Farming's Futures

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Some farmers, rather than build storage and hold their crops until later in the season when the basis has narrowed, sell their crops at harvest. Then they buy futures contracts equivalent to their production, and hold the "paper" bushels instead of the real ones.

Those who use this futures technique claim that their savings on storage and financing make it an attractive way to speculate on the basis. However, it also exposes them to more price risk than if they held their crop.

Sometimes, futures also are used to cut losses. Stockmen, in particular, have used their technique when they find themselves locked into a downward cycle. Hedging in a loss can be an effective way to prevent even larger losses that might put them out of business.

Although cash market contracts may offer similar opportunities to price your output in advance, extend your selling period, and cut losses, futures hedging can claim at least one potential advantage — greater flexibility.

If you contract to deliver grain to the local elevator at a fixed price, the elevator then resells it, at a merchandising markup, to someone else who wants delivery. The elevator cannot let you out of

the contract without paying a penalty to the buyer down the line. A futures transaction causes no such repercussions — and that's why it can be entered into or offset with one phone call.

Fixed price, short crop

Here's a slightly different situation: Suppose you signed a fixed-price contract with a processor but run into production problems. Worse, it is beginning to look like a short crop year across the country. Rising prices may mean a heavy loss if you have to

buy substitute bushels at harvest to meet your contract obligations.

Are you stuck? Not necessarily. You can buy enough futures to offset your anticipated production shortfall.

If you act promptly, any losses suffered by later replacing the shortfall might be largely offset by gains on the futures. The futures thus protect essentially the same margin projected from the cash contract.

All of these obviously simplified examples show how hedging can be useful to particular farmers in particular cases. But no evidence indicates that a farmer can consistently benefit from hedging without careful study of the markets and the situation at any given time.

If you hedge, you have to invest the time necessary to become familiar with futures, how they work, and how they might be useful to you.

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

Purchase corn on equivalent dry matter basis

UNIVERSITY PARK — With the increasing use of storing high-moisture corn grain in silos for feeding livestock, more and more corn is being purchased at harvest time at moisture contents above the standard (56 pound per bushel at 15 1/2 percent moisture) used in the grain trade.

Much of this corn is purchased at moisture levels above 25 percent, says Sam Dum, Extension farm management specialist, Penn State.

"Farmers should recognize the weight required to equal the dry matter in the standard bushel of shelled corn at these higher moisture levels," notes Dum.

Usually high-moisture corn is sold by the ton. To determine its ton value based on the price of the standard bushel, first divide 2,000 by the indicated weight for the

given moisture content. This indicates the equivalent number of standard bushels in a ton.

Multiply this figure by the quoted price for a bushel of shelled corn. For example, if shelled corn (15 1/2 percent moisture) was $2.50 per bushel or $89.25 a ton, 28 percent corn would have an equivalent value of $76 per ton.

It requires the following weights at the indicated moisture levels.

Percent Moisture	Lbs. Corn
24	62.26
25	63.09
26	63.96
27	64.82
28	65.72
29	66.65
30	67.60
31	68.58
32	69.59
33	70.63