

The CME is currently recommending the Deliverable Grade / Grade Differentials for CME Grain Sorghum follow the same as for CME

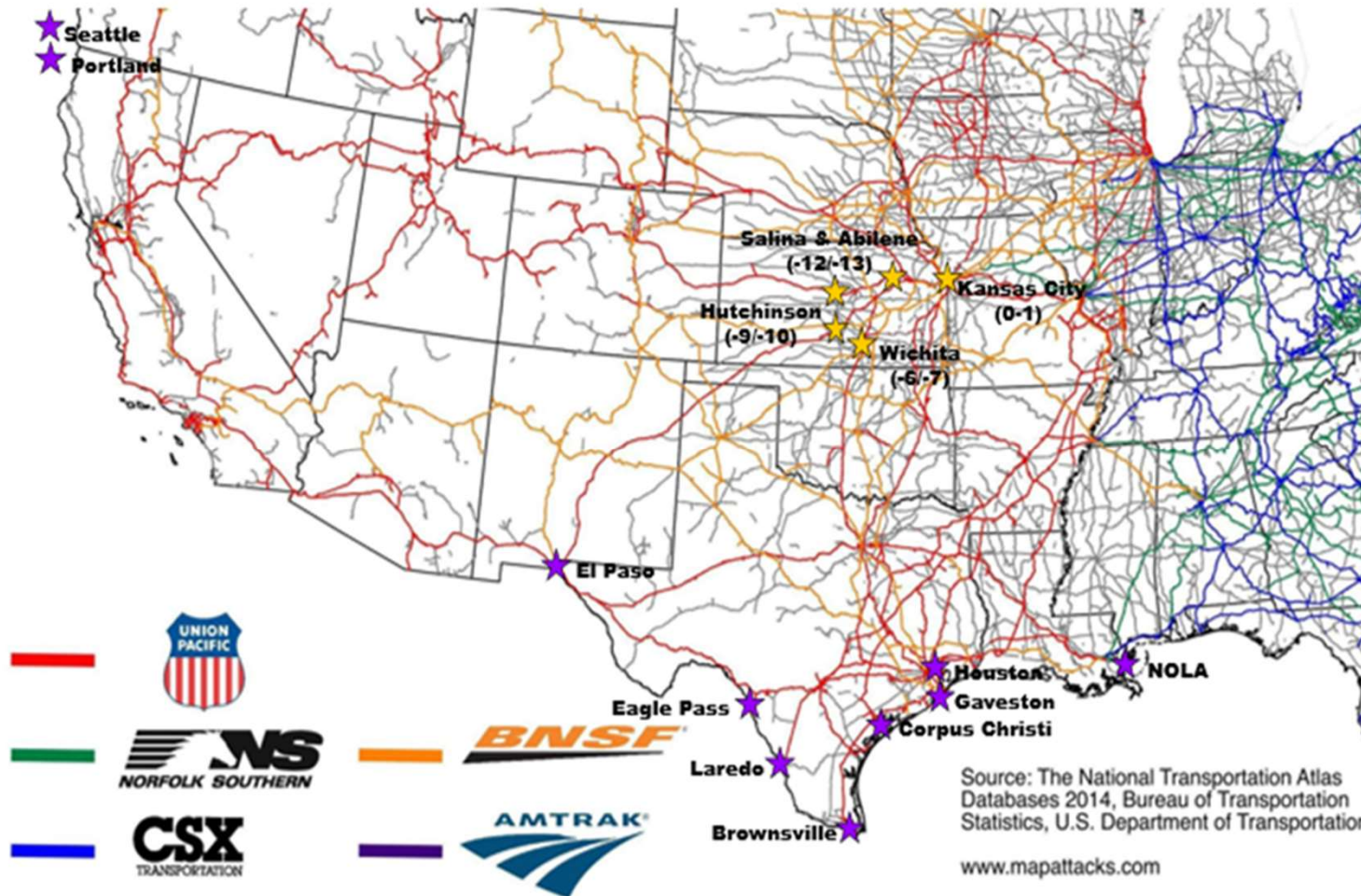
Corn, and delivery be:

- #1 Grain Sorghum at a 1.5 cent/bushel premium;
- #2 Grain Sorghum at par contract price; and,
- ~~#3 Grain Sorghum at a 1.5 cent/bushel discount.~~

Grading factors	Grades U.S. Nos. ¹			
	1	2	3	4
Minimum pound limits of				
Test weight per bushel:	57.0	55.0	53.0	51.0
Maximum percent limits of				
Damaged kernels:				
Heat (part of total)	0.2	0.5	1.0	3.0
Total	2.0	5.0	10.0	15.0
Broken kernels and foreign material:				
Foreign material (part of total)	1.0	2.0	3.0	4.0
Total	3.0	6.0	8.0	10.0
Maximum count limits of				
Other material:				
Animal filth	9	9	9	9
Castor beans	1	1	1	1
Crotalaria seeds	2	2	2	2
Glass	1	1	1	1
Stones ²	7	7	7	7
Unknown foreign substance	3	3	3	3
Cocklebur	7	7	7	7
Total ³	10	10	10	10
U.S. Sample grade is sorghum that:				
(a) Does not meet the requirements for U.S. Nos. 1, 2, 3, or 4; or				
(b) Has a musty, sour or commercially objectionable foreign odor (except smut odor); or				
(c) Is badly weathered, heating or distinctly low quality.				
¹ Sorghum which is distinctly discolored shall not grade higher than U.S. No. 3.				
² Aggregate weight of stones must also exceed 0.2 percent of the sample weight.				
³ Includes any combination of animal filth, castor beans, crotalaria seeds, glass, stones, unknown foreign substances or cocklebur.				

