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1974

### The Benefits of Grain Futures Even if You Don't Trade in Them

Cooperative Extension South Dakota State University

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#### Recommended Citation

South Dakota State University, Cooperative Extension, "The Benefits of Grain Futures Even if You Don't Trade in Them" (1974). *SDSU Extension Fact Sheets*. 409.

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FS 622

# the benefits of grain futures even if you don't

trade in them



COOPERATIVE EXTENSION SERVICE  
SOUTH DAKOTA STATE UNIVERSITY  
U. S. DEPARTMENT OF AGRICULTURE



# the benefits of grain futures even if you don't trade in them

Art Sogn

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Many farmers, grain elevator managers and others closely related to agriculture have concluded that so long as they do not plan to trade in grain futures, there is no reason for them to try to understand futures prices. It is, however, of great importance for anyone who markets grain or livestock to understand what the futures prices are indicating. Cash and futures prices are nearly always related at the country level as well as the terminal and export level. Because of this relation, the understanding of grain futures can be an important aid in evaluating everyday marketing decisions.

Making the right marketing decisions is more important to you now than it has been in the past several years. Market conditions are changing rapidly, and crop support prices are diminishing in influence.

Understanding grain futures is important in determining

- what to plant where there are alternative crops
- whether to sell or store grain
- when to sell—before a crop is planted, while it is growing, at harvest, or after a period of storage
- whether your local prices are excessively low or high in relationship to other markets
- whether to feed a crop to livestock or sell it as grain.

Of course people have been able to market grain successfully without an understanding of grain futures, but if you want a greater choice of prices and marketing alternatives, then understanding futures will give you a better marketing perspective.

You most likely do not have the time to make a complete analysis of all the market news information available. Futures prices are a result of

traders studying expected production, domestic use, export and total supply of the various grains. These assessments are reflected in the grain futures prices that result from the combined trades made in those futures.

## Futures markets are price indicators

Many people want to believe that futures markets predict future cash prices. There may be a very little difference in being a price indicator or a price predictor, but that difference can be very important. Grain futures do not predict cash prices.

Futures only reflect all known factors and register a price for the present (nearby futures) and into the future (deferred futures). In other words, the future prices represent what the traders believe at the present time about the various factors affecting price, and their effect on prices now and in the months ahead. Tomorrow the traders may acquire additional or different information and their assessment of futures prices may change. Thus we can say futures prices indicate a level at which the majority of trades are made, based on what traders believe right now, for grain to be delivered at a specified future date.

## Trading months are significant

There are certain specified months designated as the trading months for the grains.

Trading months for  
wheat, corn, and oats are

- September
- December
- March
- May
- July

Trading months for  
soybeans are:

- November
- January
- March
- May
- July
- August

The significance of these months is not to indicate when you can trade in them, but rather when a contract for that month expires. You may trade in any futures month, any time it is offered on the board of an exchange, which means you could trade in some contracts a year ahead. For maximum safety, you should close out any trade about a month ahead of termination date, which is usually the 20th of the contract trading month, and you must terminate it by the 20th of the trading month. For example, a March 1975 contract must be terminated by March 20, 1975, and should be terminated a month earlier.

For the non-trader and trader alike, there are other important distinctions between the months. For example, July is a new crop trading month for Chicago and Kansas City wheat, but it is an old crop trading month for the Minneapolis market. The Chicago futures reflect mostly the Soft Red wheat market, and Kansas City the Hard Red Winter wheat of the Midwest, and the Minneapolis market mostly the Hard Red Spring and Hard Red Winter of the northern wheat area of the Midwest. Correspondingly, November is a new crop month for soybeans, as is December a new crop trading month for corn. For much of the year, the future market quotations are for two different crop years—one group of futures months representing the balance of the last crop, the others representing the next crop to be raised.

Consider the futures market quotations of the *Daily Market Record* for May 20, 1974 (Table 1). The Minneapolis market quotations for May and July wheat represent the futures price for the 1973 crop, while the September and December quotations are for the 1974 crop. For the Chicago market quotations for wheat, the May quotation is for the 1973 crop while the July, September, December and March quotations are for the 1974 crop. In the Chicago corn quotations, the May, July and September futures quoted reflect the 1973 crop, while the December and March quotations represent the 1974 corn crop. The old and new crop futures are not so designated in the printed quotations except by the order in which they appear. For example, note in Table 2 the two years' crop quotations as published for November 1, 1973, for corn and soybeans.

