Farming's Futures

By David K. Sauder
Commodity Advisor
Trade Tech, Lancaster

Many farmers have questions about the futures market. Farming's Futures aims to serve whatever need farmers have for information about this market.

Like other farmers who have contacted us since this feature began, you too are welcome to send us your questions.

Here's several questions farmers want to know about:

How does a local elevator establish the price it offers for grain?

On a typical day, the manager of a local elevator may recieve a half dozen or so bids from firms seeking to purchase grain.

Bids have traditionally been quoted in terms of a price "track country station." This is the price the buyer is willing to pay for grain loaded into a rail car alongside the local elevator. But with more and more grain being hauled by truck, it is not unusual for a bid to be in terms of a price delivered to a processing plant, terminal or river shipping point.

The bids may come from a variety of prospective purchasers. One may be from a large terminal elevator that is assembling a supply of grain for export. Another may come from a processor in need of grain to keep his plant in full operation. Still another bid may be from a commercial cattle feedlot. And yet another from a barge line operator who is filling a shipment of grain to the Gulf.

Most of these bidders have a pretty good idea of about what price it will take to buy grain in the country on that particular day but their offering prices may nonetheless be slightly different, reflecting the urgency of their needs.

Just as the buyers have a pretty good idea what price they will have to pay to purchase grain from elevators, the elevator manager has a pretty good idea what price he will have to offer to attract grain from farmers who are harvesting it or who own and are storing it. If the manager considers the spread to be sufficient to cover handling costs and provide a reasonable profit, chances are he will accept the best offer received from a buyer. This price, less the elevator's costs and profit thus becomes that day's local price for grain.

This particular scenario is, of course, subject to variation. The local elevator may, for example, decide to fill part or all of an order from grain that it has in storage. Or, at a time when the elevator has available space and the futures market is offering an attractive price for future delivery, the elevator may buy grain for storage rather than immediate sale and shipment.

Are futures prices always higher for the most distant delivery months? That is, do they always stair-step upward?

The answer to both questions is no. Sometimes, within a crop year, they stair-step downward. This situation, which is infrequent, is known as an "inverted" market.

Instead of there being a normal carrying charge between delivery months, there is a negative carrying charge. The market is, in effect, paying owners of grain to sell it now instead of storing it. The amount by which prices for nearby months are above the distant delivery months depends entirely on how much buyers are willing to pay for immediate delivery.

The usual reason behind an inverted market is an immediate strong demand or short supply. For some reason — such as a possible surge in the need for grain for immediate export — buyers need grain delivered now and are willing to pay a higher price in order to get it delivered now. As mentioned, the size of the premium depends on how badly buyers want grain and how reluctant owners of grain are to part with it. Their hesitancy to sell may be influenced by an expectation that prices will climb even higher.

An inverted market is most likely to occur in a year of short supply. That is, in a year when the supply is small — or is expected to be small — in relation to demand. In this situation, buyers may be willing to pay a higher price for grain they don't yet need — storage costs notwithstanding — in order to assure themselves an adequate supply and to avoid what they fear may be still higher prices later on.

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

Store vegetables correctly

YORK — Now that the outdoor growing season is coming to an end, and the cold-temperatures are becoming more frequent, storage of the remaining garden vegetables will be necessary in order to protect them from loss of quality and decay.

The following table shows the optimum storage conditions for various crops.

Vegetables can be stored above ground, underground or in a basement or cellar.

Several plans of storage structures are available. For information on harvesting and storage, contact your Extension office.

Well-Ventilated, Cold, Moist (32°-40°F., 90-95% relative humidity):

Root Crops - beets, carrots, horseradish, parsnips, irish potato, radish, salsify and turnip.

Cale Crops - (Cabbage Group) broccoli, brussel sprouts, cabbage, cauliflower, Chinese cabbage and kohlrobi.

Greens - chard (Swiss), spinach, kale, mustard and collards.

Salads - endive, lettuce and parsley.

Legumes - lima beans and peas.

Vine Crops - cantaloupe and summer squash.

Other vegetables - asparagus, green onions, rhubarb and sweet corn.

Well-ventilated, Cool, Moist (45°-50°F., 80-90% relative humidity):

- cucumber, eggplant, green beans, okra, sweet peppers, tomato and watermelon.

Well ventilated, Cool, Dry (45°-50° F., 50-60% relative humidity):

- dry onions and hot peppers.

Well ventilated, warm, dry (55°-60° F., 60-70% relative humidity):

- pumpkins and winter squash.

Well-ventilated, warm, moist (55°-60° F., 80-85% relative humidity):

- sweet potatoes.