DVE Transportation – Major Export Destinations

With “**Delivery**”
execution now capable
of loading “**Shuttle
Trains**”, it is now
feasible deliver to major
secondary cash arkets
for export; (i.e., Texas
Gulf, NOLA, PNW, and
Mexico Rail...)



Expanded Delivery Locations

- a) Previous rules limited eligible delivery participants to be located with the “switching districts” of Kansas City MO/KS, Wichita, Hutchinson, or Salina/Abilene.
- b) New rules, effective with in September 2025 keep those definitions & add warehouses within 75 road miles of city halls of Wichita, Salina or Abilene, Hutchinson, or Kansas City MO and located in the state of Kansas.
- c) Houses under the new additions must be on a class 1 railroad and have shuttle loading capabilities.
- d) The new facilities are deliverable at the existing location differential of the nearest city hall as listed above, plus an additional 1 cent discount.
- e) **Thus far eight new delivery locations have been added.**

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Physical Delivery - Quality

<u>CCL Code</u>	<u>Warehouse</u>	<u>Elevator</u>	<u>Capacity</u>	<u>Location Differential</u>
Kansas City Switching District				(Cent/bu)
1665	BartlettGrain Company	KCT#1	4,307,000	0
1666	BartlettGrain Company	River Rail	10,039,000	0
1667	BartlettGrain Company	Fairfax	10,031,000	0
Elevators Outside of Switching District				
1690	Cargill Inc.	Atchison	6,443,000	-1
1691	Cargill Inc.	Crossroads	10,458,000	-1
1692	Cargill Inc.	Gordon	24,157,000	-1
Total	Kansas City Switching District		69,980,000	
Wichita Switching District				
1668	BartlettGrain Company	Wichita	12,080,000	-6
1696	Bunge USA Grain LLC	Wichita	30,542,000	-6
1660	Ardent Mills	Wichita	5,682,000	-6
Elevators Outside of Switching District				
1653	The Scouler Company	Milan	7,532,000	-7
1699	The Scouler Company	Wellington	4,029,000	-7
Total	Wichita Switching District		59,865,000	

	Huchinson Switching District				
1677	ADM Grain Company	Elevator A	3,231,000	-9	
1679	ADM Grain Company	Elevator I	6,836,000	-9	
1680	ADM Grain Company	Elevator J	18,307,000	-9	
1687	Cargill Inc.	Hutchinson	4,394,000	-9	
1688	Cargill Inc.	Hutchinson We	4,469,000	-9	
	Elevators Outside of Switching District				
1690	Producer Ag LLC	Canton	3,472,000	-10	
1691	The Scoular Company	Pratt	5,711,000	-10	
Total	Huchinson Switching District		46,420,000		
	Salina / Abilene Switching District				
1689	Cargill Inc.	Salina	31,409,000	-12	
1695	Flint Hills Grain LLC	Abilene	2,152,000	-12	
1698	The Scoular Company	Salina	10,703,000	-12	
	Elevators Outside of Switching District				
1658	AgMark LLC	Concordia	10,685,806	-13	
Total	Salina / Abilene Switching District		54,949,806		
Grand			231,214,806		
Total			231,214,806		
Note: Transportation is conveyance via rail car					
Note: A number of K&O Railroad facilities have applied to be regular for delivery, but thus far registrati has not been granted.					
While not on Class 1 Railroads, they do have Class 1 Rates, as opposed to a switching charge.					

- Expand delivery territory - Currently Effective with 8 additional locations
- Locations outside of Switching Districts at a 1 cent discount to Location Differential

Milo / Sorghum Futures – *Key Features*

1) Manage high-volatility basis risk

While sorghum correlates heavily with corn over long macro horizons, geopolitics & regional supply dynamics frequently fracture that relationship. In recent years, the sorghum-to-corn cash spread has “*swung wildly*” from sharp premiums to deep discounts.

- The Sorghum futures contract allows you to isolate & trade that volatile basis risk *without being exposed* to the flat-price directional swings of the broader grain complex.

2) A flexible new tool for the grain marketing toolbox

Sorghum futures are a **basis spread contract**, *not* a flat-price market and are engineered to build on deep, existing pools of liquidity.

- Traders can take a view on the basis relationship or hedge flat price risk, giving participants access to a) protect gross processing margins, b) hedge elevator inventory values, or c) capitalize on shifting feed-grain yield spreads.

Milo / Sorghum Futures – *More Key Features*

3) Insight into a highly versatile global commodity

Sorghum sits at the cross section of many global demand channels. A single contract gives the market a front row seat to:

- **The domestic feed sector**: Fueling major beef cattle feedlots and dairies across the High Plains
- **The biofuel grind**: Serving as a highly efficient, core feedstock for regional ethanol processors
- **International export corridors**: Sorghum represents a unique, concentrated global trade flow defined by stark demand shifts
 - U.S. Sorghum reacts strongly to **China Imports**, its primary international buyer



APPROACH TO PRICING...



