

## Farming's Futures

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Can the basis be predicted exactly?

From the earlier discussion of the many economic factors that can and do influence the basis from one month to the next or even from one year to the next, the answer is obviously that what the basis will be in a given month in the future cannot be predicted exactly.

For example, if you hedge by selling at a futures price of \$2.25 in anticipation that the basis at the time of delivery will be 25 cents, the basis may or may not turn out to be exactly 25 cents. It may be 20 cents (thereby netting you a higher price than you anticipated) or it may be 30 cents (thereby netting you a lower price than you anticipated).

The uncertainty as to what the basis will be at a given time in the future results in what is known as basis risk. It is the reason that the results of hedging are not always penny perfect.

Even so, basis can generally be predicted with far greater accuracy than the level of prices. Hedgers are thus willing to accept the relatively small risk of an unfavorable basis change in preference to the usually much greater risk of an unfavorable price level change. By hedging, they in effect substitute basis risk for price level risk.

How can a hedger use his basis knowledge profitably?

Successful hedgers who seek to

lock in a storage payment continuously attempt to initiate their hedges at a time when the basis is as wide as possible and lift their hedges when the basis is as narrow as possible. While there is certainly no assurance that they will be able to carry out such a strategy, they are ever-watchful for opportunities.

Example: Assume you hedged corn when the local price was \$2.00 and the futures price was \$2.50 — a basis of 50 cents. You anticipate that when you are ready to sell your corn locally and lift the hedge the basis will be about 25 cents — giving you a net price of \$2.25.

As the delivery month approaches you watch the basis carefully and, on a particular day, you notice that it has narrowed sharply to 10 cents. By seizing on the opportunity to sell your corn and lift the hedge on a narrower than expected basis, you net \$2.40 — which is 15 cents a bushel more than you anticipated.

Is it possible to forecast, in advance of harvest, what the basis is likely to be at harvest?

To the extent that the basis is at least partially a reflection of the demand for storage space, a large crop is frequently an indication to expect a wide basis at harvest (when the need for storage space may exceed the supply, causing cash prices to be discounted more than usual in relation to futures prices).

As the marketing year progresses and the supply of grain still seeking storage diminishes, the basis generally returns to more normal levels. As a result, large crops are often associated with larger-than-usual opportunities for storage profits. Charts will help you to recall the basis — and the reasons for it — in previous years.

Can basis information be used to evaluate a forward contract price?

Definitely yes. Assume, for the sake of illustration, that just prior to harvest a local elevator is offering \$2.00 for corn to be delivered in April.

Noting that the current May futures prices is \$2.40 and knowing that the usual local basis in April is 35 cents, you determine that the sale of a May futures contract should net you about \$2.05 for your corn delivered in April — 5 cents higher than the elevator is offering.

This doesn't necessarily mean the elevator's forward contract offer might not be to your advantage, however. For one thing, it relieves you of a basis risk (the risk that the basis in April may turn out to be significantly wider than the 35 cents you've estimated). In addition, contracting with the elevator saves you having to pay brokerage commissions and meet margin requirements.

Thus, while there is clearly no answer that is right for every farmer in every case, knowing the normal basis in your area can help you to arrive at the answer that is likely to be best for you.

Similarly, if an elevator or other buyer should happen to offer you a "basis price" for your grain with the actual selling price to be set at some later time, a knowledge of the usual basis can be useful in deciding whether to accept the offer. (It may be to your advantage to accept a basis price several cents wider than the usual basis in order to avoid the basis risk.) Again, having basis information at your fingertips can help you to make an informed decision.

Does a narrow basis signal a good time to sell grain?

A narrow basis is an indication that, for some reason or a combination of reasons, buyers are currently willing to pay a higher than usual price (in relation to futures prices) for grain for immediate delivery. This situation may prevail nationwide or in only a limited area.

In any case, it can pay to try to determine the reasons for a narrower than normal basis. It

could be only a temporary situation which you may want to capitalize on by selling your grain while the high prices last. Or the narrow basis could be a harbinger of even higher prices to come. This could be the situation, for example, if the strong demand for cash grain

is due to a present or potential shortage.

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

## Correct manganese deficiency in field corn

NEWARK, Del. — Manganese deficiency in field corn can be corrected by using an acid-forming fertilizer banded close to the corn row at planting, reports University of Delaware agronomist William H. Mitchell.

He conducted tests last summer at the university's Georgetown Substation on a sandy soil with a pH of about 6.4 and a low residual level of manganese. Similar soil conditions are frequently encountered throughout southern Delaware.

For the trial, several nitrogen materials were banded at varying distances from the corn row. Yields from three treatments were compared with those from the control, which received no banded fertilizer. All treatments were tested under partial irrigation and dry land conditions.

Grain yield in the control plots averaged 19.5 bushels without irrigation and 69.8 bushels with partial irrigation, reports Mitchell. Banding manganese sulfate to

supply two pounds of manganese per acre increased dry land and irrigated yields to 32.8 and 87.2 bushels, respectively. With the addition of an acidifying fertilizer such as ammonium sulfate, the dry land and irrigated yields increased to 48.2 and 105.7 bushels.

Soil pH values in the fertilizer bands dropped from 6.4 for the control, to 6.0 and 4.8 for the manganese and ammonium sulfate treatments, respectively. The acidifying fertilizer lowered the soil pH and increased the availability of manganese to the corn plants, he says. All of the ammoniacal nitrogen sources tested were effective in lowering soil pH and increasing the solubility of manganese.

"Since banded fertilizer supplies nitrogen in addition to enhancing manganese absorption through pH adjustment, it is the most economical approach to manganese deficiency problems on many Delaware farms," the agronomist concludes.

## Animal welfare slides available

EPHRATA — "Welfare of Animal Agriculture," a new audio slide show addressing the current question of animal rights, made its premiere appearance at the recent meeting of the Century Club of the Pennsylvania Farmers' Association.

Produced for PennAg Industries Association, the 16-minute presentation stresses the relationship between the livestock farmer and his animals. Through music, dialogue, and the use of full color farm scene slides, the show

depicts a realistic look at modern livestock farming.

PennAg, the statewide trade organization of agribusiness firms, is releasing the slide show for public use and already several showings have been scheduled. For more information about the presentation, contact PennAg Industries Association, Box 329, Ephrata, PA 17522, (717) 733-2238.

PennAg also offers another slide show to the public, Careers in Agribusiness. For more information about this presentation, contact the above.

## Bradford Co.

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raised to date. He stated that he hoped the goal of \$35,000 could be realized soon so that the building could be completed by next July.

Following a short business meeting, two new directors were elected to the executive committee for a six year term: Ellen Foust of Granville, and Roy Beardslee of Wetona.

Cooperative Extension workers introduced were Orville Yoder, Bradford County Agent, Al Homan and Jake Gufey, county agents, Lovetta Comstock, 4-H agent, Cathy Bakalar, nutrition home economist, Jean Smith and Carol Chattee, secretaries, and members of the extension executive committee.

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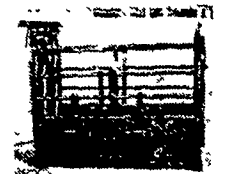
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