There are two futures quotations for December and March corn, and two quotations for November and January soybeans. In the quotations for corn, the first December and March represent the crop that is currently being harvested or about to be harvested. The second December and March futures quotations represent the crop that is expected to be harvested a year from now.

You may hear a futures price quotation for a grain as "up two cents to down two cents." Depending on which futures were up and which were down, the quotation could mean old crop

## FUTURE DELIVERY MARKET

MONDAY, MAY 20, 1974

### — MINNEAPOLIS —

#### WHEAT:

	Open	High	Low	Close	Prev. Close	Year ago
May 420		420	404	406	402	255
July 382		386	375	375	382	253
Sep. 375-376		377	366	365	373	253
Dec. 378		379	370	370a	376	253

#### DURUM:

May ....	....	....	....	530b nt	510	....
July ....	....	....	....	530b nt	510	....
Sept. ....	....	....	....	515b nt	495	....
Dec. 525	525	525	525	525	505	....

### — CHICAGO —

#### WHEAT:

	Open	High	Low	Close	Prev. Close	Year ago
May 346-347		352½	336½	336½	354	267½
July 352-351		356	342	342-343	356	269½
Sep. 353-355		359½	348	349-348	361	267½
Dec. 364		369	360	356-358	368	268½
Mar. 369		373	363	363	373	267¾

#### GULF WHEAT—CHICAGO

July ....	....	....	....	372n	386	....
Sep. 382	382	377	377	377a	391	....
Dec. ....	....	....	....	384n	398	....

#### CORN:

May 275½-276	278	268	268½-269	275½	203
July 270½-269½	272¾	260	260-260½	270	189½
Sep. 262-60½	264½	252¼	252¼	262¼	184½
Dec. 247-245½	250½	238	238½-238	246½	179
Mar. 251-250½	255	242	242	251	180¾

#### OATS:

##### (Old)

May 146¼	148	146¼	147	148	94
July 135½	135½	129¼	129¼a	135½	101
Sep. 134	134	127¼	127¼a	133½	103½
Dec. 137½	138½	132	132	138	105¼
Mar. 137½	138½	133½	133½a	139½	....

#### SOYBEANS:

May 547	549	541	543½-544	548	960
July 553-550½	555½	546	547-547½	554	858
Aug 553-554	556½	548½	549½-549	555½	797½
Sep. 547	551	542½	544	550	611¾
Nov. 537-540	543½	535	535½-535	543	496
Jan 546	547	540	540½-541	550	495½
Mar. 548½	551	545	545	554¼	495½

Table 1. Grain futures quotations from Daily Market Record, Minneapolis, May 20, 1974

futures were up while the new crop futures were down or vice-versa. If the old crop futures were up while new crop futures were down, it could represent short supply of old crop grain and good crop prospects for the next crop.

So, if on May 20 you or your grain elevator manager were looking ahead to the possible price at harvest time for your next spring wheat crop, you would check the Minneapolis September future. You'd see the reduction in price quoted for

new crop wheat as compared with old crop wheat (May \$4.06—Sept. \$3.65) in the Minneapolis spring wheat market (Table 1), and you'd also see that new crop corn follows the same pattern of new crop futures being worth less than old crop futures. Old crop July corn at \$2.60 is less than old crop May corn at \$2.68. This relationship indicates a greater current demand than is expected later for the same crop.

November 1, 1973						
—Chicago Corn Futures—						
	Open	High	Low	Close	Prev. Close	Year Ago
Dec.	239	240½	236½	240-239½	239	136¾
Mar.	242	244	239½	242-242½	242½	141½
May	245	248½	242½	246-245½	244½	144½
July	246	247	244	247-246½	246	146¾
Sept.	240	244	239	244	240	143½
Dec.	220	223	220	223	221½	138½
Mar.	225½	225½	225½	225½	226	-----

  

—Chicago Soybean Futures—						
	Open	High	Low	Close	Prev. Close	Year Ago
Nov.	543-545	550	535	544-546	543	358¾
Jan.	540-541	545	531	543-541	540	357¾
Mar.	542	548	534	544-545	543	360¾
May	545-548	551	537	547-548	547	362¼
July	548	554	540	549-550	548	363¼
Aug.	541	546	538	546	544	359¼
Sept.	538	538	530	536	538	345¼
Nov.	533	533	525	532-531	529	334¾
Jan.	530	534	530	534	531½	-----

Table 2

In most years, that is what you would expect; normally, harvest time prices are lower. But if you've been following the futures, you'll be able to estimate if the harvest time downs are temporary or will last over a longer period of time.