Country Elevator Applications of the CME
Grain Sorghum Basis Futures Contract

Approach to Pricing

Sorghum – Corn Spread (Sorghum – Corn)

- Currently proposed idea is for grain sorghum futures to be priced (and traded) as a differential to corn futures.
- The product would be quoted, like corn, in cents per bushel but the price would represent the sorghum's price difference relative to corn rather than a flat price. ***
- Such a contract would allow market participants to hedge premiums or discounts specific to the sorghum market.

■ What will it look like on the screen...?

Approach to Pricing

Outright Absolute or “Flat” Price Buy / Sell Order

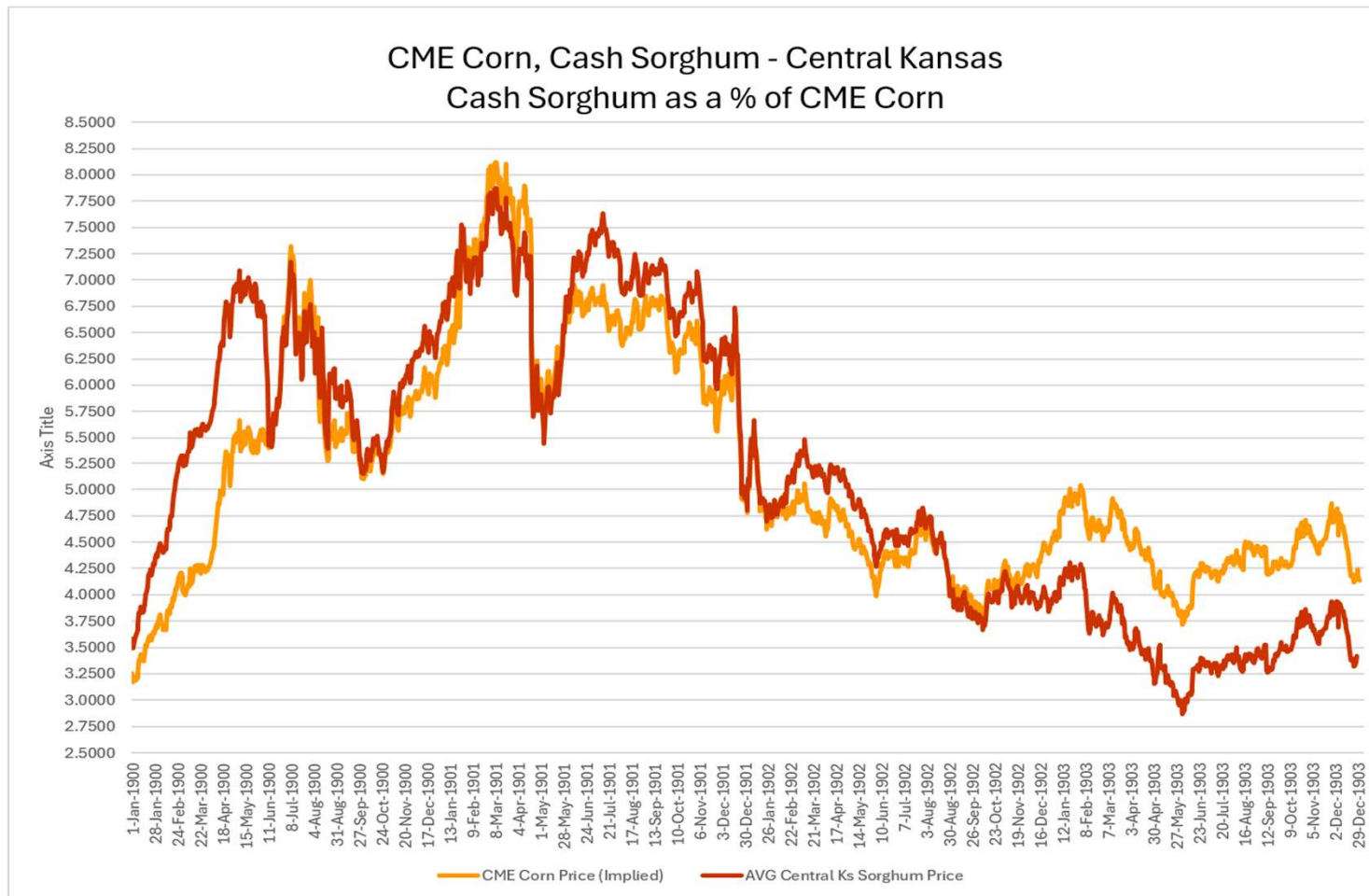
- A trader can also place a “flat price” order, which would simultaneously execute both a corresponding (buy or sell) Corn Futures & the Sorghum-Corn spread.
- This would effectively create a “*flat price*” grain sorghum contract.

