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Farmer use of Grain Futures: Opportunities -- Limitations

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Maine potato futures closed one to two cents a 100 pounds lower. Selling developed on the possibility the government would raise its estimate of the potato crop. The November report, after the close, placed the fall potato crop at 250.8 million bags, up from 249.3 million estimated by the agency in October but under the 252.8 million bags produced last year.

Silver futures closed 1½ to two cents an ounce higher. Market losses running to 1½ cent the previous day attracted commission house buying. At London, the price for silver was slightly higher than the previous day.

Copper futures closed about ¼ cent a pound

silver was 42½ pence, all up 0.1 penny from Wednesday. The U.S. equivalent price for spot was \$1.309, three-month \$1.329, six-month \$1.349 and one-year \$1.394.

The London dealer market's early quote for gold was \$42.55 an ounce. The final quote was \$42.61, down from \$42.625.

U.S. Gold Prices: Handy and Harman's base for pricing gold content of shipments and for making refining settlements was \$42.90, down from \$42.95 Wednesday. Engelhard Minerals & Chemicals Corp.'s buying price for gold was \$42.85 and the selling price was \$43.05, both unchanged.

Chicago, Nov. 8-Nov. 13 delivery, U.S. Grade A, 25.00; plant grade, 23.50-24.50. Georgia, f.o.b. dock equivalent, Nov. 8-Nov. 13 delivery, U.S. Grade A, 22.95-24.15; plant grade, 22.05-23.70. Nov. 15-Nov. 20 delivery, U.S. Grade A, 23.50-24.15; plant grade, 21.10-21.85. Alabama, f.o.b. dock equivalent grade, 22.70-23.90; Nov. 23-25-23.75.

TURKEYS—Froz Chicago, U.S. Grade Toms: 14-24 lbs., 33.0; 26-28 lbs., 34½-35½; 28-30 lbs., 37-37½; 30 lbs., and over, 39-40.

DAIRY PRODUCTS CHICAGO—Butter, last significant transaction on Chicago Mercantile Exchange as reported by USDA, per lb. AA-93 score, 67½ asked Oct. 12; A-92 score, 67½ asked Oct. 12; B-90 score, 66 bid Sept. 9. Dry milk solids (carlots, sacked) nonfat extra: roller unq.; spray, 32.25-33.70.

FATS AND OILS LOOSE LARD—Chicago basis, 10.25. TALLOW—Fancy 7.25; bleachable, 7.12; prime, 6.75; special, 6.37; edib. 10.50. GREASE—Choice white, 7.25; yellow, 5.87½.

HIDES Steel five, 15 17-18½; Sma thins, 5 a-As

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Futures Prices

Thursday, November 11, 1971

	Open	High	Low	Close	Change	Season's High	Low
CHICAGO—WHEAT							
Dec	161½	163½	161¼	163½-½	+5½to¾	173½	141½
Mar '72	156½	158½	156¾	158-158½	-¼to unch	175½	143½
May	151¾	153½	151¾	153¼-½	+¼to½	174½	142¼
July	138¾	140¼	138¾	139¾-¾	+¼to unch	147	135½
Sept	141½	141¼	141½	141¼	-½	144	138¾

CORN							
Dec	115	115½	114¾	115¼-½	+¼to½	162½	112½
Mar '72	119	119½	118½	119½	+¾	167¼	117½
May	121½	122½	121½	122¾-½	+¾to½	168½	120¼
July	124½	125	124	125-124¼	+1to¾	145½	122¼
Sept	124½	125	124¾	125	+½	130	122½
Dec	123¼	124	123½	124	+¾	128½	120½

OATS							
Dec	75½	75¾	74¾	75½	-¼	79½	63¼
Mar '72	73	73¾	73	73½	-¾	80	64½
May	71½	72¼	71½	71½	-¾	80¼	64¾
July	69¾	69¾	69¾	69¾	-½	71¾	63½
Sept	67½	67½	67	67¼ab	-½	70	64½

SOYBEANS							
Nov	312¾	312¾	310¾	310¾-311	-2½to2½	342¼	275½
Jan '72	317½	317¾	315½	315¾-316	-2½to2½	346	280
Mar	322	322½	320½	321-321¼	-2to1¾	348½	288½
May	326½	327	325	325½-½	-2½to2½	351¼	299¼
July	328½	329¾	328	328¼	-¼	350	315½
Aug	326	326¼	324¾	325-325¼	-2to1¾	336¼	310½
Sept	312½	313¾	312	312¼	-1¼	317½	291½
Nov	304¾	305¼	303½	304½	-¾	307	300
Jan '73	308	308¾	308	308¼	-½	310	304

SOYBEAN OIL							
Nov	12.72	12.74	12.64	12.67-68	-10to.09	13.99	9.93
Dec	12.63	12.70	12.54	12.61-62	-08to.07	13.95	9.77
Jan '72	12.55	12.60	12.49	12.52-53	-09to.08	13.79	9.68
Mar	12.43	12.45	12.34	12.34-35	-12to.11	13.75	10.03
May	12.30	12.35	12.22	12.25-26	-12to.11	13.65	10.25
July	12.21	12.24	12.15	12.18-19	-08to.07	13.50	11.52
Aug	12.08	12.10	12.00	12.05-10	-08to.03	12.65	11.42
Sept	11.92	11.92	11.84	11.84-88	-13to.09	12.40	11.23
Oct	11.54	11.60	11.50	11.57-50	-03to-.04	12.10	11.50
Nov	11.47	11.49	11.47	11.49	-01	11.60	11.38
Dec	11.42	11.43	11.42	11.43	no comp	11.43	11.42
Jan '73	11.35	11.35	11.32	11.30b	-05	11.45	11.32

SOYBEAN MEAL							
Nov	81.15	81.20	80.95	80.95	-45	86.35	74.25
Dec	81.70	81.85	81.50	81.60-55	-35to.40	86.60	73.50
Jan '72	82.40	82.70	82.20	82.25-20	-45to.50	86.30	73.90
Mar	83.40	83.55	83.15	83.35	-30	86.70	74.50
May	84.25	84.35	84.00	84.05	-45	87.50	77.50
July	85.50	85.60	85.25	85.35	-40	86.35	81.80
Aug	85.25	85.40	85.20	85.10b	-40	86.00	81.70
Sept	83.50	83.60	83.50	83.30b	-45	84.10	77.50

ICED BROILERS							
Nov	25.45	25.50	25.40	25.40	-05	29.00	24.70
Dec	25.80	25.82	25.72	25.80	-05	27.70	25.35
Jan '72	26.52	26.55	26.40	26.47	-08	28.35	25.90
Feb	27.12	27.12	26.90	26.97	-13	27.17	26.42
Mar	27.35	27.35	27.20	27.20	-25	27.60	25.12

PLYWOOD							
Nov	86.50	87.20	86.50	87.00	+90	112.00	80.60
Jan '72	87.80	88.40	87.40	88.00-10	+70to.80	110.00	81.00
Mar	89.00	89.70	88.70	89.70	+1.00	102.50	82.10
May	90.20	91.60	90.20	91.50-60	+1.3to1.4	104.00	83.60
July	92.20	92.80	92.20	92.80	+1.10	92.80	85.00

CHICAGO—SILVER							
Dec	132.90	134.50	132.50	134.20-30	+2.6to.1	208.00	128.40
Feb '72	134.30	135.90	133.90	135.50	+1.90	202.30	129.70
Apr	135.90	137.60	135.60	137.20-30	+2.6to.1	191.30	131.70
June	137.20	139.30	137.20	138.80	+2.10	192.60	133.30
Aug	139.20	140.70	138.90	140.30	+1.90	187.30	135.20
Oct	141.00	142.30	141.50	141.90b	+2.00	178.80	136.30
Dec '73	142.20	143.90	142.20	143.40b	+2.00	166.80	137.80
Feb '74	144.00	145.60	143.40	145.10	+2.20	145.60	140.10

