MILK MARKET NEWS

(Continued from Page C3)

When coupled with first quarter use, down 5 percent, and the preliminary July data, up 2.2 percent, commercial use for the first 7 months was about even with a year earlier.

Commercial use includes civilian and military purchases of milk and dairy products for domestic and foreign use, but excludes farm household use and USDA donation of butter, cheese and nonfat dry milk.

January — March sales of butter on a daily average basis were down about 23 percent, while second quarter use was up about 33 percent, leaving butter use for the year about unchanged. However, with July butter use down about 9 percent, the January — July sales fell 2.7 percent

American cheese sales during January — July were up about ½ percent, while sales of other cheese varieties were up about 4 percent. Meanwhile, fluid milk sales during the first 6 months of the year continued a long-term trend and declined slightly, less than 1 percent from a year ago when adjusted for calendar composition.

Commercial use of milk and dairy products on a milk-equivalent basis may increase some during the third quarter. Retail prices of dairy products are expected to have increased less than meat prices during July — September but consumer incomes may not have increased.

Therefore, while consumers may have found dairy products relatively more attractive, they may not have had the money to more of them.

$300 million water loan program faces Pa. voters

HARRISBURG — A $300 million water projects bond issue will face Pennsylvania voters this fall.

The bond referendum, if approved by voters, will provide financing to local governments and private water companies for rehabilitation of public water systems, and projects aimed at improving flood protection, dam safety, drought emergency conditions and port facilities.

The key to the $300 million program is that the bond issue is a loan. No taxpayer dollars will be used to support these loans. All funds for the program will be raised through the sale of bonds, which will be paid back by the companies, authorities or local governments borrowing the money.

Gov. Dick Thornburgh and leaders of the General Assembly proposed legislation for the referendum on June 1. The legislation was passed unanimously and was signed by the Governor on July 12, placing the question on the Nov. 3 ballot.

"The Department of Agriculture is 100 percent in favor of the water loan referendum," said Secretary Hallowell. "It's a necessity in meeting Pennsylvania's water needs for the 1980's. I hope voters will give the issue serious consideration at the polls."

Hallowell noted that many groups such as the Pennsylvania Farmers Association and the Pennsylvania State Grange have added their endorsements in support of the referendum.

The "Vote Yes for Water" committee, a non-governmental committee representing more than 40 organizations supporting the referendum has called for a minimum of $220 million from the bond issue for rehabilitation of water supply systems and dam safety projects. A maximum of $40 million each would be used to finance flood control and port facility projects. Governor Thornburgh has endorsed this concept for use of the funds.

"Water problems are obvious to the rural community," Hallowell said. "Of the 2,400 community water supply systems in the state, three-quarters serve rural communities with less than 1,000 people, and more than one-half have deficiencies which could be corrected with the loan money. The intent behind the water loan referendum and proposed bond program is to make needed funds available through the state so that as many Pennsylvanians as possible can benefit."

He noted that sound public water systems, projects for flood protection, dam safety, drought emergencies and port facilities are important investments for Pennsylvania's future. "These are essential to our health, safety and economic well-being. The water problems faced by Pennsylvanians, and the referendums is the first, but vital step toward a solution," he said.

N.Y. State Fair posts Hereford results

SYRACUSE — Dr. Tim Dennis, Woodbury Stock Farm, Penn Yan, N.Y., dominated the championship classes in a strong showing of Hereford cattle at the recent New York State Fair in Syracuse. Placings were made by John Shanks, Mocksville, N.C.

GH Prospector 3530 was designated grand champion bull after capturing the yearling championship. RH Prospector 7002 was the sire of the junior yearling entry shown by Woodbury Stock Farm.

Millborn Farm, Sherborn, Ma., captured reserve grand champion bull honors with their two-year-old entry, MBF Ll Dom 460, sired by MBF El Brooks 290. The bull earlier had been named senior bull champion.

Woodbury Stock Farm returned to the champion spot in the female show when judge Shanks selected GH Ms Prospect 0860 to top the heifer division after being named senior champion. This summer yearling entry is a daughter of RH Prospector 7002.

Powisset Farm, Dover, Ma., exhibited the reserve senior and reserve grand champion female with a daughter of FRC Yampa King 37. Ll Miss Carpenter, an early spring yearling entry, has been a constant winner for the Powisset firm this fall as she previously captured the grand championship at the Maine State Fair.

Millborn Farm also claimed the bull calf championship with MBF Ll Dom 519 coming from the senior bull calf class. He is a son of MBF Ll Brooks 291. Selected as reserve bull calf champion was POW Mr Ll Domino IK, a junior calf shown by Powisset Farm.