An “implied” flat price Bid / Offer will show on the screen by calculating the:

- ☐ Corn at “Last Traded” price...
- ☐ Sorghum Spread at Bid / Offer

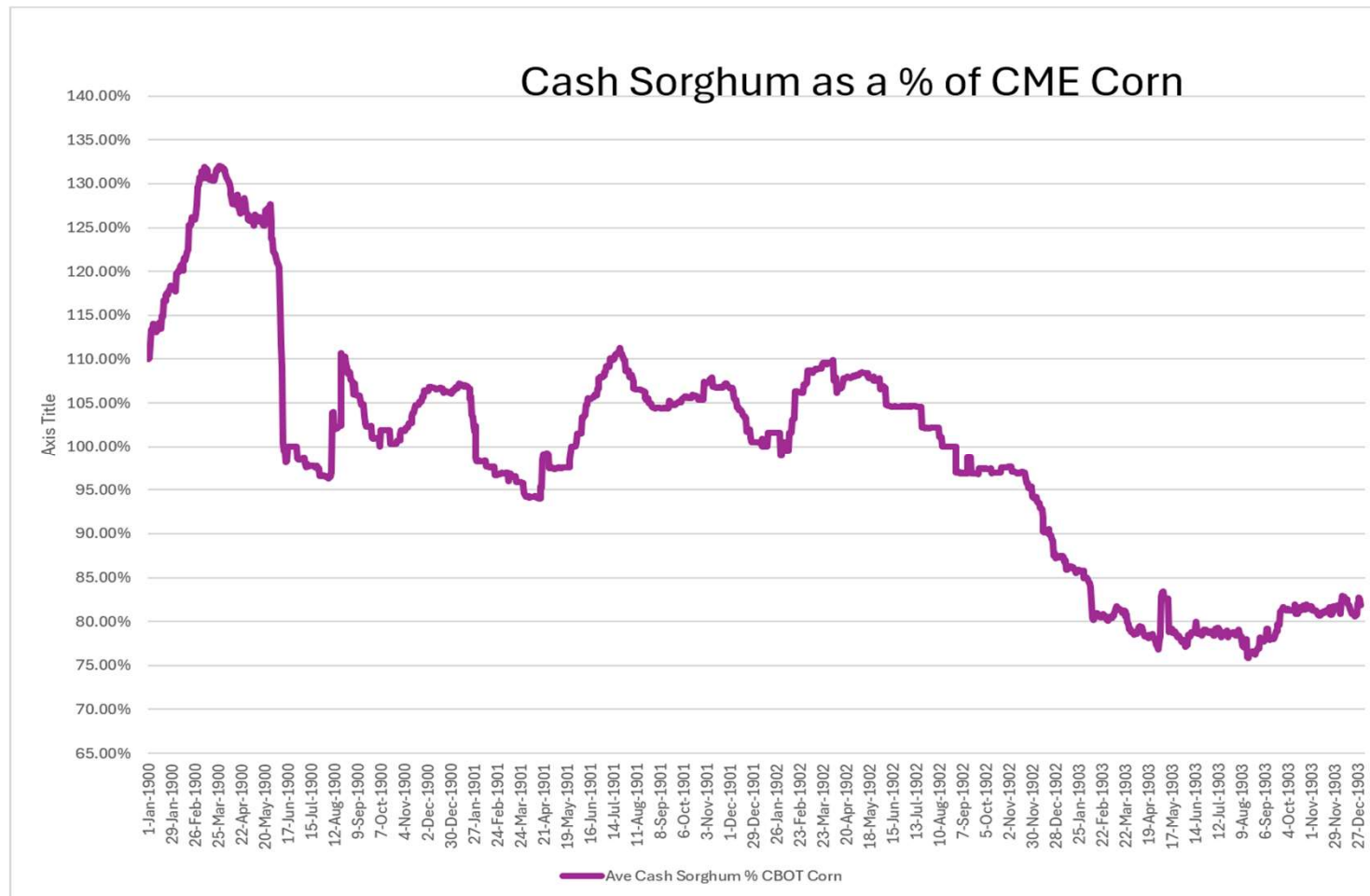
Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Approach to Pricing



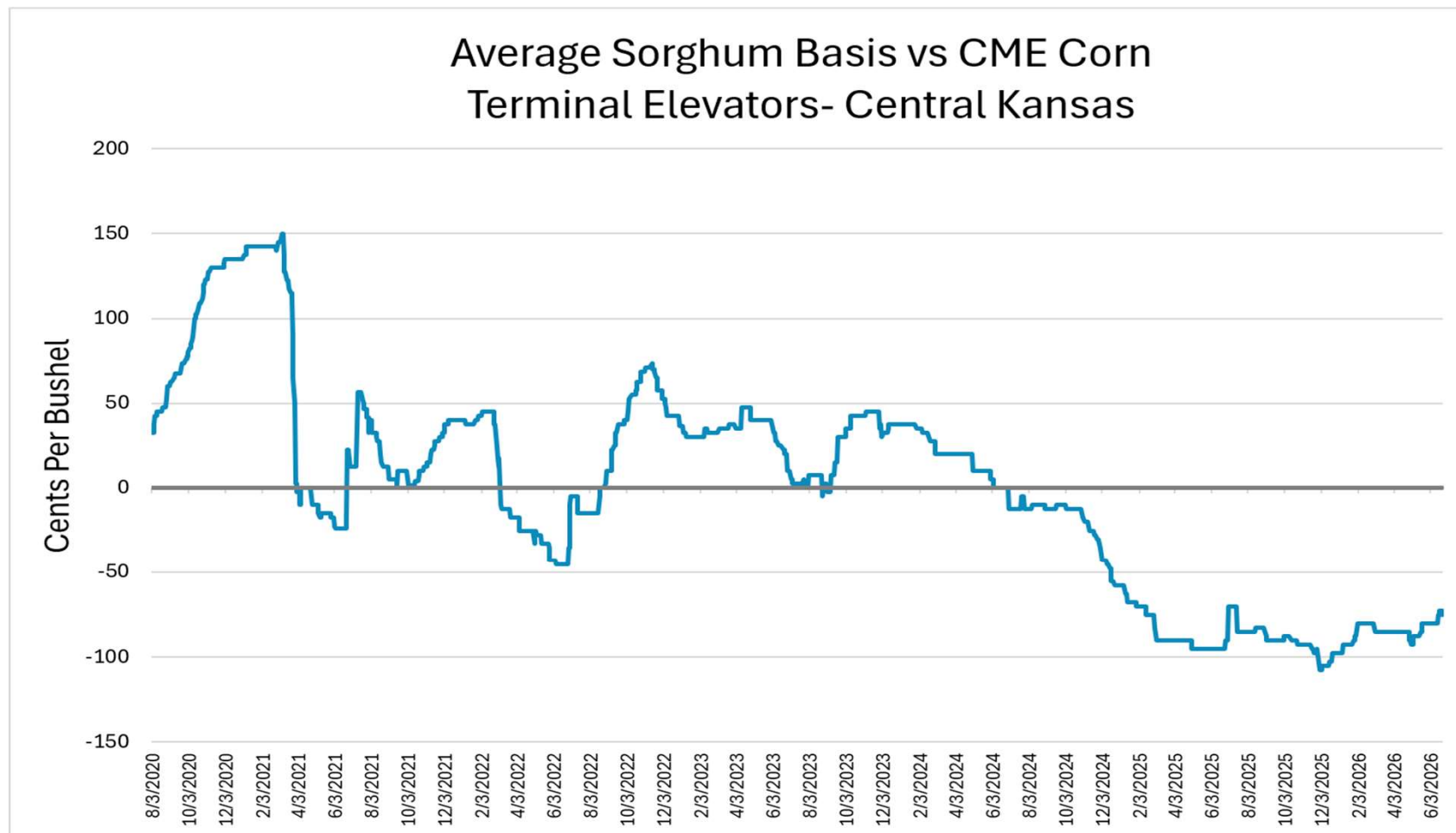
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Approach to Pricing



