

Dairy Futures In The Dairy Industry

COLUMBUS, Ohio — A new fluid milk contract holds promise, but dairy producers and processors should be cautious if they use the new dairy futures market as a price risk management tool, said Cameron Thraen, Ohio State University agricultural economist.

While futures contracts for corn, wheat, soybeans, beef, pork and other agricultural commodities have been available for many years, the cheese and fluid milk contracts are relatively new.

Dairy farmers can avoid much of the risk of cash prices falling before their milk is ready to sell by hedging in the futures market or entering into a forward price contract with a processor. In return, dairy farmers give up the chance of hitting the jackpot should prices rise.

Hedging offers producers a more stable, guaranteed return by shifting the risk of price change off to a speculator, Thraen said. Dairy handlers and processors also can protect against adverse price changes on raw milk inputs and finished products.

But to be a useful price risk management tool, the commodity prices on the futures market must reflect the changes that occur on the cash market. This doesn't always happen with new contracts and hasn't happened with raw fluid milk contracts that began trading in December 1995 on the Coffee, Sugar and Cocoa Exchange and in January 1996 on the Chicago Mercantile Exchange, Thraen said.

"Both of these original fluid milk contracts were not a good

way to hedge price risk, because there was not a reliable link between the two markets," he said. "If cash prices go against you, there's no guarantee the futures contract would work for you, which is the essence of a hedge."

The fluid contracts include a physical delivery provision that has caused problems. When the contract is up, actual delivery of milk has to take place between the seller and the buyer. Someone who has agreed to take delivery could end up with tanker trucks of milk and have no idea what to do with them, Thraen said.

To solve this problem, the CSCE began trading a new fluid milk contract on April 8 with a cash settlement provision. This new contract — a Basic Formula Price or BFP contract — differs from the original by allowing the contract to be settled between parties in dollars for what the milk is worth, rather than worry about giving or receiving actual milk.

"This new contract is exciting to watch, and there has been a lot of activity with it," Thraen said. "This activity could be an indicator that the trading community thinks the new contract has corrected the problems of the older ones."

But, the new contract has only been trading for a little more than a month, and producers should be cautious with a contract that has been trading for such a short time, he said.

A cheddar cheese futures contract has traded on the CSCE since June 1993, and, in contrast to the

early fluid milk contracts, is performing well. Thraen's research at Ohio State shows there has been a good tie between the price changes on the futures market and the cash market for cheese. It appears this contract may be a good way to manage price risk for cheese processors, Thraen said. He is currently investigating alternative strategies processors could use on the cheese futures market.

The dairy industry turned to futures contracts as a way to hedge

against variable prices after governmental price supports for dairy essentially ended with the passing of the 1996 farm bill. The federal government had stabilized milk prices since 1949 by either buying surplus dairy products when prices got too low or selling surplus dairy products from federal stocks when prices went too high.

"Today's milk prices are much more variable than they used to be," Thraen said. "As the government gets more and more out of

dairy price risk management and support, it is important that the dairy industry learns to use the futures market to manage price risk."

Once the new fluid milk contract has been around long enough and Thraen is confident the futures prices reflect the activity of the cash market, he plans to research what strategies dairy producers should follow to effectively hedge their price risk.

Northeast DHIA Offers Quicker Access To Component Results

ITHACA, N.Y. — Northeast DHIA, a perennial leader in providing timely herd management data, now offers its members dairies quicker access to milk component results. Herds that sample for SCC can receive Northeast DHIA's SCC Quick Sheet as soon as the samples have been analyzed.

The SCC Quick Sheet consists of two reports. The first report lists all cows with a linear score value of 4.0 (200,000 raw count) or greater, listed in order of highest linear score to lowest. The second report lists all cows sampled in milking pen order, with averages for each pen and averages for the entire herd. In addition to SCC, both reports also list Barn Name, Pen, Lactation Number, Days In Milk, Pounds of Milk, Percent Fat, Percent Protein, Linear Score, Previous Linear

Score, and Average Linear Score for the Lactation.

What makes the SCC Quick Sheet unique is that it can either be mailed or faxed to members directly from the milk analysis laboratory. For most members, this means having component results within 24-48 hours of

when the samples were taken.

Dairy One assured, Northeast DHIA Farm Services strives to provide more substance to its members dairies. For more information about the SCC Quick Sheet, contact Northeast DHIA Farm Services at 1-800-344-2697 ext. 1.

Show Set To Break Records

ENGLEWOOD, Colo. — Entries are in and the 1997 National Junior Limousin Show and Congress in Louisville, Ky. July 7-12 has all the makings to break records and become the largest Limousin junior gathering ever held in the United States.

All told, show entries have been recorded for 416 females, 44 steers, and 21 bulls. Those numbers could make the show the largest National Junior Limousin Show ever held.

"It is exciting to see this many young people showing enthusiasm for Limousin and the cattle industry," said George Hubbard, North

American Limousin Foundation (NALF) director of junior activities.

The 258 exhibitors will bring together 28 states for competition in shows and satellite events, including public speaking, sales talk, cow camp and judging contests. States will also compete in the Limousin Beef Cook-Off, herdsmanship, and booth contests.

For more information on the National Junior Limousin Show and Congress or the Limousin breed, contact NALF at (303) 220-1693 or e-mail at NALimousin@aol.com.



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