● What To Expect

(Continued from Page 1)

ly an agreement between a seller and a buyer on the price of a specified amount and quality of some product at a specified future time of delivery. The futures contract permits the holder of a product to shift some of the market risk to the buyer of the contract. In a futures contract the person who owns or holds the product is called a "hedger". He wants to reduce his risk by assuring himself an operating margin. He does this by selling a contract for future delivery.

The buyer then assumes a portion of this risk by agreeing to take delivery at a future date, at a specified price. He is known as a market "speculator".

The hedger stands to gain if the market falls below his contract price by the time he is to make delivery. Without that contract he would have had to sell for less on the cash market.

The speculator benefits if the actual market at the time of delivery is more favorable than the price he has agreed to pay. His ability to forecast future market changes determines whether he makes a profit or a loss.

The actual commodity is seldom delivered to fulfill a futures contract. Instead, the buyer or seller usually completes the transaction by an offsetting sale or purchase in the futures market.

The trading unit to be used in the beef futures market is 25,000 pounds of steers, live-weight basis. Two standard contracts will be used designated as A and B. The A contract specifies delivery of steers grading Choice or better, weighing 1,000 to 1,150 pounds and estimated to yield 61 percent. The B contract is for steers grading Choice or better, weighing 1,151 to 1,300 pounds, and estimated to yield 62 percent. Tolerances and substitution possibilities are outlined in the contract details.

Trading in beef futures requires a margin the same as any other futures markets. The initial margin requirement has been set at $500 per trading unit (25,000 pounds of live-weight steers). The maintenance margin has been set at $300 per trading unit. This means that if the market position of the buyer or seller becomes less favorable, an additional margin deposit is necessary whenever the net value of this margin drops below $300.

How can the cattle feeder use this marketing procedure? He is the potential hedger in the futures market. He is the one holding an inventory of cattle for future sale. A feeder could sell a contract at the time his feeder cattle are purchased, or at some later time.

Futures trading has been very successful with many commodities, particularly in the grain market where it is used extensively. There are several reasons why grain lends itself to this procedure; let's compare cattle and grains from these considerations.

1 — GRADES — Official grades for grains are widely used and accepted in the industry, and they permit fairly accurate quality classifications. Official grades for live beef are less exact and are not universally used in the industry. This creates more opportunity for confusion, error, and disagreement if cattle are delivered on futures contracts. Quality variation within a grade is also greater for cattle than for grains.

2 — SUBSTITUTION Possibilities — Value differences between grains of different grades are relatively constant. This means that tolerance and substitutions from the standard delivery contracts can be readily developed. Market price relationships between steers of different weights and grades change frequently as market supply-demand conditions vary. For example, the market differential between Good and Choice grade steers in April was 75 cents; by October it had widened to $1.50.

3 — STORABILITY—Grains are readily storable and the costs of storage are relatively constant. They can be easily related to value changes in grain futures contracts. Beef, by contrast, is not readily stored. Storage facilities are limited and costly. Consumers seem to prefer fresh beef to frozen.

4 — SUPPLY — In the grain market the supply of the commodity from one harvest to the next is fairly well known from official estimates of crop production and carry-over stocks. In addition periodic reports come through during the marketing year. The supply of beef available for future months is not known precisely. Producing beef is a continuous, year-around operation. Difficulty of closely forecasting future beef supplies and prices may be a serious problem. Marketing patterns can be altered greatly due to the flexibility in the weight and condition at which cattle can be slaughtered. Under such conditions there might be some tendency for the beef futures market to be consistently conservative. Due to the supply uncertainty the speculators might be willing to buy only at levels that looked very safe. Extremely safe prices from the speculators' standpoint are not likely to encourage hedging by cattle feeders.

In conclusion the report states that futures trading will not solve all the problems of the U.S. cattle feeder. Its success will depend very largely upon whether a beef futures market can attract a large number of cattle feeders and market speculators.

(This report goes into details and examples too lengthy to relate here; anyone interested can obtain a copy by writing to the Iowa State University, Cooperative Extension Service, Ames, Iowa — ask for Farm Outlook, Nov. 12, 1964, Econ. Inf. No. 940. This is one of the best studies of the subject we have seen).

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● Frey and Esh

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wasn't quite enough, to give him a repeat on the title.

The Frey herd, runner-up to Esh last year in butterfat, this year attained an 18,106-pound average milk record. Frey was also one of three dairymen in the state to exceed the 700-pound butterfat level.

Raymond and Louise Witmer, R D 1, Willow Street, had the top Guernsey herd in the state for milk and butterfat production. Their 44-cow herd averaged 12,312 pounds of milk, and 609 pounds of fat during the recently-completed testing year. This is the second consecutive year that the Witmer Guernseys have led the breed's production at the state level.

This is the first time in the history of DHIA records that the state average milk production has been over the 12,000-pound mark The national average is in the neighborhood of 8,000 pounds.

● Farm Calendar

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livestock judging team.

Dec. 10 — NEPPCO "Quickie" Conference, Hotel Commodore, New York

— 7:30 p.m., Ephrata Young Farmers Class, Ephrata High School. Subject, "Quality Milk Production."

— 8 p.m., Red Rose DHIA Director's meeting at the Production Credit Bldg., W. Roseville Rd., Lancaster.

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