

Cooperative Extension Offers Futures Market Satellite Conference

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LANCASTER (Lancaster Co.) — Dairy producers looking to exercise more control over their cash flow may consider using existing trade exchange contracts to protect their investments.

While it sounds as though the advice is for farmers to become Wall Street savvy, it isn't.

But it does mean that some homework is recommended before adopting futures contracts as part of the farm's cash management strategy.

The advice coming from Cooperative Extension experts and from several Mid Western farmers this week is for farmers to consider ways to avoid the effects of volatility in milk price, through taking advantage of an apparent consistent relationship between the price paid for milk in a given month and the predicted U.S. Department of Agriculture basic formula price (BFP) of milk.

The relationship, in this case the difference, between the price of milk and the BFP has historically tracked along fairly regularly. Regularly enough in fact that Phil Durst, Penn State dairy extension agent for several north central counties, published an article in his August newsletter that explains the relationship fairly well.

Using a graph of the price per hundredweight of milk versus the months from August 1997 to April 1998, he charted the levels of the BFP futures as they were at the close of trade on August 18.

The BFP was the lowest line on the graph, because the BFP is lower than the price received for milk. "... the Federal Order Blend Price predictions ... are arrived at by adding the historical (seven-year average) difference, or basis, between the BFP and the Federal Order price for each month to the BFP Future Contract prices."

By analyzing the graph, he explained that, "... market users expect the August BFP to be \$1 or more (it was \$1.14 at the time) higher than the July BFP. They also predict that the price will rise for two more months with a peak over \$12.50 for October, and then decline to around the \$12 mark."

The gist of his newsletter article was to provide some outlook for farmers who could perhaps use it to prepare themselves.

"I encourage you to look over your cash flow for the coming months. Using this information to make some estimates about income and look at expected expenses. If you foresee cash flow difficulties ahead, talk to your lender now. Take this milk price graph with you to show them what to expect."

"Knowing what to expect doesn't take the sting out of low prices, but it reduces the surprises and allows you to plan ahead."

While Durst's newsletter article wasn't part of Monday's teleconference, it fairly well explains and demonstrates the relationships that allow using BFP Futures contracts to stabilize income.

But using futures contracts is only for those who truly know their actual costs of production, and are efficient enough to at least be marginally profitable at the level of a projected basic formula price for a given month.

Otherwise, it doesn't make a lot of sense to even think about considering being involved with using the tools offered thus far through the seminal dairy trading markets in New York and Chicago.

A live satellite downlink program held Monday afternoon about the market tools and how they can be used by dairy producers to manage their risk in production investment was broadcast from the University of Wisconsin, and moderated by Pam Janke, farm director for WTSO radio in Madison, Wis.

The program was designed to provide a fundamental understanding of the dairy contracts available on future production as traded through national trading exchanges. It was sponsored in part by the University of Wisconsin Extension and the New York Coffee, Sugar and Cocoa Exchange, which is currently doing the largest volume of business.

The program was available across the country with 135 sites

participating, according to Janke.

Locally, the Lancaster County Extension Service provided access and take-home information for a nominal fee. Adams County Extension also provided a down-

link site, and there were others in the state and other states through different university extension downlink sites.

(For Lancaster Countians, Glenn Shirk, county dairy agent,

recorded the program and copies are to be available in a couple of weeks at cost. Contact Shirk at (717) 394-6851 for information about availability. Others should (Turn to Page A35)

PMMB Sets Emergency Hearing

(Continued from Page A30)

alliances in efforts to block the federal approval of recombinant bovine somatotropin as a stimulant to increase milk production.

In fact, depending on which faction is surveyed, the dairy production community appears to hold a range of opinions as to what should be the proper course of action for federal government in addressing the dramatic decline in dairy prices and the number of dairy farmers leaving the business.

The U.S. agriculture secretary has the authority to implement a number of decisions and actions that can affect the milk price, though public hearings are required protocol, and the current bent of governmental policy is to limit government's affects upon the industry, especially as it adjusts to a complete disappearance of federal incentives for production.

During this re-election campaign year, Sen. Specter has distributed news statements calling upon Glickman to take certain actions, though Specter should have known that the secretary had already announced those actions were to be taken.

In those cases, Specter's news releases were made just prior to the anticipated action by Glickman, making it appear to the uninformed as though Glickman's actions were being done as a result of the influence of Specter's political clout.

However, national dairy policy has already been set to eliminate all federal dairy support by 2000,

and the mainstream dairy industry, as well as the state's largest membership political farm organizations are not behind the current call for a \$14.50 floor price.

Federal dairy policy also is calling for the restructuring and reduction in the number of federal dairy orders, which are subdivisions of the nation's dairy production into different pricing regions, ideally reflecting differences in production and delivery costs.

That is still to come and can be expected to have more impact on dairy policy and pricing.

Other Changes

Further, recent and pending mergers of dairy cooperatives into national powers sets the stage for cooperatives — generally exempt from anti-monopoly laws — to eventually influence the price of milk even more than they have.

Maryland dairy producers last year formed a political organization for the first time, in response to the disappearance of dairy farms and with help from those concerned about the loss of farmland.

During meetings and hearings, it was apparent that predatory pricing has been in effect from out-of-state milk marketers in an effort to eliminate competition in Maryland and gain control the market.

When the farms are gone, especially those sold for residential or commercial development, there is little chance that dairy production will resume, giving long-term

strength to the surviving out-of-state suppliers.

It was implied that dairy marketing cooperatives were involved.

In a news release this week, Milk Marketing Inc., in Strongsville, Ohio, announced that the corporate boards of four of the nation's largest dairy marketing cooperatives voted to present terms of a consolidation that would make them the largest.

A merger of the four would create the Dairy Farmers of America (DFA) marketing cooperative with an estimated control of 21 percent of the nation's milk supply.

According to the news release, "DFA's objective is to enhance economies of scale and to expand markets for member milk."

Cooperatives involved in the consolidation proposal are Mid-America Dairy Inc. of Springfield, Mo; Milk Marketing Inc., Western Dairy Cooperative Inc. of Thorton, Colo. and Salt Lake City, Utah; and the Southern Region of Associated Milk Producers Inc. or Arlington, Texas.

According to Herman Brubaker, chairman of MMI and proposed chairman of the consolidated cooperative, "We've laid the foundation for a cooperative that can serve dairy farmers in this tough competitive environment."

Earlier this year, Atlantic Dairy Cooperative merged with Land O'Lakes to form a larger, more national-scope cooperative.

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