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*the benefits
of grain futures
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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

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Extension economist—grain marketing

Many farmers, grain elevator managers, and others closely related to agriculture think that so long as they don't trade in grain futures, they don't need to understand futures prices. But anyone who markets grain or livestock should know what the futures prices are indicating.

Cash and futures prices are nearly always related at the country level as well as at the terminal and export levels. Because of this relation, grain futures are an important aid in evaluating everyday marketing decisions.

And that—the right marketing decision—is more important to you now than it ever has been. 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 relation to other markets
- whether to feed a crop to livestock or sell it as grain.

Of course, some 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.

Futures prices combine and condense more market information than most farmers have access to or time to study.

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 combined trades, and these trades result in futures prices for that day.

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, futures prices represent what the majority of traders believe at the present time about the various factors affecting price 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. The significance of these months is not to indicate when you can trade in them, but rather when a contract 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 by the 20th of the trading month.

For example, a September 1981 contract must be terminated by September 20, 1981, and for the inexperienced trader should be terminated a month earlier.

Grain futures trading months

Wheat, Corn, Oats	Soybeans	Sunflower seed
March	November	November
May	January	January
July	March	March
September	May	May
December	July	July
	August	September (proposed)
	September	

The rule for trading grain future contracts is that there can be no trading the last seven **business** days of a trading month.

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 is an old crop trading month for the Minneapolis market. The Chicago futures reflect mostly the Soft Red Winter wheat market, 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 and sunflowers. December is 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 from the **Daily Market Record** for September 26, 1980 (Table 1).

The Minneapolis quotations for wheat are all quotations for the 1980 crop. There is no new crop (September 1981) future traded as yet.

The quotations for Chicago wheat, however, have three quotations for old (1980) crop futures, and three quotations for new (1981) crop futures. The old crop futures are December, March, and May and the new crop futures are July, September, and another December future. There are two December corn futures quoted and also two November soybean futures quoted. In each case, the first quotation is for the crop to be harvested in 1980 and the later quotation for the crop to be harvested in 1981.

What the futures are telling us is that on September 26, 1980, the 1981 corn crop is being quoted at about 1 cent more than the 1980 crop and 1981 soybeans are being quoted at about 11 cents a bushel less than the 1980 crop.

If your local price for soybeans is expected to be 90 cents under the November future, and that basis did not change in 1981, you could expect to get (8.05 - .90) \$7.15 for 1980 soybeans and (\$7.94-.90) \$7.04 for 1981 crop soybeans, based on

Table 1. FUTURE DELIVERY MARKET
September 26, 1980

Open	High	Low	Close	Prev Close	Year Ago
MINNEAPOLIS					
WHEAT:					
Dec. 474	474	465 ³ / ₄	466-66 ¹ / ₂	474 ³ / ₄	431
Mar. 495	496 ¹ / ₂	489 ¹ / ₂	490-91	496 ¹ / ₂	435 ¹ / ₂
May . . .	501	501	501	507	445 ¹ / ₂
July . . .	508	506	506	517	445
SUNFLOWERS:					
Nov. 1200	1202	1170	1170	1270	. . .
Jan. 1210	1216	1202	1202	1302	. . .
Mar. 1290	1290	1270	1270	1370	. . .
May 1340	1341	1326	1326	1426	. . .
July	1395	1495	. . .
CHICAGO					
WHEAT:					
Dec. 506	506	494 ¹ / ₂	496 ¹ / ₂ -96	508 ¹ / ₂	456 ¹ / ₂
Mar. 526	526	515	515-17 ¹ / ₂	528 ¹ / ₂	470
May 532 ¹ / ₂	532 ¹ / ₂	521	523	533 ¹ / ₂	478
July 526	526	514 ¹ / ₂	514 ¹ / ₂ -15	528 ¹ / ₂	458 ¹ / ₂
Sep. 531	533	522 ¹ / ₂	522 ¹ / ₂	537	467
Dec. . . .	540 ¹ / ₂	533 ¹ / ₂	533 ¹ / ₂	548	477
CORN:					
Dec. 350 ¹ / ₂	350 ¹ / ₂	344 ¹ / ₂	344 ¹ / ₂ -45 ¹ / ₂	351 ¹ / ₄	285 ¹ / ₄
Mar. 361 ³ / ₄	362	356	356-56 ¹ / ₂	362 ¹ / ₂	298 ¹ / ₄
May 367	367 ¹ / ₄	361 ¹ / ₂	361 ¹ / ₂ -61 ³ / ₄	367 ¹ / ₂	306
July 366 ¹ / ₄	366 ³ / ₄	361 ¹ / ₂	361 ¹ / ₂	367	310 ¹ / ₄
Sep. 357 ¹ / ₂	357 ³ / ₄	352	352	357 ¹ / ₂	312 ¹ / ₂
Dec. 350 ¹ / ₂	350	345 ¹ / ₂	345 ¹ / ₂ -46	350	313
OATS (OLD):					
Dec. 200	200	195	195	201	158 ³ / ₄
Mar. 213 ¹ / ₂	214	208	208	214	172 ¹ / ₄
May 218	218 ³ / ₄	212 ¹ / ₂	213 ¹ / ₂	218 ¹ / ₂	197 ¹ / ₄
July 217	218	213	213	216	182 ¹ / ₂
	213 ¹ / ₂	210 ¹ / ₂	213		
SOYBEANS:					
Nov. 832	833	805	805-07	837	727
Jan. 855 ¹ / ₂	855 ¹ / ₂	826 ¹ / ₂	827-29	856	745
Mar. 875	876 ¹ / ₂	847	849-48	879	761 ¹ / ₂
May 886	888	859	859-40	890	776 ¹ / ₂
July 887 ¹ / ₂	880 ¹ / ₂	861	861 ¹ / ₂ -62 ¹ / ₂	890	785
Aug. 877	879	853	854-55	881 ¹ / ₂	791
Sep. 845	846	818	818	848	781
Nov.			794		