KANSAS CITY—WHEAT							
Dec	147½	149	147½	148½-148½	+1to¾	161	140½
Mar '72	146¼	147¾	146¼	147½	+¾	163	141
May	142¾	144	142¾	143½-¾	+5½to¾	161½	139
July	137¾	138	137¾	137¾	-¾	139¼	134½

MINNEAPOLIS—WHEAT							
Dec	157	157	156¾	156¾	-¼	173½	156½
Mar '72	159¾	161½	159¾	159¾	-¾	168	159½

WINNIPEG—CLOSED—HOLIDAY							
CATTLE (CHICAGO MERCANTILE EXCHANGE)							
Dec	33.62	33.95	33.62	33.95	+38	33.95	27.90
Feb '72	32.65	32.75	32.65	32.72-65	-12to.05	32.85	28.25
Apr	31.67	31.82	31.67	31.82-77	-07to.02	31.95	30.30
June	31.47	31.57	31.42	31.57-52	-12to.07	31.75	30.85
Aug	31.30	31.37	31.27	31.32	+05	31.60	30.70
Oct	30.97	30.97	30.92	30.95	-31.15	30.75	

FRESH EGGS							
Nov	28.90	29.00	28.60	28.60	+40	40.90	26.45
Dec	32.35	32.75	31.65	32.40-50	-40to.50	40.15	31.65
Jan '72	35.00	35.10	34.05	34.65-50	-20to.35	27.45	34.05

	Open	High	Low	Close	Change	Season's High	Low
FROZEN PORK BELLIES							
Feb '72	31.52	32.50	31.37	32.37-50	+85to.98	36.80	26.77
Mar	31.25	32.40	31.25	32.40-35	+1.03to.98	36.50	26.70
May	31.42	32.62	31.42	32.62-50	+95to.83	35.75	27.25
July	31.70	32.55	31.62	32.50-45	+78to.73	36.60	27.75
Aug	30.67	31.47	30.65	31.42-35	+77to.70	36.40	26.87

SALES ESTIMATED AT: 5,817 CONTRACTS.							
HOGS							
Dec	21.77	22.25	21.75	22.25-22	+43to.40	23.90	18.60
Feb '72	22.75	23.25	22.75	23.22	+32	24.70	20.00
Apr	21.85	22.35	21.85	22.35	+45	24.75	19.20
June	23.50	24.00	23.47	24.00	+45	25.25	21.00
July	23.57	24.00	23.55	24.00	+35	25.25	21.27
Aug	22.70	22.90	22.70	22.85	+25	23.25	21.00

SALES ESTIMATED AT: 872 CONTRACTS.							
POTATOES (IDAHO RUSSET)							
May '72	5.35	5.37	5.32	5.34	-.01	5.90	5.04

SALES ESTIMATED AT: 22 CONTRACTS.							
LUMBER							
Nov	101.50	101.80	101.30	101.50-40	unch to -	117.00	90.50
Jan '72	97.50	98.50	97.50	98.2-98	+30to.20	114.10	80.50
Mar	101.50	101.60	101.40	101.40	+10	113.10	92.50
May	102.50	102.50	102.50	102.50	+50	108.00	97.50

Sales estimated at: 731 contracts.							
NEW YORK—SILVER							
Dec	132.60	134.10	132.30	133.40	+1.70	210.00	128.20
Jan72	133.20	134.70	133.00	134.20	+1.80	210.80	128.90
Mar	134.70	136.40	134.60	135.80	+1.90	204.80	130.50
May	136.30	137.90	136.20	137.40	+1.90	191.30	132.10
July	138.00	139.60	137.80	139.10	+2.00	192.50	133.80
Sept	139.50	141.20	139.40	140.70	+2.00	190.70	135.30
Dec	141.90	143.60	141.80	143.10	+2.00	181.00	137.50
Jan73	142.80	144.50	142.80	143.90	+2.00	168.00	138.60
Mar	144.30	146.10	144.30	145.50	+2.00	146.10	140.10
Sales: 3,135 contracts.							

The What and Why of Grain Futures

Summary and Conclusions

The grain futures can offer a useful alternative in marketing the farmers grain.

They offer:

- many alternative times and prices at which the farmer can market his crop.
- a payment to the farmer for storing his own grain.
- protection at times against a great rise in feed grain costs.
- valuable market information even to a person who does not choose to trade in them.

Larger farms, greater production and higher costs make it more important for a farmer to assure himself a price that will allow him a profit on his crop. Usually most profitable sales are made at other than harvest time.

As farmers become familiar with grain futures, they will have no more doubts about their judgment of the future prices than they do now of cash grain. Grain futures can even eliminate some of the risks now associated with cash grain prices.

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Farmer Use of Grain Futures

Opportunities -- Limitations

by
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INTRODUCTION

Trading in grain futures is not a new idea. It is a marketing tool that has been in existence since the time of the Civil War. Grain futures have been used mostly by grain merchandisers in the past. Recently grain futures are being considered by more farmers as an alternative method of marketing.

Commodity futures markets were established to provide a buying and selling medium throughout the entire year and also to help reduce wide price variations from harvest to harvest. Consumption and processing of grain remain quite constant throughout the year but marketing of cash grain is usually irregular. The commodity futures market is designed to reflect all known factors and register a price for the present, and into the future.

Farmers are showing increased interest in grain futures for several reasons.

- Larger farms and increasing yields mean farmers market more bushels of grain than before.
- Increasing costs of farm production without corresponding increases in market prices of grains creates a greater need for price protection, and for the knowledge of how to accept a price at other than the actual delivery time. Some farmers have come to realize that a certain number of bushels of grain at a given price is necessary for them to operate at a profit. The

necessary price may not be available at harvest time, but there may be several other opportunities throughout the crop marketing year to attain that price.

- Changes in machines and methods have made possible the harvest of many more bushels of grain a day. This larger amount of grain delivered in a shorter period of time has a tendency to depress prices at harvest time. It also burdens handling, conditioning and transportation facilities. Thus, the time of lowest price for farm crops is often during harvest.
- Farmers are realizing that storing grain, even in their own bins, has a cost for which they should and can be compensated.
- The owner of an inventory that isn't hedged, is in one sense a speculator whether he realizes it or not. Farmers are important holders of inventory. They hold more inventory than any other commodity group and, consequently, they are often speculating with large sums of grain and money.
- Knowledge has in part disproved the old myth that grain futures are solely a means to speculate. An increasing number of farmers are now realizing that grain futures can be used in reducing risks rather than in adding to them.

OBJECTIVES

It is not the intent of this publication to make a person a grain futures expert. The purpose is to show some of the various marketing alternatives that exist through the use of grain futures, and to acquaint farmers with the various aspects of this marketing technique.

Farmers who become students of the grain futures market should have no greater doubts about their judgment on the trend of future prices than they do of their judgment about the trend of cash prices. One good way to be a student of the futures markets is to read and analyze the market report published in

most daily newspapers and to learn what the quotations signify. (Note the example on the cover of this publication taken from *The Wall Street Journal*.) Additional information can be obtained from commodity exchanges, brokers, colleges and some local elevator managers. If one trades properly in the futures, in the same size unit as his cash grain position, he is assuming no greater risk potential than with his cash grain. Also, the decision of when to buy or when to sell is not an unusual experience for farmers as they do it constantly in the execution of their regular business.

Major Uses of Grain Futures by Farmers

There are four major ways a farmer can use the grain futures market to good advantage. Some of these uses involve shifting speculation from cash to the futures market while others absorb risk through hedging. The four major ways are:

1. To establish a price for a specified number of bushels of grain for a crop that is presently growing, or one that is intended to be planted, or a crop that is to be delivered later, and that is not eligible as a cash crop for satisfactory current or deferred cash prices.
2. To establish a price for a specified number of bushels of grain in storage, which is to be delivered sometime later. This is a *hedge* in which a certain return can be "locked in" and thus compensates the inventory holder for some of the costs and risks incurred in storing grain.
3. To speculate on the price of a grain that has been grown and for which storage is not wanted or is not available.
4. To protect in part against a price rise for feed grain that is to be purchased at a future date.

