

## Farming's Futures

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Here are several questions farmers ask about the futures market.

**How do cash prices differ from futures prices?**

Futures prices are quotes for delivering a designated quality of grain at a specific place at a specific time.

The delivery place (or places) is set forth in the rules governing the futures contract. The delivery time consists of certain designated days

during the delivery month.

It follows that grain delivered to a different place or at a different time is likely to have a different price. Such differences do, in fact, exist and are due primarily to transportation and storage costs.

The number of price possibilities is practically unlimited. For example, in a locality that normally ships its grain to buyers in Chicago, the cash price of corn in January is likely to be below the

March futures price by the cost of shipping grain to Chicago plus the carrying charge for storing grain from January to March. (If freight cost is 30 cents a bushel and carrying charges are 4 cents a month, the local cash price in January might be below the March futures price by a total of 38 cents a bushel.)

Local cash prices aren't always less than futures prices. In some areas of the country that enjoy a location advantage in relation to Chicago, cash prices are frequently or even consistently higher than futures prices.

The amount of the advantage in any given month is, as in any other community, affected by storage costs. For example, if in January the local cash price is 20 cents over the July futures price and carrying charges are 4 cents a month, the local price in February may be 24 cents over the July futures price. And by March it may be 28 cents over the July futures price.

What effect does location have on the cash price of grain?

Differences in location—or, more specifically, differences in transportation costs due to location—are certainly the major reason grain prices differ from one location to another. If one could imagine a situation in which all transportation were free or in which the cost of transportation were not related to distance, then the price of grain would be practically the same in every location. There would, of course, still be some differences — such as possible premiums for faster delivery or higher quality. Or, in some other community, prices might be lower because farmers lack storage space and are anxious to sell.

In the real world, however, it hardly needs to be said that transportation is not free and the cost of transportation is not unrelated to distance. Buyers seeking to purchase grain continuously take the cost of transportation into account in deciding what price to bid to one elevator versus their bid to another elevator.

As a result, sellers in some communities are at a definite disadvantage in terms of location and therefore in terms of price. They may, for example, be located a considerable distance from the nearest market where grain is used or assembled for export. Or

they may lack access to low-cost transportation. Or they may be at a disadvantage because their location does not give them a wide variety of marketing alternatives.

In contrast, sellers in some other community may enjoy a location that enables them to choose between several actively-competing markets for their grain. Or they may have an advantage because of several forms of inexpensive transportation. Or they may have both advantages.

It should be noted that price differences due to location are subject to change. A location that is at a disadvantage at one time may enjoy an advantage at some other time. For example, assume a certain community in Iowa normally ships its grain eastward for eventual processing or export and that the local price is typically lower than in communities which are close to these markets. Were there to be a suddenly short supply of grain in the Southwest and Far West, the ability to ship grain westward at a lower cost would, in all likelihood, be rapidly reflected in a higher price.

Yesterday's location disadvantage could become today's location advantage.

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

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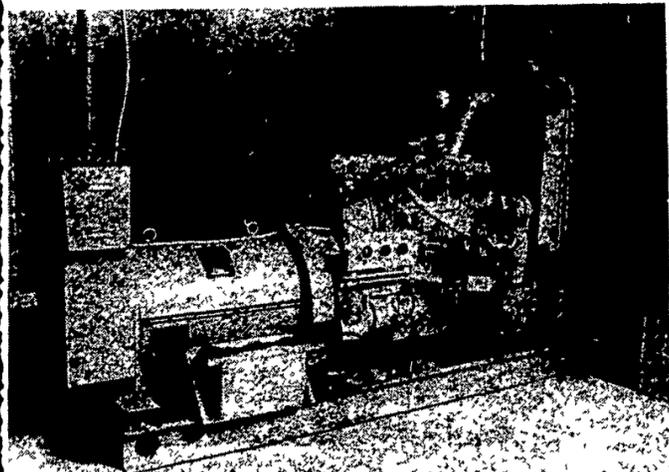
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