

Chernobyl Disaster Affects Farm Prices

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of those same crops the farmers are currently producing in the field.

Michael Orndorff is the PFA's agent for futures trading. While Pennsylvania farmers are tuned into the weather conditions to find out if it's the right time to plow, plant or harvest. Orndorff is tuned into an electronic system hooked up by a satellite dish outside the Camp Hill office. The satellite transmits futures prices as they are listed on the Chicago Board of Trade and The Chicago Mercantile Exchange. These reports help indicate Orndorff whether it's the right time to contract for a future sale. While a farmer watches the weather for signs of a coming situation, Orndorff sits in his office without a window and watches what he calls his "window to the world," a screen that reports the future prices of beans, wheat, livestock. His job is to advise and lock in contracts for members of Pennsylvania Agricultural Cooperative Marketing Association (PACMA) who use his brokerage service.

"The market waits for no man," Orndorff says. Forward pricing means locking in a contract for future delivery of a commodity. Forward pricing is contracting to sell a quality product, at a locked-in price, at an agreed upon place, at a future time. Forward pricing may seem like speculation, because it happens on paper with no real exchange of goods or money; however, forward pricing

is as legally binding as an actual exchange of goods. Waiting to go to market with a product is speculating, because the farmer has to sell at the market price.

Orndorff explains that last week's jump and the subsequent decline in the futures price of wheat was caused by a number of factors besides the Chernobyl incident. "Because the old wheat crop was discounted and oversold and there were more sellers than buyers," Orndorff says, "futures prices of wheat were lower than they should have been." He said the initial jump in price after the Chernobyl incident was a reflection of "short covering." According to Orndorff, the first rise in prices happened not because people were buying, but because those who had "sold short" were buying back to cover their selling short. According to Orndorff, the commercial shortcovering which occurred immediately after word of the Chernobyl incident, "pulled in new marketing" which in turn raised futures prices even higher.

While all agricultural commodities saw a futures price rise following the Chernobyl incident, Orndorff explains why the Chernobyl disaster affected wheat more than it affected other commodities: 1) the Ukraine grows a lot of wheat and sorghum; and 2) wheat is considered the most important world market grain.

The reason why futures prices for wheat and other commodities rose so high so fast, says Orndorff, is that the prices were lower than

they should have been in the first place. The farm bill has reduced loan support and caller for the issue of payment-in-kind (PIK) certificates in an effort to get rid of a lot of 1985 grain surpluses. With the reduction of loan supports, the payment in kind certificates, which were anticipated during early May caused futures prices to be driven even lower than they should have been, agreed Orndorff and Ron Manley, Director of PACMA, who helps farmers in handling cash marketing.

So news of the Chernobyl nuclear disaster was a catalyst that affected futures prices of agricultural commodities, especially wheat, by driving futures prices up. Another time prices were drastically affected by news reports was in March when results of the dairy buyout program were announced on the Monday after Easter. At that time, prices for June cattle futures plummeted from 61 cents per pound to 53 cents per pound.

According to the PFA marketing division, forward pricing is a tool that gives farmers an opportunity to lock in the futures prices for their commodities at strategic times when futures market prices favor the seller. Farmers can find out current futures prices and when they see their commodities going for prices that would cover the cost of production plus allow for some profit, they can agree to a contract at that price.

Of course, the futures prices may go higher after a farmer has

locked in a contract. In that case, a larger profit might have been made by waiting. But market managers at PFA advise farmers to keep accurate track of the costs of production so that they know what a good price is. A good price is the price of production plus a margin of profit. As Orndorff says, "You don't go broke selling at a profit."

Forward pricing, or forward cash contracting, is one of those

ways farmers can get some control of the price of their goods. Ron Manley, director of PACMA, serves farmers who are cash marketing their products. Some farmers might prefer sacrificing some of the security gained by forward cash contracting and take on their own futures trading account where they assume basis risk and gain flexibility. Orndorff serves those farmers too.

Farmers Union Applauds Reclassification of Casein

HARRISBURG — Leaders of the Pennsylvania Farmers Union responded enthusiastically to the news that the House Ways and Means Committee had approved an amendment reclassifying casein imports as part of an overall trade bill.

Casein, a milk protein derivative, has traditionally been classified as an industrial chemical due to its use in such products as paint and glue and has therefore been free of import duties and quotas.

In recent years, casein has been predominantly used in food products, such as non-dairy creamers, non-dairy whipped toppings, and imitation cheeses.

"Our dairy farmers get hit two ways," said P.F.U. President David Stetler a Juniata County

dairy farmer. "American consumers are purchasing millions upon millions of dollars worth of imported casein every year, and then most of it ends up in substitute foods that compete with our farmers' real dairy products."

"When we're seeing record levels of domestic dairy surpluses," he said, "quota-free and duty-free casein imports just don't make sense."

Stetler explained that by treating casein as a food product, it would be included in established dairy import quotas and fees. "This has been Farmers Union's policy for years," Stetler said. "Advocates of 'free trade' won't be very happy about this amendment, but we feel it may help keep some dairy farmers in business — that makes it worthwhile."

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