There are several other uses of the grain futures market by farmers, three of which will be described briefly in this publication:

1. Futures market as a source of market information.

2. Futures market as a determinant of what to plant where there are cropping alternatives.
3. Futures market as an aid to borrowing money.

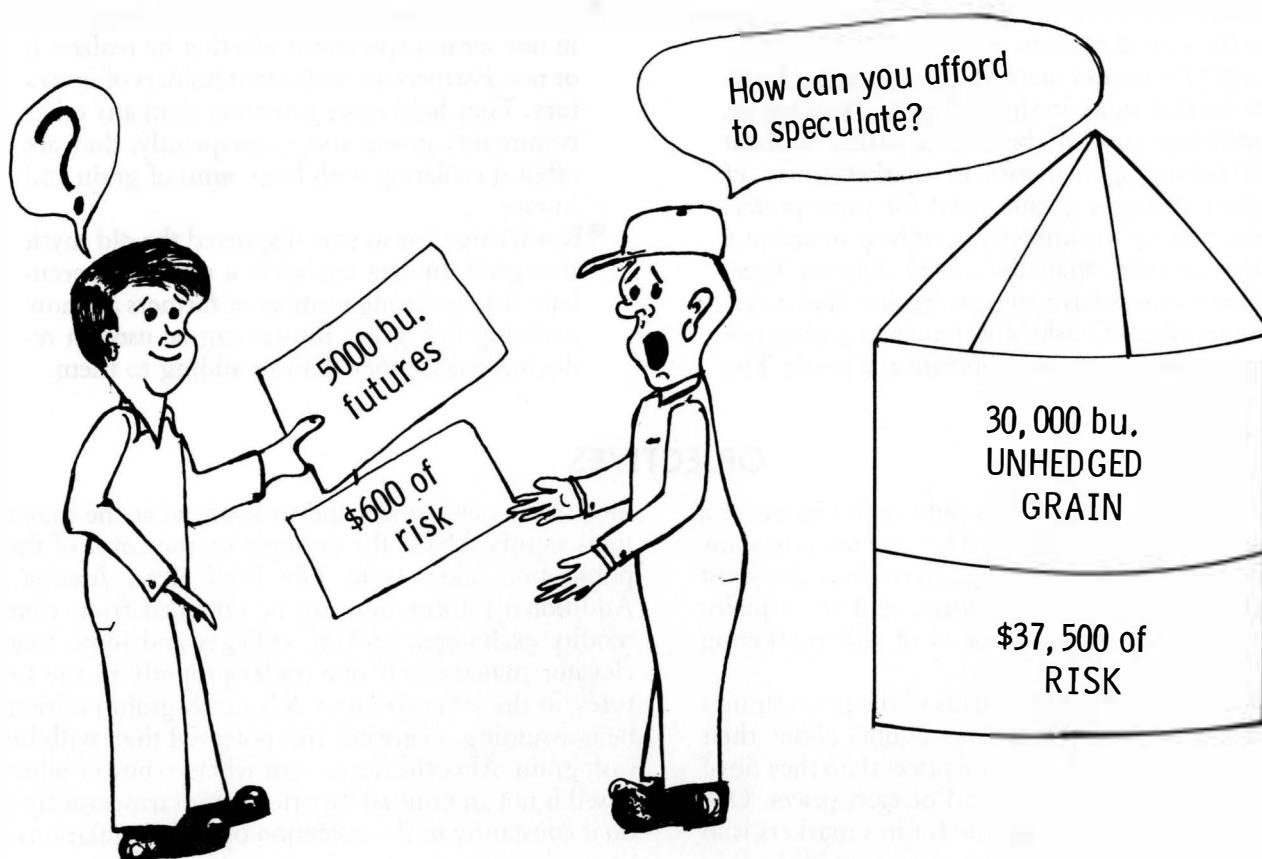
Local Variations

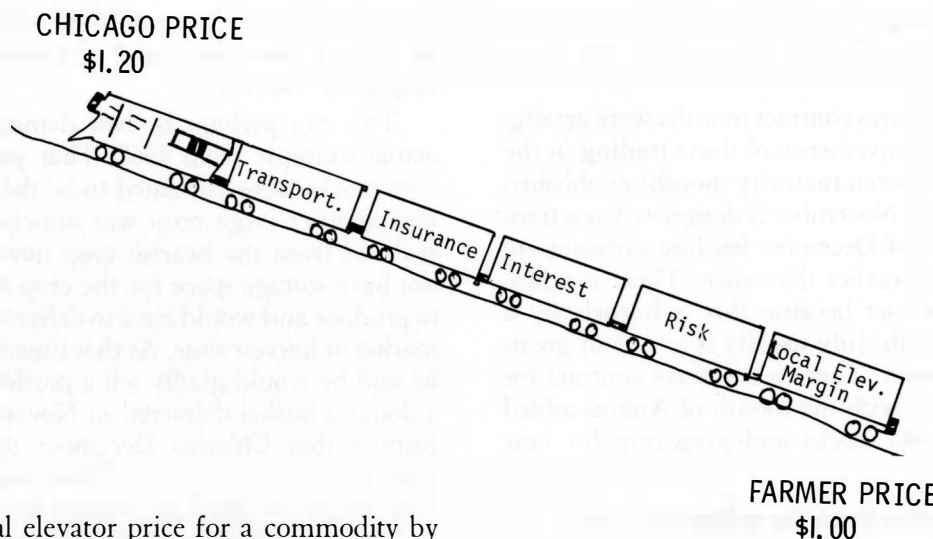
For the purpose of illustration (unless otherwise specified) the following cash-futures relationship available to a country elevator station will be assumed. The normal price of corn at harvest is 20 cents under the nearby* Chicago future, wheat is normally 22 cents under the nearby Minneapolis futures price, oats price is normally 13 cents a bushel under the nearby Chicago future and soybeans normally at 30 cents under the Chicago future. The price difference between the futures price and a country elevator price is based on transportation and other costs.

The local cash price relationship to the futures price varies from area to area. Thus a farmer should know the usual cash difference over or under the futures for his area before he makes a final decision to trade in the futures market. Local price variations can be either over or under the futures prices. However, in most places the local cash price will be under the futures price.

A farmer may determine the current relationship

*Nearby future is grain trade terminology denoting the future month nearest the present season, and thus the most relative to the current local cash price. Example: During October, the December futures for corn is the nearby future.





between his local elevator price for a commodity by subtracting that price from the futures price. Historical relationships are important to determine what would be considered normal.

Preparing to Trade in Futures

Before the decision is made to enter the futures market, several important variables must be considered. These include (1) the commodity to be traded, (2) the choice of market, (3) futures month or contract in which to establish a position, (4) the time to execute the contract, (5) the decision to buy or to sell, and (6) the type of order to place with a broker.

For the Upper Midwest there are three futures markets in which a person can trade the grains raised in the area. The Minneapolis market is the major market for hard red spring wheat and also has considerable trade in winter wheats. Minneapolis also has future markets in corn. Chicago is the major futures market in the Midwest for the corn, oats, soybeans and soft red wheats, while Kansas City is the primary hard winter wheat market. Grain sorghum futures are traded through the Chicago Mercantile Exchange (not to be confused with the Chicago Board of Trade).

Futures Trading Months

The contract months for which commodities may be traded varies slightly from market to market and by commodity as shown in Table 1.

Table 1. Futures Trading Months.

Chicago Board of Trade	Chicago Board of Trade	Chicago Mercantile Exchange	Minneapolis Grain Exchange	Minneapolis Grain Exchange
Corn-oats-wheat	Soybeans	Sorghum	Wheat	Corn
March	November	March	March	March
May	January	May	June	May
July	March	July	September	July
September	May	September	December	September
December	July	December		December
	August			
	September			

One may trade in any futures month he chooses anytime the contract is offered in the markets. The significance of the marketing months is not when one may begin trading, but is rather when trade in that futures must be terminated and closed out. For example: The December futures may be opened for trade in January, and actually terminates the middle of the following December. Trading may be done anytime during those approximate 11 months.