### Futures are related to local prices

Nearly every local market is related to the futures market prices. In order to gain the most benefit from understanding grain futures, you need to learn what the futures prices mean to you in local prices. These relationships between futures prices and local prices can be determined within certain limits, so it is possible to tell from the futures prices what they will likely mean in local prices for any time of the year. Corn and soybean prices have had a predictable relationship, based on the history of the past few years. Local and futures wheat prices have been related in most instances, but futures do not reflect protein premiums. As more wheat is marketed on the open market because of diminished CCC activity, the base wheat price will become more closely related to the futures prices.

### Historical relationships are important

Past price relationships can give you clues in what to expect for the future. Past history can be developed by getting both the futures and the local prices for the past 3 to 5 years and recording them on paper as of the first and 15th of each month. (Twice a month is adequate for development of history.) Records may then be kept currently and into the future by recording current local prices and current futures prices once a week, preferably on the same day of the week. The recording of cash and futures prices can be done in a simple, easily understood arithmetic manner such as the example in Table 3.

Table 3  
Spring Wheat Basis History for 71-72 Crop—  
Hometown, U.S.A.

Date	Wheat-13 Pro Local Price*	Mpls March Futures Price*	Local Basis
9- 1-71	131	162	31 under
9-15-71	133	162	29 under
10- 1-71	137	162	25 under
10-15-71	138	164	26 under
2- 1-72	138	157	19 under

\*Actual prices for the above dates.

Local prices are most often under the futures price being considered. They can, however, on some occasions, be over futures prices. The basis is determined by simply subtracting the local price from the future price and recording the difference. For September 1, 1971, the local price of \$1.31 subtracted from the Minneapolis March futures price of \$1.62 indicates the basis is 31 under, meaning the local cash price is 31 cents a bushel under the March future on that date.

### Futures prices reflect carrying charges

Referring again to Table 1 of futures price quotations, you will note in the closing prices for corn that the December quotation is the lowest, and that the March is about four cents higher than the December. This increase in price usually continues into the trading year so that the May is higher than the March, and the July is higher than the May. These differences are considered near normal carrying charges. There is a cost for storing grain from one month to another, and the market should reflect that cost. Understanding carrying charges could help you decide how long you would care to store your grain. The higher the price level of a grain, the more the carrying charge should normally be.

Table 4 gives the future market for corn as of the close of the market July 24, 1973. Here the December quotation for corn is the highest of the

new crop quotations, and the succeeding months are progressively less. This is called an inverse carrying charge. In other words, this market is indicating a strong demand for corn immediately and the probability of less, the longer one holds it. New market information may again change the trader's assessment of this situation. However, given these prices it would appear that corn should be sold, not stored by the producer.

July 24, 1973						
—Chicago Corn Futures—						
	Open	High	Low	Close	Prev. Close	Last Year
Sept.	265-263	266 $\frac{7}{8}$	254	261	256 $\frac{7}{8}$	128
Dec.	243-243 $\frac{1}{2}$	248	237	239-237	244	126 $\frac{1}{2}$
Mar.	238 $\frac{1}{2}$ -240	245	233 $\frac{1}{2}$	233 $\frac{1}{2}$ -236	243	131 $\frac{1}{2}$
May	240 $\frac{1}{2}$	243	232	232	241	134
July	238	241	230	230	238 $\frac{1}{2}$	138 $\frac{1}{2}$

Table 4

So, even if you never trade . . . .

Understanding grain futures can benefit farmers in making decisions necessary for the operation of their daily business—even if they never trade in them.

- By understanding and differentiating old and new crop futures, you can better decide which crop might be the highest priced in the fall, and plant accordingly.
- By understanding carrying charges and deferred futures, you can better decide whether to sell or store, and how long to store.
- By understanding new crop futures, you can estimate the value of next year's crop and sell at a satisfactory price before the crop is planted, or grown or harvested.
- Understanding futures can aid you in assessing your own local price, and help determine whether a strong local market is temporary.
- An understanding of both livestock and grain futures can aid you in deciding whether to feed livestock or sell cash grain.
- Understanding grain futures is important in making all decisions as to the marketing of cash grain because of the normal predictable relationships between the two markets.

Regard futures as another marketing tool. With as much investment as you make in putting in and harvesting your crops, you want the best market price you can get. This year, and for some time into the future, you'll be in a rapidly changing marketplace. Individual farmer market evaluation is more important than ever. Understanding grain futures will help give you a more total market picture.

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File: 5.1-1.2-10M-8-74-2968



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