

Farming's Futures

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Here are a few questions received from LF readers this week

I am affiliated with a large crop operation in western Pennsylvania. We customarily market our crops down in the eastern part of the state, but this year it appears limited.

It is our desire to market our crops directly and we are seeking other markets for our crops since we have facilities to store and deliver. Do you have at your disposal a list of companies or markets available for agronomic crops in Ohio and along Lake Erie? Any information you can provide will be greatly appreciated. — S. Jergensen, Kittanning, PA

No, I'm sorry we have no such list, but maybe some of our readers can help. If so, we'll pass the word along to you.

I understand that in order to make the correct decision in a hedging situation, one must have a good handle on the "basis" — that is the historical difference between the local price and the Chicago price. Is this basis available? Where? How? — J. Ensor, New Windsor, MD.

The basis can vary even between local markets in New Windsor and Lancaster. Fortunately, in the eastern states, the basis usually favors the farmer because of our close markets. Local feed mills and grain elevators usually have a very good fix on the basis and may be willing to help with that information for your area.

What is basis?

Basis is the number of cents per bushel that, on any given day, the local cash price of a commodity is above or below the current price for a particular futures delivery month.

When you hear someone in the grain business discuss basis, however, he is generally talking about the difference between the local cash price and the nearest futures delivery month. For example, in January the current basis for corn would be the difference between the local cash price and the March futures price.

Example: If the local cash price on a particular day in January were \$1.80 and the March futures price were \$2.10, the March basis on that day would be "30 cents under."

On or soon after the first trading day of the delivery month, the basis calculation switches to the next delivery month. For example, on or about the first of March, the basis for corn is computed as the amount by which the local cash

What are the components of the basis?

The first component is the amount by which the local cash price is below the cash price in Chicago. This difference is due essentially to transportation cost.

A second component is the amount by which the Chicago price is currently below the nearby futures price. This difference is due to a number of factors: storage costs (including interest and insurance), handling costs (the expense of loading and unloading) and sellers' profit margins.

In the short run, do local cash prices and futures prices usually move up and down together?

Usually but not always. Major supply-demand developments that affect futures prices generally have a similar impact on local cash prices. Such as news that

some part of a nation is in or out of the market for a grain. Or that the worldwide supply is up or down. Or that livestock numbers are larger or smaller than expected.

On the other hand, a change in the demand for corn or wheat or soybeans in Chicago doesn't necessarily mean there will be a corresponding change—or any change at all, for that matter—in the demand for corn or wheat or soybeans in the community of Localville.

It is even possible for future prices and the cash price in a particular community to move in opposition directions. Such could be the case, for example, if the overall demand for corn at Gulf ports were especially strong. Or if local processors or feedlots were in

urgent need of corn. A community with a favorable location in relation to the area of demand could thus enjoy an increase in price, declining futures prices notwithstanding.

Even so, the fact remains that futures prices provide the best available barometer of changes in world supply and demand. As a result, short-term changes in cash and futures prices—up as well as down—tend to occur in concert. Certainly not penny for penny and certainly not always, but usually. As will be seen, it is the relative predictability of the relationship between cash and futures prices that makes hedging possible.

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

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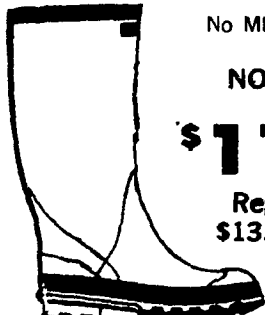
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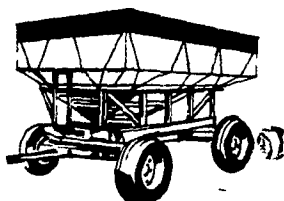
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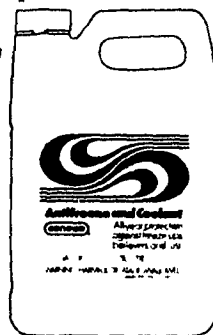


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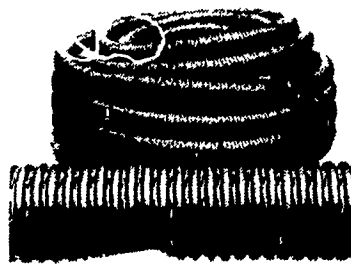
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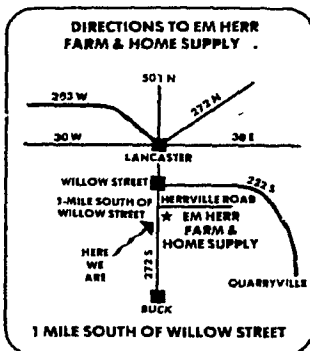


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