For the person who cannot take the risk and inconvenience of taking or making delivery of the actual grain (this includes most traders), the contract should be terminated a month ahead of time. If one sold 5,000 bushels of December corn on May 21, he must then purchase 5,000 bushels of December corn in the same market sometime between May 21 and the middle of November. Or if one bought 5,000 bushels of July corn on November 1, he must sell 5,000 bushels of July corn in the same market sometime between November 1 and the middle of the following June. A position in one future cannot be offset by the purchase or sale of another future or another commodity. One cannot close out the sale of May corn with the purchase of an equal amount of July corn, nor can one close out Chicago corn with an offsetting trade in Minneapolis corn, nor can one close out the sale of corn with the purchase of oats.

A *March futures* was established because March marks the end of winter and thus it is possible to assess winter damage, use or disappearance of supplies, and to assess Southern planting intentions. A *May future* was established because May marks the completion of most planting and also is the time for opening the shipping season on the Great Lakes. A *July future* is used because July marks the completion of most grain harvest in the South. A *September future* was established because the season marks the completion of most small grain harvest in the northern states.

The *December future* is the season for marketing corn and is also the close of shipping on the Great Lakes.

The soybean futures contract months were arranged by and for the convenience of those trading in the market. There are seven maturity months established for soybean traders. November is designated as a trading month instead of December because soybeans are harvested a month earlier than corn. There is a January soybean contract because this is historically a heavy trading month. July usually is a time of greatest processor demand. There is a futures contract for every other month, with the month of August added for cleaning out old stocks and preparing for new crops.

To Establish the Price for a Pending Crop

Every farmer may recollect a time when he would have gladly sold his crop while it was still growing or perhaps even before it was planted—if he could be assured of a certain price. It is often possible to sell

Pre-harvest sales opportunities for corn futures

Example 1

1968-69 Corn Crop Year	
Cash	Futures
May 15	Sold 5,000 bu. Chicago Dec. corn @ \$1.21½
Nov. 1—Sold cash corn at 90 cents —basis No. 2	Bought 5,000 bu. Chicago Dec. corn @ \$1.10
Total price for corn 90 cents cash price, plus 11½-cent gain on future sale=\$1.01½ cents per bushel	

Example 2

1969-70 Corn Crop Year	
Cash	Futures
July 7	Sold 5,000 bu. Chicago Dec. Corn @ \$1.28
Nov. 3—Sold cash corn at 91 cents —basis No. 2	Bought 5,000 bu. Chicago Dec. corn @ \$1.18
Total price for corn 91 cents cash price, plus 10 cents gain on futures sale=\$1.01 per bushel	

Example 3

1970-71 Corn Crop Year	
Cash	Futures
June 22	Sold 5,000 bu. Chicago Dec. corn @ \$1.26½
Nov. 2—Sold cash corn for \$1.11	Bought 5,000 bu. Chicago Dec. corn @ \$1.46½
Total price for corn \$1.11 cash price, less 20 cents loss on futures sales=91 cents per bushel	

Example 4

1971-72 Corn Crop Year	
Cash	Futures
June 17	Sold 5,000 bu. Chicago Dec. corn @ \$1.62
Sept. 15	Bought 5,000 bu. Chicago Dec. corn @ \$1.15
Futures gain 47 cents per bushel	

a crop at a price that would be satisfactory as much as 10 or 11 months ahead of harvest by using new crop grain futures.

This can perhaps be best demonstrated with an actual example from 1968. That year the carryover corn stocks were estimated to be the highest in years and another large crop was anticipated. Farmer X realized from the bearish crop news that he would not have storage space for the crop of corn he hoped to produce and would have to deliver some corn to the market at harvest time. At that time, on May 21, 1968, he said he would gladly sell a portion of his crop for a dollar a bushel delivered in November. He was informed that Chicago December corn was \$1.21½ cents per bushel and a sale of that future would assure him of close to \$1.00 per bushel for his crop of corn in November. (Chicago December corn had been 8 cents higher in February 1968.) Farmer X then, on the advice of his broker, sold 5,000 bushels of Chicago December corn at \$1.21½ on May 21, 1968. On November 1 he had picked, shelled and delivered his corn to the elevator. The price for number 2 corn was 90c a bushel; 10 cents less than his goal of \$1.00. On that same day, November 1, Farmer X bought 5,000 bushels of Chicago December corn at the market price \$1.10. This closed out his futures contract with a gain of 11½ cents a bushel (\$1.21½ - \$1.10). Therefore, Farmer X realized \$1.01½ per bushel basis number 2 corn for what he delivered to the elevator (90c cash price + 11½ futures gain).

One does not have to wait until the grain is harvested and sold to exact a profit from the sale of futures. This large profit from advance sale (as in example 4) can be added to the price of cash corn whenever it is sold. A large gain in an advance sale should be accepted and the position closed out.

Because of what must be considered unusual circumstances, 1970 was not a good year to make an advance sale of corn futures because of the great impact that southern corn leaf blight disease had on corn prices. During a time of concern over greatly reduced yield from what was anticipated, the futures tend to rise faster than the cash price. This condition does not usually offer any profit opportunities for advanced sales, but will generally offer greater opportunities for what is called the "basis hedge" as will be discussed later.

On March 2 of 1971, Chicago December corn could be sold at about \$1.54. A futures sale at this figure should mean a total price of about \$1.30 to the farmer for corn delivered November 1971. On June 17, 1971, Chicago December corn could have been sold at about \$1.62 or an equivalent of about \$1.38 to the farmer. If a farmer had sold Chicago July corn in June he could have closed out his position in September with better than a 40-cent-a-bushel gain. The corn



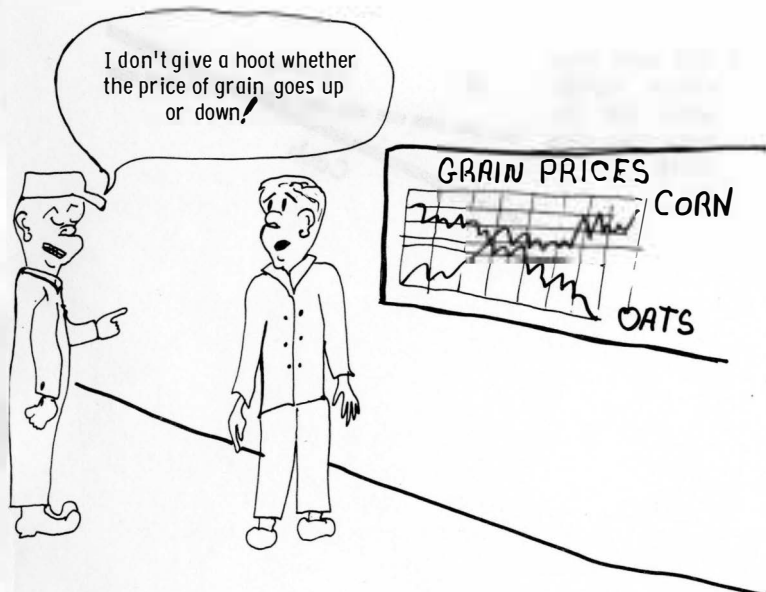
futures prices in September 1971 reflect a cash price of less than \$1.00 a bushel to a farmer. Prices may be established for pending crops in other grains as well as for corn. Corn is used for an example because it is the grain most often traded in the futures market.