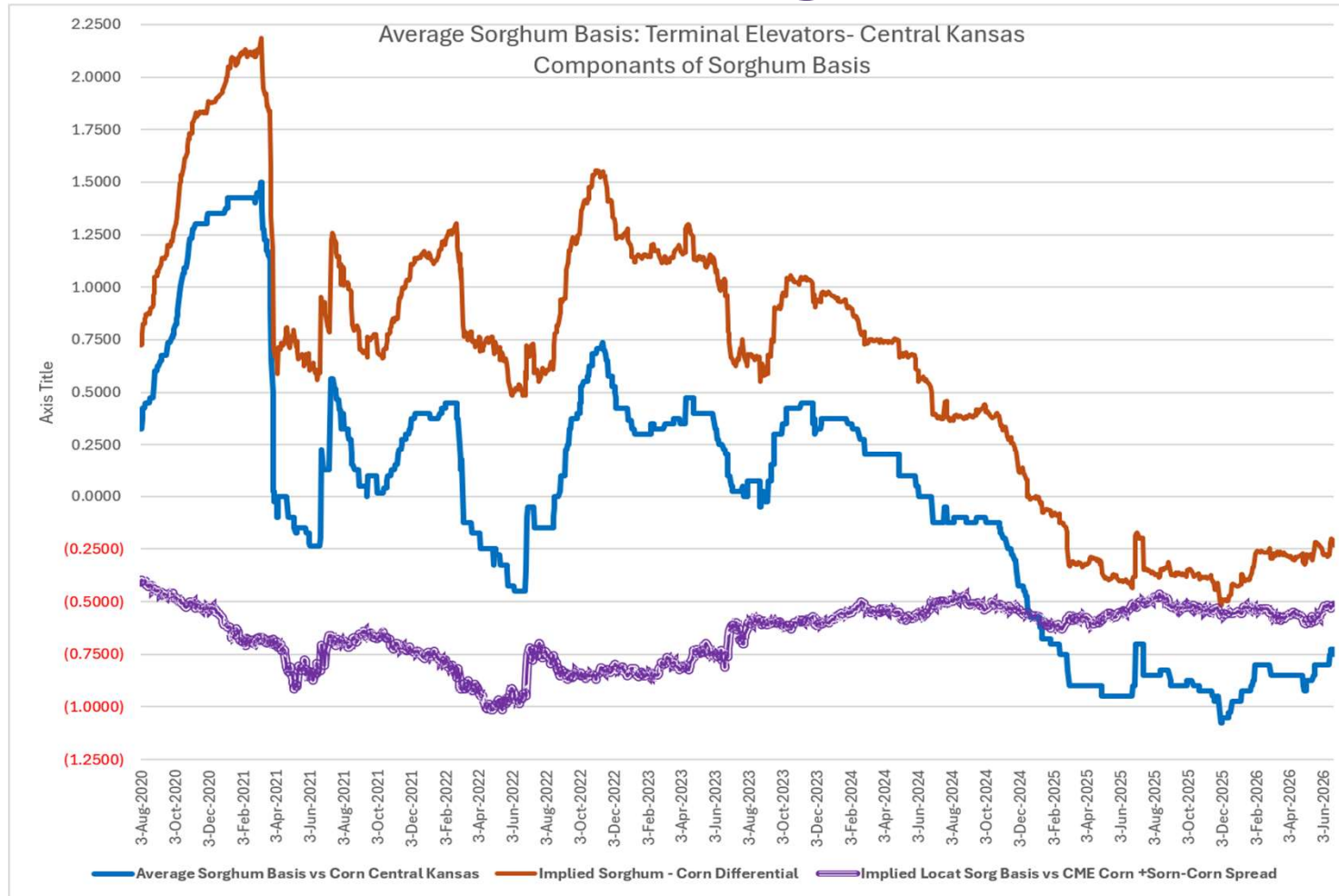
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Approach to Pricing



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Approach to Pricing



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Approach to Pricing – EFP / EFR

Cash Sorghum Contracts hedge in Corn can be prices via an EFP or EFR...

