

Avoid these common errors when using futures markets

NEWARK, Del. — Selling part of a growing or stored crop via a hedge in the futures market can give farmers greater flexibility than any other marketing alternative. The flexibility comes from being able to change a contracted position if a wrong decision is made.

Other forms of selling grain don't provide this kind of flexibility. But you need to have a clear understanding of how the system works in order to benefit from it, says University of Delaware crops marketing specialist Carl German.

When used properly, hedging has several advantages as a marketing tool for grain farmers. For one

thing, you may be able to realize a higher price for your crop than you'd get by simply selling it on the cash market.

This is largely due to the fact that this way you are spreading sales over the course of a year, using a combination of cash and futures markets, instead of selling only once or twice a year in the cash market.

It's extremely important to remember just why you're hedging, warns German. For a farmer, this system serves primarily as a way to protect yourself from an adverse price change. In the case of a growing or stored crop, hedging can be

protection against a price decline.

If you're not interested in foregoing some of the risk involved in pricing your crop, you don't need to hedge. Instead, you should concentrate on cash grain sales and forward cash grain sales.

Hedging alone won't guarantee a higher return on your crop. In most years, notes the specialist, it takes effective use of all three marketing options — hedging, cash grain sales and forward cash grain sales — to get that higher average price. But hedging will help even out the highs and lows involved in pricing a commodity.

German says his analysis of the various alternatives for marketing grain show that hedging really pays in the years when windfall price declines occur, as they did in 1979-1980 with soybeans.

In these years, a farmer can increase the average price he gets for his crop by hedging a part of it.

On the other hand, in years when price increases occur during the time a hedge is placed, a farmer is likely to realize a somewhat lower average price by hedging.

The decision whether or not to hedge depends first of all on the amount of risk a

farmer is willing — and able — to accept. A hedge is successful when you are able to achieve the target price you set before placing that hedge. If you achieve this, it doesn't matter which way price movement on that commodity goes.

Before any farmer can use hedging successfully, he must have a fairly accurate estimate of his production costs and local basis. Knowing historical basis patterns — the difference between a futures price and a local cash price — doesn't guarantee a successful hedge. But knowledge of the basis does help make informed decisions.

Also, unless you're basing your decisions on your actual production costs, you're not really hedging.

One common mistake farmers make in futures trading is to calculate inaccurately their local basis. This involves failing to add the right basis, or to subtract it from the right delivery month.

Storable commodities don't present much of a problem when this happens, but for non-storable commodities, you must use the delivery month closest to the time your crop will be ready for market.

Another common error is failure to relate to futures

transaction to the size of your farm business. Any trading done in excess of expected production — overcontracting — is speculation. This just isn't the purpose of hedging, says German.

When you contract for more than your produce, you're actually increasing the risk involved in pricing the commodity, rather than decreasing your pricing risk.

Other mistakes farmers sometimes make in futures trading include: leaving marketing decisions go to the last minute; not understanding the terms of the contract; marketing a crop without computing a target or selling price and using this as your price objective; and locking in a loss.

Any one of these mistakes can turn a marketing decision into an unprofitable venture. Most of them can be avoided by working closely with knowledgeable people. With experience you'll learn to avoid other errors.

The best way to sell your grain successfully is to learn how to make better use of your marketing alternatives. By combining all three — hedging, cash grain sales, and forward cash grain prices — in a well-planned program, you should realize a better return on your crop.

How to beat two tough weeds

LANCASTER — No matter where farmers are growing corn, they probably have one of the two toughest weeds that annually attack the crop—sometimes both.

In a survey of 2200 county agricultural extension agents in 23 corn-growing states last year, quackgrass emerged as the number one weed problem in terms of acres infested.

The tenacity of this perennial weed, which reproduces by seeds and long rhizome systems, is legendary among corn growers. According to survey response, quackgrass was found to contaminate more than 11.5 million acres, mainly in the northern and northeastern corn-growing areas.

According to the same survey, johnsongrass infests fewer acres than quackgrass — about 4.5 million acres. But in the southern and southeastern region of the country where it is widely found, johnsongrass is regarded as the most severe weed pest in terms of yield losses.

More recent reports indicate the weed is moving northward through Pennsylvania, Indiana, and Illinois and has been detected as far north at New York.

The traditional method of controlling quackgrass is to grow corn on infested acreage for three years

using high rates of atrazine herbicide.

But atrazine carryover can tie the hands of farmers wishing to rotate portions of their corn acreage to other crops as a market hedge.

These growers will require a chemical treatment such as Eradicane, that will control quackgrass the first year in corn and still degrade sufficiently to allow rotating to an alternate crop the following year.

Although in terms of acres infested johnsongrass may not be as widespread, it is a greater problem in that it is harder to control.

Like quackgrass, its northern counterpart, johnsongrass reproduced by rhizomes and seeds.

The plant, nicknamed "bankruptcy" grass by old-timers who have seen numerous fields abandoned because of choking infestations, produces 200 or so seeds per head and an estimated 100 to 350 rhizomes nodes, each with the capacity to produce another johnsongrass plant.

Although instructions concerning herbicide rates and application techniques will differ for various soil types and geographical regions, growers should follow closely these cultural practices in their johnsongrass and quackgrass control programs:

—Plow heavy stands with

moldboards or chisels, in the fall when possible.

—Disc deeply to chop up rhizomes into small pieces.

—Disc herbicide into the soil just before corn planting. For extended broadleaf weed control, tank mix Eradicane with atrazine or, to avoid carryover

problems, with Bladex.

—Plant when the soil is warm, so corn sprouts fast and shades out late weed germination.

—Cultivate corn or follow with a postemergence spray, such as 2,4-D or Banvel herbicides, to get escaping broadleaf weeds.

Anaplasmosis topic of meeting in Adams Co.

GETTYSBURG — The concern of local cattlemen has prompted a special meeting on Thursday, June 5, 8 p.m., at the old Courthouse in Gettysburg, for dairy, sheep, and beef producers in Adams County. The topic they will be hearing about is anaplasmosis, a current problem.

William Herberley, of Fort Dodge Laboratories, will present a movie and slides on the disease.

Next on the agenda will be William High, VMD, explaining what the Pennsylvania Department of Agriculture is doing about the problem.

Local veterinarian Ralph Jackson will join the two speakers in a panel discussion.

Anaplasmosis is a disease of ruminant animals that has been diagnosed in Adams County. The disease is characterized by anemia and depression, and it is fatal in 25 to 60 percent of the cases.

"In an effort to better understand the disease, how it spreads, and course of action, we have planned this meeting for area farmers," said John Schwartz, Adams County Agriculture County Agent.

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