The "Basis" Hedge or Fixing the Price of Grain in Storage for Later Delivery

This most important, most predictable, and usually the most rewarding method of trading in the futures is perhaps the least understood by farmers of any of the futures trading techniques. The grain futures have been explained many times as moving up or down with the cash market, and in the same amount such as with the following hypothetical example (5):

Example 5

Cash		Futures	
Dec. 1—Cash price	\$1.10	Sold future	\$1.30
Feb. 1—Sold corn @	\$1.00	Bought future	\$1.20
Loss	.10	Gain	.10



Seldom do the futures move in perfect unison with the cash market; and the greatest profit opportunities are in the imperfect action of cash and future market, as will be described later. This spread in price between the futures market price and the cash price is called "basis." The basis for an area is determined by subtracting the local price from the grain future being used. However, the entire local basis may be evolved from the following prices:

Example 6

Chicago future price	\$1.20	\$1.20
Sioux City price—		
5 under Chicago	-.05	
Sioux City basis price	\$1.15	-1.15
Sioux City basis		5 under
Sioux City bid to		
country elevator	\$1.14	
Freight Sioux City from		
hometown	.11 per bu.	1.20
Hometown price of corn	\$1.03	1.03
Hometown basis		17 under
Normal local elevator margin	.05 per bu.	-5
Farmers basis		22 under

Once a person has established what is a good hedging basis for his area, he can "lock in" a certain return. Once a good basis hedge (sell future — hold cash grain) is made, it makes no difference to the hedger whether the market goes up or down as the profit from a basis hedge comes from a narrowing of the spread between cash and future prices. The basis movement is actually influenced by demand for storage. At a time of heavy movement of grain, demand for storage is great. This influences the cash price to spread further from the futures where the cash price is normally less than the future price. Then later as the demand for storage lessens, normally and historically the future and cash price work closer together again. The 1966-67 corn crop, Table 2, is a good example of why a basis hedger would not be concerned whether the market goes up or down so long as the basis narrows. Corn prices of 1966-67 illustrate a declining cash price, and a declining future price. The basis hedge would offer 9¾ cents a bushel profit in 2 months and a 10-cent-a-bushel hedge profit by May 1, while open stored corn would show a loss of 6 cents a bushel on May 1.

Example 7

1966-67 Corn Crop (Sioux City Basis)

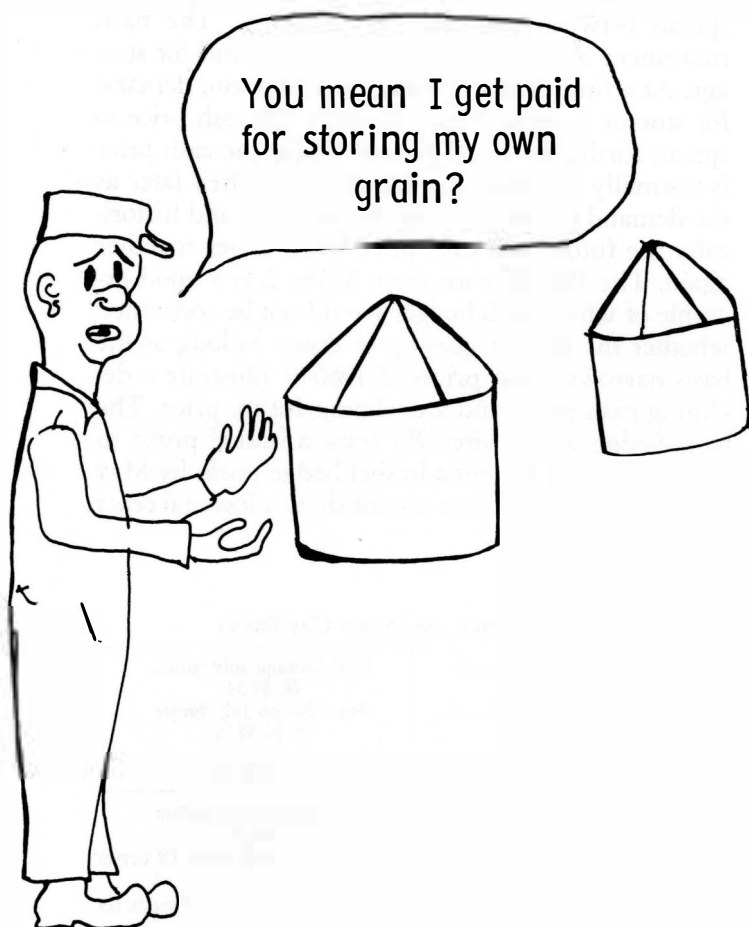
Nov. 15—Sioux City cash corn price—\$1.30	Sold Chicago July future @ \$1.51
Option 1—Jan. 16—sell cash corn @ \$1.31½	Buy Chicago July future @ \$1.42¾
Gain 1½ cash + 8¼ future or 9¾ total gain	
Option 2—May 1—sell cash corn @ \$1.24	Buy Chicago July future @ \$1.35
Loss -6 cents in cash, 16-cent future gain. Total gain 10 cents	

A common belief is that there are only two ways to use the futures market profitably. One way is to buy

and have the price go up, or two, is to sell and have the price go down. Actually, the basis hedge offers *several* combinations of circumstances that will narrow the basis and thus prove profitable.

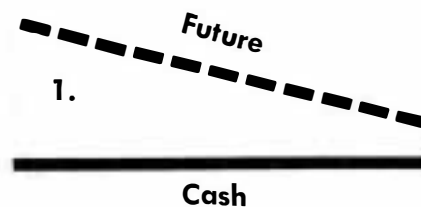
Basis hedge opportunities for other years and other grains are shown in Table 2. Hedging opportunities are given for the logical times to place a hedge, and are not intentionally selected for the most profitable time to place a basis hedge for years listed.

From the above statistics one can determine that returns from the basis hedge in most instances exceeded the returns from open storage. In the case of the 1966-67 corn crop year, one would have lost 6 cents a bushel by open storage but would have realized 10 cents a bushel gain on a basis hedge. This does not estimate the value of insurance against a price decline by executing a basis hedge, nor does it consider the expense of carrying cash corn in inventory. Storing grain has a cost even if there is not a direct storage charge. If the grain is not insured there is an inestimable cost of risk. If grain is insured the cost would approximate the figures listed in Table 3, for corn worth \$1.10 per bushel.

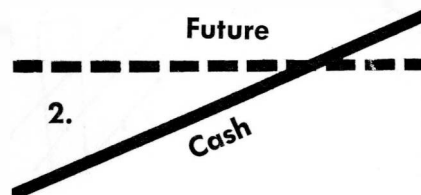


CASH—FUTURE RELATIONSHIPS Causing Basis to Narrow

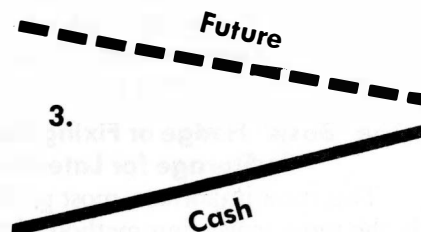
1. The cash price is constant while the futures price declines.



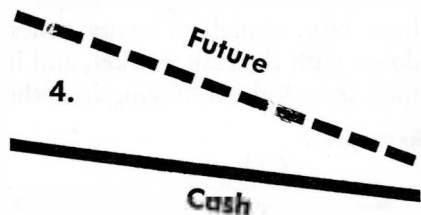
2. The cash price rises while the futures remain constant. (Illustrated in example 10.)