■ For Example:

For a Country Elevator who holds a “long” hedged basis sorghum position of:

Bought physical Sorghum / Sold Corn Futures

They will need to execute one separate orders:

- EFP Corn...

“Classical Hedging of Sorghum in Corn Futures”

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Approach to Pricing – EFP / EFR

Cash Sorghum – Corn Spread Contracts can be priced via an EFP or EFR...

- **For Example: For a Country Elevator who holds a “long” hedged basis sorghum position of:**

Bought physical Sorghum / Sold Corn Futures and Sold Sorghum – Corn Spread

They will need to execute two separate ticket orders:

- EFP Corn...
- EFP Sorghum – Corn Spread...

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Approach to Pricing – “On Delivery”

■ Exchange For Physical, Exchange For Risk - EFP / EFR

- Have until 2 days after last trading day to EFP before settlement.
- Make arrangements to price ahead of time, otherwise (trade at close”...)

**CME Market Regulation Outreach...*



STORAGE, DELIVERY, LOADOUT AND LOGISTICS...



Country Elevator Applications of the CME Grain Sorghum Basis Futures Contract

Delivery & Storage...

Delivery & Storage intended to be the same as CME Corn

- 1) CME Sorghum “*delivery*” will be via **Shipping Certificate**
- 2) CME will be the tariff storage rate for grain sorghum delivered via a **Shipping Certificate** will be assessed at a rate of 8+/- cents per bushel per month rate (equivalent to 26.5/100 of one cent per bushel per day).
- 3) The storage charges for physically delivered corn must be paid up to the 18th day of the preceding month of delivery. These rates, along with interest costs, help determine the “**Financial Full Carry**”, which is a key factor in managing futures spread risk for market participants.

Delivery & Storage... more

Delivery & Storage intended to be the same as CME Corn more

4) Base Storage Rates Harmonized:

The Exchange will also harmonize the base storage rates of the wheat contracts to approximately 8 cents per bushel per month. This specific change is effective after the December 2026 expiry (December 17, 2026).

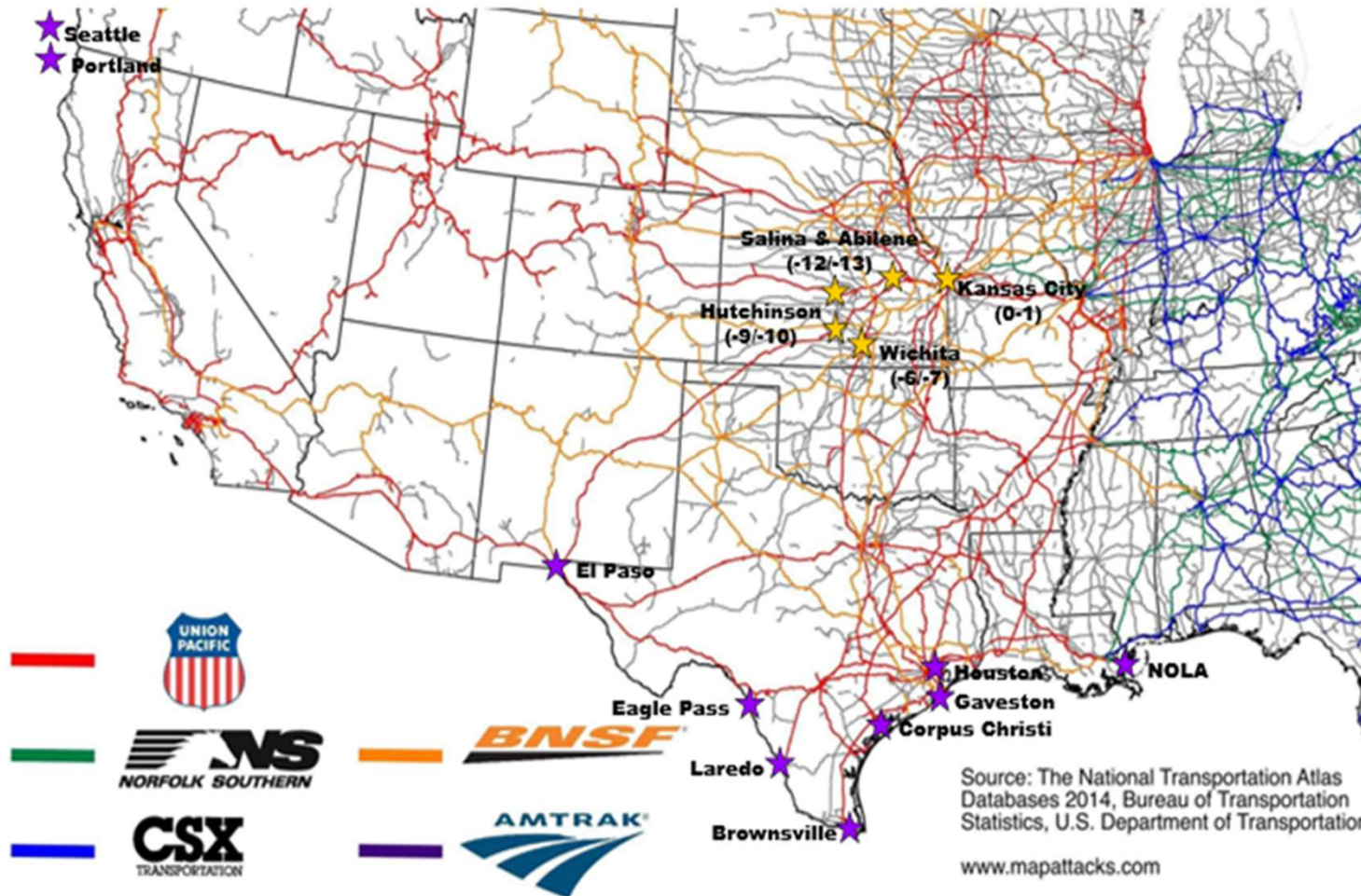
5) Increased Storage Rate for Shuttle Train Premium:

A premium of 10/100ths of one cent per bushel over the prevailing storage rate will be paid by the stopper to the issuer for each day of loading saved due to the increased cadence of unit train loading.



DVE Transportation – Major Export Destinations

With “**Delivery**”
execution now capable
of loading “**Shuttle
Trains**”, it is now
feasible deliver to major
secondary cash arkets
for export; (i.e., Texas
Gulf, NOLA, PNW, and
Mexico Rail...)



Changes to the CME Kansas HRW Wheat Contract

Increased Loadout Charges

- **Increased Conveyance** (*Load Out Charge*) from 6 to 8 cents - Effective 17th December 2026, to 9 cents - Effective 17th December 2027.

- ❖ **Convergence is Positive, but small**

(This is a convenient change to create consistency across bulk grains but should have very limited effect on cash & futures convergence.)

- Elimination of “Weekly Loading Rate” obligation in favor of a “Daily Loading Rate”
- Effective 17th September 2026

KC HRW Wheat under Shipping Certificate Delivered but Not Loaded Out	Load-Out Requirements In-Hopper Cars	
	Daily	Weekly
Up to 3,000,000 Bushels	30	150
3,005,000 to 4,000,000 bu.	40	200
4,005,000 to 5,000,000 bu.	50	250
Each Like Increment up, Add	10	50

Increased Loadout Charges – Shuttles

➤ **Premium for faster shuttle train loading rate than obligated daily rate:**

- Effective 17th September 2026
- Additional **14 cent premium** for loading shuttles.
- Shuttle Incentive falls to “deliverer”, & Demurrage falls to “stopper/taker”.
- Cash Premium for more than loading than the obligated Daily Loading Rate of 10/100 cent/bus/day paid by the stopper to the issuer.
- There is a long list of rules related to shuttle train loading execution...
These rules make execution of shuttle train loading feasible. Should make Kansas HRW Wheat Futures executable to the U.S. Gulf & pricing more in line with export markets...)
- **CME Rulebook:** Refer to Chapter 14H for KC HRW Wheat Futures.
- **CME Circulars/Notices:** Look for Specific Executive Reports (SERs) or Advisory Notices for implementation details, like SER-9483.



HOW TO MEASURE SUCCESS...



Country Elevator Applications of the CME Grain Sorghum Basis Futures Contract

How to measure success...

A successful futures/derivative market can be gauged through a number of metrics, including:

- **Liquidity & Activity Metrics** (Average Daily Volume (ADV), Open Interest (OI), and a tight Bid-Ask Spreads, Trade Size; (as well as possibly tracking the Put/Call Ratio to determine market sentiment).
 - Average Daily Volume (ADV) & Trade Size
 - Open Interest (OI)
 - Bid/Ask Spread
- **Market Depth & Diversity of Participants:** Participation with a strong diversity of both hedgers and speculators shows deep utility with a diversity of market participants & trader types.
- **Robust Price Discovery:** demonstrates strong alignment with underlying fundamentals, along with effective risk transfer.
- **Basis Stability & Reliable Mark-To-Market Valuations**

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

How to measure success...

ADV (Average Daily Volume) (in number of contracts)									
Ag Products Futures	ADV 2020	ADV 2021	ADV 2022	ADV 2023	ADV 2024	ADV 2025	U.S. Production (Six-Year average)		ADV as a % of U.S. Crop
CORN - CBOT	354,755	344,849	310,283	332,379	402,493	437,556	15,170.0	mbus	11.99%
SOYBEAN - CBOT	241,593	211,605	206,059	249,647	276,846	294,921	4,320.0	mbus	28.56%
SOYBEAN MEAL	118,240	106,255	111,919	148,781	175,418	173,426	52.6	mst	
SOYBEAN OIL	130,284	129,664	119,729	150,176	176,494	183,037	11.8	mmts 260 mcwt	
ALL WHEAT	187,485	171,689	144,954	173,599	191,189	209,820	1,840.0	mbus (ADV = Sum)	48.86%
WHEAT CBOT	131,879	118,956	103,409	123,705	127,802	137,437	345.0	mbus	179.51%
WHEAT KC HRW	54,394	51,497	41,314	49,857	63,356	72,283	804.0	mbus	34.48%
MINI CORN	1,318	2,795	2,427	1,521	1,328	1,392			
MINI SOYBEANS	1,992	2,630	2,750	2,088	2,107	2,113			
MINI WHEAT	692	996	1,292	1,359	1,043	847			
OATS CBOT	556	559	429	630	727	616	69.6	mbus	4.21%
OATS CBOT	556	559	429	630	727	616	275.0	mbus U.S. + Canada	1.07%
ROUGH RICE	1,017	880	979	996	1,157	1,411	472.2	mbus 212.5 mcwt	1.01%
GRAIN SORGHUM - Projected	787	720	704	813	942	1,014	437.0	mbus	0.95%
Source: CME Group https://www.cmegroup.com/tp/webmthly/									

