

CSCE To Launch BFP Milk Futures On April 8

NEW YORK, NY — On April 8, 1997, the Coffee, Sugar & Cocoa Exchange, Inc. (CSCE) will launch a new BFP milk futures contract based on the Bas-

ic Formula Price (BFP) for milk, the dairy industry's benchmark for milk pricing. Trading in BFP milk futures will commence with the June 1997 futures contract. Trad-

ing in BFP milk options will begin on April 15, 1997. The CSCE received Commodity Futures Trading Commission (CFTC) approval of these new markets on February 27, 1997.

"The BFP milk futures contract has all the necessary ingredients for success," said CSCE President James J. Bowe. "This contract is based on a pricing mechanism used by approximately 90% of the United States dairy industry and it solves the problems of basis exposure and physical delivery issues. The Exchange has been working with the dairy industry for years to develop markets that will allow them to manage their risks; this new contract is the answer."

The Exchange's BFP milk contract will be cash settled against the BFP for milk, which is announced monthly by the United States Department of Agriculture (USDA). The BFP milk futures contract calls for a contract size of 1,000 times the BFP for milk (equivalent to 100,000 pounds of milk). Trading hours are 9:00 a.m. to 2:00 p.m. New York time and the price quotation is in dollars and cents per hundredweight

(cwt). Contract months are February, April, June, August, October and December; ticker symbol is MJ.

"I want to commend the Coffee, Sugar & Cocoa Exchange for working to enhance risk management opportunities for dairy producers and processors," said CFTC Commissioner David Spears.

The CSCE introduced its first dairy products in 1993, with the launch of cheddar cheese and non-fat dry milk futures and options. The Exchange added milk futures and options contracts in 1995 and butter futures and options in 1996.

Futures Contract On BFP Milk

Calls for the delivery of the value of 1,000 times the BFP for milk.

The BFP: An estimate, calculated and announced by the USDA, of the average price paid for Grade B (manufacturing) milk by plants in Minnesota and Wisconsin. Announced around the fifth day of the month following the month to which it applies.

Trading Unit: 1,000 times the BFP (100,000 lbs. of milk)

Trading Hours: 9:00 a.m. to 2:00 p.m. New York time.

Delivery Months: Current calendar month, next two months and each February, April, June, August, October, December occurring in the ensuing 12 months.

Ticker Symbol: MJ

Price Quotation: Dollars and cents per hundredweight (cwt.)

Minimum Fluctuation: One cent per cwt., equivalent to \$10 per contract.

Daily Price Limits (from previous day's settlement price): 50 cents with variable limits effective under certain conditions. No price limits on two nearby months.

Last Trading Day: Exchange business day prior to the day the USDA announces the BFP.

Cash Settlement: Final settlement for each delivery month will be made in cash. The final settlement for each BFP Milk Futures Contract will be determined by multiplying \$10 times the basis point difference between the settlement price of the previous trading day for each contract and the BFP announced for the delivery

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Dairy Conference

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Referring to himself, Oto continued.

"Yesterday, a son of one of the charter members of Inter-State served his last day as president of Atlantic Dairy Cooperative. This morning a director of Land O'Lakes welcomes you to this conference.

The goals of the former Inter-State were to bargain with milk dealers for higher prices and to guarantee payment for all member milk. Forming a bargaining cooperative was a big step from that farm gate for many of those farmers."

Like this former big step, Oto said the most recent merger of cooperatives was again another big step from the farm gate.

With the theme of "Integrated Dairy Marketing: From Cow to Consumer", various speakers moved the discussion forward.

Thomas Gallagher, CEO, Dairy Management, Inc., presented ideas on how DMI is bringing the marketing chain together. He showed figures to prove that commercial disappearance of dairy products increased after the check-off moneys started rolling in 1983. The check-off program unified, focused, leveraged and integrated dairy marketing and made it accountable.

Gallagher gave the definition of integrated marketing as "The process of managing all sources of information about a project/service to which a consumer prospect or stakeholder is exposed, which behavior moves them toward a sale and/or relationship and maintains consumer/stakeholder loyalty."

Robert Yonkers, Penn State, said factors that influence the future of the dairy business include external factors such as the federal budget and the economic philosophy of that government. Freer trade and a global industry outlook are both part of the business climate of the future.

"Dairymen need to think for themselves as business people and operate in a business environment," Yonkers said. "Some farmers are trying to get government back in the picture and others are moving toward more of a marketing orientation."

Yonkers listed cost control, productivity increases, expansion, and the restructure of resources and farm size as ways to make the dairy business more profitable. He said there must be more management specialization and labor specialization by farm enterprise. And capital investments must pay.

"You need to focus on planning your business (dairy) around market opportunities instead of trying to change the market to meet your production interests," Yonkers said.

Robert Herrmann, Penn State, said consumer tastes, preferences and beliefs follows a more fragmented and variable food marketing plan. He listed such factors as differences in income, economic pressures on the middle class, and a growing older population.

In the '20's we had the youth revolution; in the '30's the yuppies; in the '40's the exercise craze, and the '50's leisure activities became the overriding factor in marketing. Now we are looking forward to the year 2011 when the first baby boomers turn 65.

Today, household size is smaller, and the purchasing power of the average household has not increased much in recent years. But more people are eating out and eating meals prepared away and taken home.

But Herrmann believes people in marketing have been over-rating the concerns people have for nutrition. He said the typical questions presented in nutrition surveys assumes the respondent is concerned about nutrition. But when you ask the question differently, you get a different appearance of what people think.

And of course people are hard to understand. The workout/pig out thinking leaves no real purists in the low fat groups.

On Wednesday the program schedule included a presentation about the new basic formula price futures contract that will start to trade next Tuesday. A news release presenting the facts about this new contract accompanies this article. Dairy officials are looking to the trading of this contract as a gage to follow for what future milk prices will be. The futures contract in milk is just another indication that the dairy industry is rapidly changing from government support to market support prices.

Nearly 200 persons attended this \$100 per ticket, two-day conference held in the Sheraton Society Hill Hotel located in the historic district four blocks from the liberty bell.

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