3. The cash price rises while the futures price decreases. (Illustrated in examples 9, 11, and 12.)



4. The cash price declines while the futures price declines more rapidly. (Illustrated in example 8.)



5. The cash price rises rapidly while the futures price rises slowly.



Table 2. Basis History for Major Crops in the Upper Midwest

Date	Sioux City cash price	Chicago July future price	Sioux City basis	Hometown basis 11c per bu. freight	Basis hedge gain	Open storage gain
BASIS HISTORY FOR CORN						
1963-64 Crop						
Nov. 1	108½	127¾	19¼	30¼		
Jan. 15	115	123½	8½	19½	10¼	6½
May 15	121½	123½	2	13	17¼	13
1964-65 Crop						
Nov. 2	112½	128¼	15¾	26¾		
Jan. 4	121½	129	7½	18½	8¼	9
April 1	127¾	133¼	5½	16½	10¼	15¼
1965-66 Crop						
Nov. 1	111¼	123½	12¼	23¼		
Jan. 3	128	130¼	2¼	13¼	10	16¾
1966-67 Crop						
Nov. 15	130	151	21	32		
Jan. 16	131½	142¾	11¼	22¼	9¾	1½
May 1	124	135	11	22	10	-6
1967-68 Crop						
Nov. 1	107	124¼	17¼	28¼		
May 15	116	117⅞	1	12	16¼	9
1968-69 Crop						
Nov. 15	112	125¾	13¾	24¾		
March 1	115½	118½	3	14	10	3½
1969-70 Crop						
Nov. 15	108¼	129¼	21	32		
Feb. 15	113¾	123½	9¾	20¾	11¼	5½
1970-71 Crop						
Nov. 16	128½	156¾	28¼	39¼		
Feb. 15	140	155½	15½	26½	13¾	11½
April 15	143½	148	4½	15½	23¾	15
Date	Hometown Price	Chicago May Future	Hometown Basis	Basis Hedge Gain	Open Storage Gain	
BASIS HISTORY FOR OATS						
1968-69 Crop						
July 1	51	67½	16½			
Oct. 1	56	63⅞	7⅞	9⅞	5	
1969-70 Crop						
Aug. 15	52	68¼	16¼			
Sept. 15	52	70	18			
Feb. 1	59	63½	4½	11¾	7	
1970-71 Crop						
Aug. 3	52	69⅞	17⅞			
Nov. 16	63	76⅞	13⅞	4	11	
BASIS HISTORY FOR SOYBEANS						
1969-70 Crop						
Oct. 15	214	259⅞	45⅞			
Nov. 15	212	262⅞	50⅞			
Feb. 15	235	261	26	19⅞	21	
1970-71 Crop						
Oct. 15	266	306⅞	40⅞			
March 2	276	306⅞	30⅞	10	10	
Date	Hometown price 13% Protein	Minneapolis March Future	Hometown Basis	Basis Hedge Gain	Open Storage Gain	
BASIS HISTORY FOR SPRING WHEAT						
1968-69 Crop						
Aug. 1	127	155	28			
Oct. 1	144	154	10	18	17	
Jan. 15	144	159	15	13	17	
1969-70 Crop						
Aug. 15	136	154	18			
Oct. 15	157	167⅞	10⅞	7⅞	21	
Jan. 15	157	177⅞	20⅞	-2⅞	21	
1970-71 Crop						
Aug. 15	156	175	19			
Oct. 15	169	194¾	25¾	-6¾	13	
Jan. 15	162	184	22	-3	6	

Table 3. Approximate Insurance Cost for Corn Inventory Worth \$1.10 per Bushel.

1 month .....	.146 cents per bushel
3 months .....	.270 cents per bushel
6 months .....	.462 cents per bushel
9 months .....	.616 cents per bushel

Table 4. Approximate Interest Cost for Corn Inventory Worth \$1.10 per Bushel.

Interest Rate	1 Month	3 Months	6 Months	9 Months
	cents per bushel			
4 .....	.367	1.100	2.200	3.300
5 .....	.458	1.375	2.750	4.125
6 .....	.550	1.650	3.300	4.950
7 .....	.642	1.925	3.850	5.775

Table 5. Percentage Shrinkage When a Unit of Grain Dries to Selected Percentages of Moisture*

Percent moisture in grain	Percentage of shrinkage when grain is dried to:					
	13.0% Col. 1	13.5% Col. 2	14.0% Col. 3	14.5% Col. 4	15.0% Col. 5	15.5% Col. 6
13.0						
13.5	1.07					
14.0	1.65	1.08				
14.5	2.22	1.66	1.08			
15.0	2.80	2.23	1.66	1.09		
15.5	3.37	2.81	2.24	1.67	1.09	
16.0	3.95	3.39	2.83	2.25	1.68	1.09
16.5	4.52	3.97	3.41	2.84	2.26	1.68
17.0	5.10	4.55	3.99	3.42	2.85	2.28
17.5	5.67	5.12	4.57	4.01	3.44	2.87
18.0	6.25	5.70	5.15	4.59	4.03	3.46
18.5	6.82	6.28	5.73	5.18	4.62	4.05
19.0	7.40	6.86	6.31	5.76	5.21	4.64
19.5	7.97	7.44	6.90	6.35	5.79	5.23
20.0	8.55	8.01	7.48	6.93	6.38	5.83
20.5	9.12	8.59	8.06	7.52	6.97	6.42
21.0	9.70	9.17	8.64	8.10	7.56	7.01
21.5	10.27	9.75	9.22	8.69	8.15	7.60
22.0	10.84	10.33	9.80	9.27	8.74	8.19
22.5	11.42	10.90	10.38	9.86	9.32	8.78
23.0	11.99	11.48	10.97	10.44	9.91	9.38
23.5	12.57	12.06	11.55	11.03	10.50	9.97
24.0	13.14	12.64	12.13	11.61	11.09	10.56
24.5	13.72	13.22	12.71	12.20	11.68	11.15
25.0	14.29	13.79	13.29	12.78	12.26	11.74
25.5	14.87	14.37	13.87	13.37	12.85	12.33
26.0	15.44	14.95	14.45	13.95	13.44	12.93
26.5	16.02	15.53	15.03	14.54	14.03	13.52
27.0	16.59	16.11	15.62	15.12	14.62	14.11
27.5	17.17	16.68	16.20	15.70	15.21	14.70
28.0	17.74	17.26	16.78	16.29	15.79	15.29
28.5	18.32	17.84	17.36	16.87	16.38	15.88
29.0	18.89	18.42	17.94	17.46	16.97	16.48
29.5	19.47	19.00	18.52	18.04	17.56	17.07
30.0	20.04	19.58	19.10	18.63	18.15	17.66
30.5	20.61	20.15	19.69	19.21	18.74	18.25

* All of these percentages of shrinkage figures include actual moisture loss plus one-half percent for dry matter loss. The percentage of shrinkage may be applied to pounds, bushels, tons or all other units of quantity. Source: Shrinkage Chart adopted from *Price, Language of the Market Place*, distributed by the Chicago Board of Trade.

Example for use of Table 5: If one had corn containing 25.5% moisture and dried it down to 15.5% moisture, the loss in drying shrink would be 12.33% or 2.33% more than 10% moisture removed. (The above chart assumes good quality grain. Lower grades would have additional shrink.)

Interest on the money value the grain represents also has a cost whether money would be borrowed to finance the grain, whether the money invested in the grain could be used to pay other loans or whether the money value of the grain could be invested at interest.

Shrink from moisture loss, rodents and spillage are also costs of storing grain. However, it is obvious the costs mentioned above would accrue whether the stored grain was hedged or stored as open storage.

Generally there are several opportunities each year to close out a "basis hedge" profitably. The time one would close out the hedge would depend in part on his personal reasons for placing the hedge. Some of the reasons for placing a basis hedge that would also influence the time one might lift the hedge are:

- Depressed price at harvest time. A farmer may want 10 cents a bushel more than present price.
- Farmer may be satisfied with present price but wants the income in the next year.
- Farmer may want grain on his farm until his feed requirements are known.
- It may be desirable to keep a portion of a crop in reserve in case of crop failure.
- A farmer may have considerable grain storage facilities on his farm from which he would like to earn some revenue.

Some of the possible hedging results for corn for recent years are listed in the following "T" account forms:

Example 8

1966-67 Corn Crop Year	
Cash	Futures
Nov. 15—Stored cash corn price \$1.25	Sold Chicago July futures @ \$1.51
May 1—Sold cash corn price \$1.16	Bought Chicago July futures @ \$1.35
Loss in cash price 9 cents per bushel. Gain from hedge 16 cents per bushel. Net price for corn \$1.16 + .16 hedge gain = \$1.32 per bushel.	

Illustrates: Declining cash price—declining futures

Note: Examples 7 and 8 illustrate hedging corn for the same period of time but show different results. The reason for the difference is the elevator prices shown in Example 8 reflect payment of more than market price by the country elevator, thus the importance of establishing LOCAL basis patterns.