Liquidity & Activity Metrics

- **Open Interest (OI)**
- **Average Daily Volume (ADV) & Trade Size**
- **Average U.S. Crop Size**

A successful futures/derivative market can be gauged through a number of metrics, including:

Open Interest (OI),
(Average Daily Volume
(ADV), & tight Bid-Ask
Spreads, Trade Size.

*Estimates for Grain Sorghum =
SWAG**



IMPACT ON MARKETS

Impact on Liquidity, Transparency, and Volatility...

Country Elevator Applications of the CME Grain Sorghum Basis Futures Contract

Re-Introduction of a Grain Sorghum Futures Contract by the CME Group

Increase Price Transparency...?

Having a derivative or futures price for Grain Sorghum quoted in the screen will:

- Keep the pricing active real time” pricing in front of buyers & sellers”;
- Enable a more robust forward pricing curve to evolve for the cash market assisting producers, end users & warehouse operators to make more profitable business decisions & reduce risk;
- Enable bankers & financiers to more effectively support producers, end users & trade finance.



Impact on Volatility...?

While general market volatility factors like weather and global supply/demand will persist, it is widely accepted that a dedicated, viable futures contract would be a valuable tool for managing price risk.

- More importantly, **Basis Risk** and **Volatility** for grain sorghum traded against a grain sorghum futures contract would be *significantly reduced & trade in a narrower and more clearly definable range, ultimately;*
 - ✓ *Improving price discovery*
 - ✓ *Increasing price transparency*
 - ✓ *Reducing the price uncertainty & volatility experienced by participants throughout the physical cash market*

What is Liquidity...?

- **Market liquidity** refers to the ease with which an asset can be bought or sold without causing a significant change in its price, while **trading activity** is the volume of buying & selling of a financial instrument over a specific period. These two concepts are closely related.
- **Market liquidity** is a crucial feature of a healthy market that impacts transaction speed, costs, & risk management.
- **Trading activity** is a measure of the total number of shares or contracts traded for a specific security within a given timeframe (e.g., hourly, daily, weekly, etc.). **High trading activity** generally leads to high market liquidity.

What will support Liquidity & its Impact...?

- **Electronic Trading** - on the screen vs the “Pit” in 1989 – 1999.
- **Trading as an inter-Commodity “Spread to Corn”** - This will leverage the liquidity in the corn futures back into the Grain Sorghum Futures...
Spread Orders need to be electronically viable... `
- **A functional underlying “delivery” process** will ensure convergence.
- **A significant reduction in “Basis Risk”** - make hedging a more viable exercise for the country elevator & all supply chain participants back into the markets.
(The inter commodity “Sorghum vs Corn” spread risk will now lie between each of the two individual commodities)
- **End Users** (i.e., ethanol plants & feedlots) will be able to price in significant lots/volumes of grain sorghum enabling & economic switch between the two commodities in their process or feed rations.

Potential Impact on Markets...

- **Reduce Basis Volatility:**
- **Improved Basis & Convergence:** Shuttle-loading facilities typically offer higher cash prices (a stronger basis) to farmers because they benefit from lower per-bushel freight rates from rail carriers. By formalizing this premium within the futures contract delivery terms, the CME reinforces the link between the futures market and these more efficient cash market dynamics, likely improving overall cash-futures price convergence at expiration.
- **Increased Commercial Participation:** The premium incentivizes a wider range of commercial entities, particularly those with shuttle-loading capabilities, to participate in the physical delivery process. This could increase the commercial liquidity of the futures contract itself.
- **Logistical Clarity:** The new rules also introduce specific logistical requirements, such as a 5 to 10-day pre-advice window for the "stopper" (taker of delivery) & clear specifications on responsibility for demurrage, providing greater clarity & reducing operational uncertainty during the delivery month.
- **Incentivize Shuttle Train Use:** The 14-cent premium acts as a direct financial incentive for elevator operators ("makers" of delivery) to use efficient, high-volume shuttle trains (typically 110-car unit trains) rather than less efficient shipping methods. This encourages faster loading times (one shuttle per 24 hours) & better utilization of rail infrastructure.

Changes to the CME Kansas HRE Wheat Contract

Likely Impact of Changes...

- ❖ Economic execution of shuttle trains, along with "Logistical Clarity"...
- ❖ Greater correlation between cash grain sorghum prices at the U.S. Texas Gulf & Center Gulf. (Also executable to Mexico & PNW)
- ❖ Greater ability to define basis, resulting in less basis volatility
- ❖ Increased commercial participation in the market
- ❖ Improved competitive pricing...



DISCUSSION & QUESTION...



If you have more questions contact CME at agriculture@cmegroup.com

Link: [FAQ: Sorghum Futures - CME Group](#)



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