that day's market. The next day's market may be different.

The above prices are more than indications. Producer prices could be "locked in" at the approximate country price quoted by either a cash grain contract or by the sale of grain futures.

Prices may often be quoted, for example, as being "up 2 cents to down 5."

The price quoted first refers to the nearby future, and the later price to some deferred month. It is conceivable for the nearby price to be up 2 cents a bushel because of small current stocks and new crop futures to be off 5 cents because of rain, or increased plantings, or a larger foreign crop,

etc. Futures for the same commodity can go in opposite directions the same day for good and logical reasons.

Basis

Nearly everyone except the farmer trades grain on basis.

Basis is the difference between a certain futures price and the cash price at a selected location. For example, if the Chicago December corn future is \$3.45 and the hometown price for corn is \$2.50 per bushel, then the hometown December corn basis is (\$3.45-\$2.50) 95 under.

This means simply the hometown corn is 95 cents under the December future price.

Sometimes grain price quotations are made in the following manner: Today futures prices were steady, and the cash basis was down 2. This means that if the cash price basis was 95 under before, it is now 97 under the future and there the hometown cash price is 2 cents less than the price the day before (Table 2).

Table 2. Basis change relationship to cash price

Futures change	Basis change	Cash price change
up 2	down 2	No Change
up 2	No Change	+ 2
up 2	up 2	+ 4
down 2	No Change	-2
down 2	up 2	No Change
down 2	down 2	-4

Futures are related to local prices

Nearly every local market is related to the futures market prices.

To gain the most benefit from 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 estimated from history within certain limits, so it is possible to tell from the futures prices what they will likely mean months ahead in local prices for any time of the year. Corn, oats, and soybeans have had a relatively predictable relationship between cash and future prices based on the history of the past few years (Table 3). Local and futures wheat prices have been related in most instances, but futures do not reflect protein premiums.

Historical relationships are important

Past price relationships can give you clues in what to expect for the future.

Table 3. Minneapolis and selected country elevator December basis history for corn as of November 1

Crop year	Chicago Dec future	Minneapolis price	Minneapolis basis	Transportation cost per bu	Local basis
1968	110	105	5 under	13	18 under
1969	117	110	7 under	13	20 under
1970	149	131	18 under	14	32 under
1971	115	103	12 under	15	27 under
1972	139	120	19 under	16	35 under
1973	240	220	20 under	17	37 under
1974	376	355	21 under	18	39 under
1975	278	261	17 under	19	36 under
1976	253	237	16 under	23	29 under
1977	218	196	22 under	24	46 under
1978	232	204	28 under	29	57 under
1979	258	225	35 under	39	70 under
1980	373	317	56 under	41	97 under

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 1st 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 each week (Table 4).

Mondays and Fridays are not recommended as days to record basis history as they often reflect traders adjusting their market positions for the weekend and then establishing them again on Monday.

Transportation costs and availability of transportation are the largest factors in basis change; however, interest, risk, and size of crop or availability of storage are other important factors.

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 futures price and recording the difference.

Futures prices reflect carrying charges

In Table 1 you will note in the closing prices for corn that the old December (the first December quotation) is the lowest, and that the March is about 12 cents higher than the December. The May and July are about 5 cents a bushel higher

Table 4. Weekly Minneapolis July soybean basis

	Mpls cash price	Chicago July futures	Basis*
1979 Oct 11	622	759	137
18	596	736	140
25	597	729	132
Nov 1	600	721	121
8	615	730	115
15	644	751	107

*The 1979-80 soybean basis was a record wide basis.

than the December and the September future is 9 cents less than the May or September.

What the corn futures are indicating on September 26, 1980, is that the market will pay 12 cents a bushel to store corn from December to March, only 5 cents to store from March until May, nothing from May until July, and a discount of 9 cents for storing from July to September.

These carrying charges may change as conditions change, but it is important to assess these changes on the day you make a decision to market or to store grain. The higher the price level of grain, and the higher the cost of storage and interest, the higher the carrying charge should be.

When there is a negative carrying charge, it is called an inverse carrying charge, indicating a strong demand for grain immediately, and the probability of less demand the longer you hold the grain.

New market information may change this situation, but an inverse carrying charge suggests the grain should be sold and not stored.

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 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 on the marketing of cash grain because of the normal predictable relationships between the two markets.

Regard futures as another marketing tool. With the large investment made in seeding, cultivating, and harvesting your crops, you want the best market price you can get. This year, and for some time into the future, you are 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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