Example 9

1967-68 Corn Crop Year	
Cash	Futures
Nov. 1—Stored cash corn price 97 cents	Sold Chicago July corn @ \$1.24
April 29—Sold cash corn Price \$1.07	Bought Chicago July corn @ \$1.17
Gain for cash price 10 cents per bushel. Gain from hedge 7 cents per bushel. Net price for corn \$1.07 + .07 hedge gain = \$1.14 per bushel.	

Illustrates: Rising cash price — declining futures

Example 10**1968-69 Corn Crop Year**

Cash	Futures
Nov. 15—Stored cash corn price 97 cents	Sold Chicago July corn @ \$1.26
April 30—Sold cash corn price \$1.08	Bought Chicago July corn @ \$1.26
Gain in cash price 11 cents per bushel. Gain from hedge 0.	
Net price for corn $\$1.08 + 0 = \1.08 per bushel	
Illustrates: Rising cash price — constant futures	

Example 11**1969-70 Corn Crop Year**

Cash	Futures
Nov. 15—Stored cash corn price 93 cents	Sold Chicago July corn @ \$1.28½
Feb. 15—Sold cash corn Price \$1.00	Bought Chicago July corn @ \$1.23½
Gain in cash price 7 cents per bushel. Gain from hedge 5 cents per bushel. Net price for corn $\$1.00 + 5$ cents hedge gain = \$1.05 per bushel.	
Illustrates: Rising cash — Declining futures	

Example 12**1970-71 Corn Crop Year**

Cash	Futures
Nov. 15—Stored cash corn price \$1.16	Sold Chicago July futures @ \$1.56¾
April 15—Sold cash corn price \$1.31	Bought Chicago July corn @ \$1.48
Gain in cash price 15 cents. Gain from hedge 8¾ cents.	
Net price for corn $\$1.31 + 8\frac{3}{4}$ cents = \$1.39¾ per bu.	
Illustrates: Rising cash — declining futures	

Similar hedging opportunities have been available in oats, soybeans and wheat.

To Speculate on the price of grain for which storage is not available or not wanted

There may be several reasons why a farmer may sell his crop at harvest time even though the price may seem low. Some of these reasons are:

- There may be no available storage either on the farm or at the elevator.
- There may be an urgent need for the cash from the sale of a crop.
- One may wish to escape from the shrink that comes from storing grain.
- The grain may not be of storable quality.

Whatever the reason for marketing the grain instead of storing, if the farmer has a strong feeling the market would go up he could buy the grain future of his choice and still be a holder of grain inventory. In the case of corn sold for \$1.00 a bushel, only about one-tenth of that amount of money is needed to hold a similar amount of bushels in the futures market.

This method of replacing cash grain with a futures contract is *speculating* and often incurs more risk than holding cash grain. The very reasons that make the basis hedge so attractive, discussed previously, also make the replacement of cash inventory with futures

speculative. The replacement of cash inventory with futures can be done successfully if:

1. There is strong evidence both the cash and future price will rise.
2. One will refrain from selling grain and buying futures during a historically wide basis or spread between cash and futures.
3. If one will purchase futures realizing that the futures most likely will not advance as much as the cash and also to account for the saving in shrink in storing grain as part of the benefits of this replacement. One could also attribute the cost of commercial storage as part of the gain from purchasing futures to replace cash inventory.

Table 6 gives evidence that had one bought corn futures December 1 in the crop years 1963-64 to 1970-71, in only 3 years out of the 8 would there have been a gain of over 2 cents a bushel from the purchase of futures, one year of practically no futures change, and in 4 years there would be a loss from futures purchased during a period of normally wide basis.

Table 6. Replacing Cash Grain Inventory with Grain Futures.

Bought Chicago July corn Dec. 1	Chicago future Gain	Sioux City basis at purchase	Cash price Gain
Sell June 1—1963-64	-1½	17¾	10½
June 1—1964-65	2¼	17¾	3½
June 1—1965-66	¾	8¼	¾
June 1—1966-67	-18¼	20½	-2
May 15—1967-68	-6¾	15¼	6¾
June 1—1968-69	7	10	13½
June 1—1969-70	2¼	21¾	15
June 1—1970-71	-9	24½	9

To Establish Feed Costs in Advance

Many livestock feeders require more grain than they can produce so they must buy additional feed at some time. It is natural to want to purchase this feed at the lowest possible price and to protect against a substantial price increase at the time one needs the grain. Just as the grain futures market can be used as a hedge against a decline in the price, it can also be used to hedge against a *large* increase in price. Grain processors for many years have used the futures market for purchasing future needs and to establish an approximate price for those grains.

This method of purchasing feed in advance is the same as betting there will *not* be a large decrease in the basis. Historical data indicates the purchase of corn futures at the normally low cash price is successful only when there is a historically small basis.

From Table 6 using the Sioux City prices for corn we can make the following analyses:

1. In only 2 years was the practice of purchasing Chicago July corn modestly successful in hedging against a rise in the price of cash corn, 1964-65 and 1968-69.

2. The 2 years showing modest success in protecting price were years of a historically low basis.
3. Only for the 1968-69 crop year was the price movement of such dimensions as to offer significant savings.
4. Purchasing futures to hedge against a price rise would result in a loss in 4 of the years listed.

The oats-cash futures relationship seems to offer better price protection for the advance purchase of feed grain.

Table 7. Minneapolis Oats-Cash and Futures Relationship.

	Minneapolis futures gain	Minneapolis basis August 1	Minneapolis cash price gain
Bought Mpls. May oats Aug. 1			
Sell Mpls. May oats Feb. 1			
1968-69 crop year	9 $\frac{1}{8}$	3 $\frac{3}{8}$	10
1969-70 crop year	-2	7 $\frac{1}{4}$	7
1970-71 crop year	7	7 $\frac{3}{4}$	10

Example: If one bought Minneapolis May oats futures on August 1, 1968 and sold them February 1, 1969, he would have a futures gain of 9 $\frac{1}{8}$ cents a bushel to protect against a 10-cent-per-bushel cash price rise.



Table 7 shows that one could protect against most of the cash price gain in 2 of the 3 crop years listed. Table 8 shows similar results when using the Chicago May futures and the Sioux City cash price.

Table 8. Chicago May Oats Futures—Sioux City Cash Oats Relationship

	Chicago future gain	Sioux City basis August 1	Sioux City cash price gain
Bought Chicago May Oats Aug. 1			
Sold Chicago May oats Feb. 1			
1968-69 crop year	9	2	12
1969-70 crop year	-1	5 $\frac{1}{4}$	9
1970-71 crop year	6 $\frac{3}{4}$	6	6

Soybean meal is another feed that can be hedged successfully in the futures. However, the trading unit for soybean meal is 100 tons, and this amount is larger than many farmers would care to trade.

Grain Futures as a Source of Market Information

The grain futures can be used as a source of information even if one never traded in the futures. For example, the relationship between the nearby futures and the deferred futures could tell one what the majority of traders are thinking the price for a specific grain is going to be. This knowledge could help a farmer decide whether to sell or store his crop. Also the relationship of the futures prices of the different grains could give one an idea as to whether one grain is overpriced, or another underpriced, and what adjustment between them seems logical. There are many observations one can make from the grain futures if he has an understanding of them.

Grain Futures as a Determinant of What to Plant

A farmer at times has difficulty in determining what to plant when he has a choice of two or more crops. If a farmer had some evidence of what the price would be for the respective crops in the fall, it would help in making a judgment of what to plant. This evidence of deferred prices for grains can be observed in the futures markets, and the farmer may then either sell the future to establish a price, or plant in anticipation of what the grain traders think the price will be.

Grain Futures as an Aid in Borrowing Money

Agricultural lending agencies are becoming more interested in the possible use of futures in establishing a price for their collateral. A 1968 study* at South Dakota State University found that while hedging may not be vital to gaining credit, and it did not at that time affect the interest rates charged, it did have an effect on the size of the loans granted.