The reserve yearling champion bull honor went to Highlawn Farms, North Rose, N.Y., with HL Arthur 374, the first-place late spring yearling bull sired by THF Big Arthur 6054.

The reserve senior champion bull award went to a joint entry of Millborn Farm and Powisett Farm with Dom Ll Domino 9640. The senior yearling is a son of Ll Domino 76744.

Millborn Farm led out the junior champion female, MBF Ll Ms Dom 521, the first-place senior calf by MBF Brooks 291.

SK Victor Lass 812, a junior calf, claimed the reserve champion heifer calf award. She was exhibited by Schmidt and Kriese Herefords, Cato, N.Y.

Woodbury Farm swept the group competition with the first-place get-of-sire with the progeny of RH Prospector 7002 and winning the coveted best six-head award.

Other first-place class winners included: **Early Spring Yearling Bull, Highlawn Farms with HL Arthur 368; Winter Heifer Calf, Millborn Farm with MBF Ll Ms Dom 526; Late Spring Yearling Heifer, Highlawn Farms with HL Miss Art 401.**

Farming's Futures

By David K. Sauder
Commodity Advisor
Trade Tech, Lancaster

What, Exactly, is the purpose of Hedging? How does it work?

The primary purpose of hedging is simply to "neutralize" the impact of adverse price level changes. A hedge is a sale (or purchase) on the futures market for the purpose of establishing a price in advance of actual cash delivery.

Farmers and elevator operators hedge to protect the value of grain in storage against declining prices — or, to put it another way, to establish the selling price for their grain. Exporters hedge to lock in the cost of grain they have made commitments to sell. Processors hedge at certain times to protect themselves against an increase in raw material prices and at other times to protect themselves against a decline in the value of their inventories.

For whatever purpose hedging is employed, it consists of taking a position in the futures market that is equal and opposite to your position in the cash market.

Say you currently own corn. You are thus "long" corn in the cash market. If the price of corn goes up you will make money and if the price of corn goes down you will lose money.

To hedge against the possibility of a price decline, you can offset your long position in the cash market by taking a short position in the futures market. That is, by selling a futures contract. Then, if the price of corn does decline, the loss in the cash market will be approximately matched by a profit in the futures market (when the futures contract sold at a high price is bought back at a low price).

Example: To lock in a particular price for delivery of corn in March, you sell a futures contract at, say $2.25. Subsequently, there is a weakening in the world demand for corn and the local cash price declines by 20¢. But because of the tendency of the basis to narrow as the delivery month is approached, the futures price declines by, say, 30¢ a bushel. Buying back the futures contract at a 30¢ profit fully offsets the 20¢ drop in the cash price and gives you a 10¢ a bushel payment for storing your corn until March.

Why are futures prices — and the relationships between futures prices for different delivery months — important to sellers of grain?

Futures markets are the only place where grain is actively bought — and priced — for future delivery and, as such, the only marketplace that quotes the owner of grain a cents-per-bushel payment for storage.

By following futures prices, particularly at the time that marketing decisions are made, and by understanding what they mean, an owner of grain is able to make better informed decisions about whether to sell grain now or store it for later sale. And, if the owner is considering selling stored grain on the futures market in order to hedge against price risks, the relationships between different delivery months (the amount of the carrying charge) can help to decide in which delivery month to hedge. More about this later.

What is the relationship between local cash prices and other, more distant futures delivery months?

The numbers change but the arithmetic doesn't.

As previously discussed, prices for distant futures delivery months differ from the nearby futures price by the amount of the current carrying charge. Thus, if the March futures price is $2.10 and the carrying charge is 4¢ a month, the May futures price would be $2.18; the July futures price would be $2.26; and the September futures prices would be $2.34. That is, futures prices usually stair-step upward.

A basis can be calculated for any futures delivery month simply by subtracting the current cash price from the price of the designated futures contract. For example, if the local cash price is presently $1.80 and the July futures prices is $2.26, the July basis would be 46¢ under.

Basis for distant delivery months is affected by the same factors that affect the nearby basis plus one other: The amount of the carrying charge. As a result, there can be significant fluctuations in the distant basis even when there is no charge, or only a negligible change, in the nearby basis.

The basis pattern for distant delivery months is similar to that for the nearby delivery month. That is, the basis tends to narrow — by the amount of the reduction in carrying costs — as the delivery month is approached. Assuming a carrying charge of 4¢ a month, a local price that is 46¢ under the July futures price in January is likely to be only 42¢ under the July futures price in February. And only 38¢ under in March. And only 32¢ under in April. And so on until, by July, the remaining basis should be only a relfection of the difference due to location.

Send your questions about futures trading to: Farming's Futures, Lancaster Farming Newspaper, Box 366, Lititz, PA 17543.