*Powers, Mark, Bulletin 545, June 1968, *Hedging, Forward Contracting and Agricultural Credit*, South Dakota State University, Agricultural Experiment Station.

It is conceivable in the near future that hedging could be a determinant in whether one receives a loan at all. It also could allow a higher percent of actual value to be loaned on inventory.

Other possible uses of the grain futures by a farmer are to evaluate current local cash grain price or future delivery contracts, and also as a factor in whether to sell the grain or feed livestock.

Grain Futures Trading

Grain trades are made in round lots of 5,000 bushels or any amount up to 2,000,000 bushels in multiples of 5,000.

Price movements in grain futures are $1/8$, $1/4$, $3/8$, $1/2$, $5/8$, $3/4$, $7/8$ or a full cent a bushel. A price movement of $1/8$ cents a bushel on a 5,000 bushel lot = \$6.25. A one cent a bushel movement on 5,000 bushel lot = \$50.00.

The limit of price movement per day for wheat and soybeans is 10 cents a bushel, corn 8 cents a bushel and oats 6 cents a bushel over or under the previous day's close. This means in the case of wheat, for example, the price could go down 10 cents a bushel, then up 20 cents a bushel in the same day and still be only 10 cents from the previous close.

Margin or deposit necessary to trade in grain futures.

Margin needs will fluctuate according to the price of grain, whether or not the price is speculative and often there is a different margin requirement for the large trader compared with the small, occasional trad-

er. Table 9 lists the margins most likely asked of a small trader as of August 1, 1971.

Table 9. Margins required for grain futures

Grain	Cents per bushel	Dollars for 5,000 bu. contract
Corn	12	\$ 600.00
Oats	6	300.00
Wheat	10	500.00
Soybeans	20	1000.00

Corn margins were raised from 10 cents a bushel to 12 cents on June 16, 1971.

Soybean margins were raised from 15 cents a bushel to 20 cents on July 28, 1971.

Table 10. Commission payable for complete buy and sell transaction on a 5,000 bu. lot of grain.

Corn	\$30.00 per 5,000 bushels
Oats	25.00 per 5,000 bushels
Wheat	30.00 per 5,000 bushels
Soybeans	30.00 per 5,000 bushels

Common Terms Used in Grain Futures Trading

Buy or sell at the market: An order to buy or sell at the best price obtainable at the time the order is received and executed. This is usually only seconds after receipt of the order if the grain exchange is in session at that time.

Buy or sell at close or opening: An order to buy or sell at the end or beginning of the trading session of a particular day. This order is sometimes without price restriction, and sometimes specified within opening and closing range.

Buy at \$1.00 or better: An order for your broker to buy your order at \$1.00 or *less* if possible.

Sell at \$1.00 or better: An order for your broker to sell your order at \$1.00 or *more* if possible.

Margin: The amount deposited by a trader with his broker to protect the broker against losses on contracts carried or to be carried.

Margin call: Demand for additional deposit on margin usually because of adverse price movement.

Long: The buying side of futures, or an indication of one having bought more than he has sold.

Short: The selling side of futures, or an indication of one having sold more than he has bought.

Stop loss order: An order placed at a definite price above the market, or above the price one entered the market, for a buy stop, or a price below the market for a sell stop. This order does not become effective until the market reaches the designated price. The stop is a means of limiting losses if one is speculating, but is not often useful in a good hedge.



Hedging Wheat

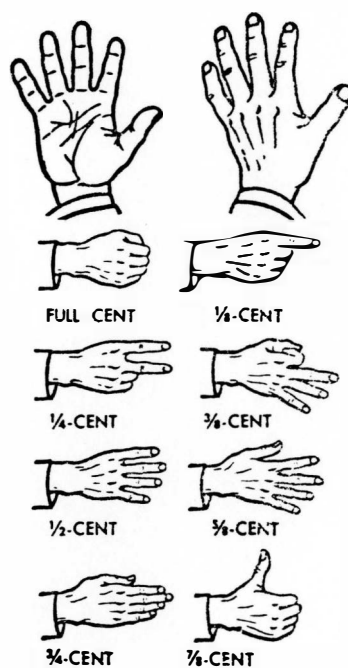
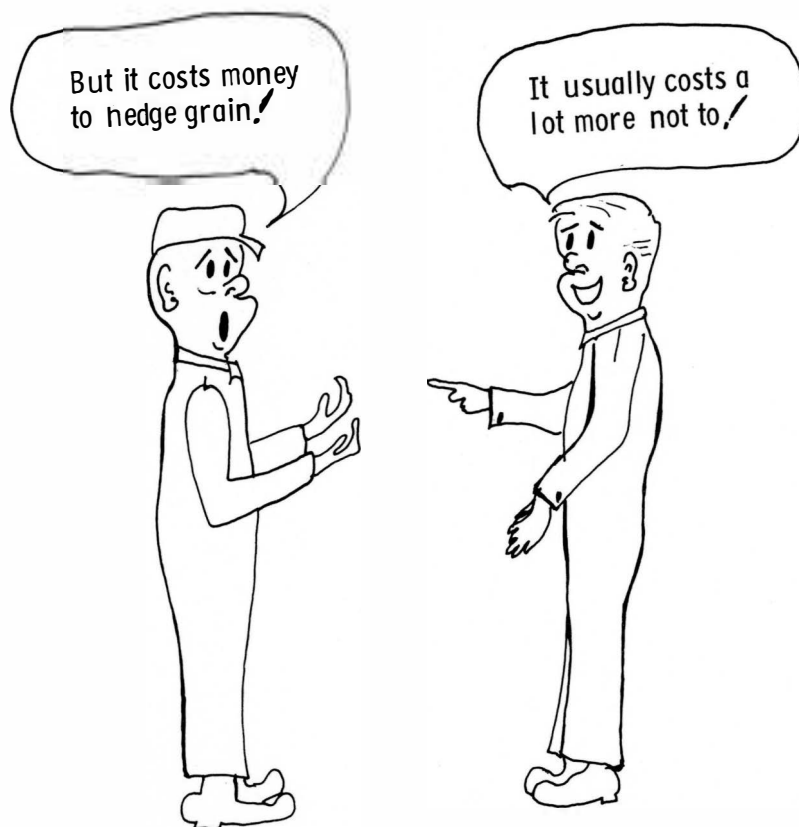
The hedging of wheat differs enough from that of other grains to warrant additional comments. The major difference in hedging wheat as compared to other grains is an apparent lack of an effective way to hedge protein premiums that can range up to as much as 70 cents a bushel in some years. The basic wheat price without regard to premiums can be hedged successfully, even though recent history does not indicate a large basis spread in wheat. Recent history of wheat

prices indicates wheat futures can be sold successfully prior to harvest to establish a price higher than harvest levels. There also appears to be good evidence that during a period of low protein premiums, wheat futures can successfully be sold to protect against a price drop, while cash wheat is being held to be sold in another calendar year, or while wheat is being held for a gain in basic wheat price, a gain in protein premiums or both.

Samples of Futures Transaction Accounting Corn Futures

Trade 1		
Margin deposit prior to purchase 12c per bu.		\$ 600
Dec. 10 Buy 5000 bu. Chicago July Corn	@ \$1.15	
May 4 Sell 5000 bu. Chicago July corn	@ 1.25	
Gain 10 cents per bushel (10c x 5000)		500
less commission		—30
Present trading account balance		\$1070
Trade 2		
Margin deposit prior to purchase 12c per bushel		\$ 600
April 1 Buy 5000 bu. Chicago July corn	@ \$1.27	
June 1 Sell 5000 bushel Chicago July corn	@ 1.24	
Loss 3 cents per bushel (3c x 5000)		—150
less commission		—30
Transaction loss		\$ 180
Second Margin deposit		600
Less loss from transaction 2		—180
Balance of deposit 2 after loss deducted		420
Plus balance from future trade (from "Trade 1," above)		1070
Present trading account balance		\$1490
Trade 3		
Margin deposit (from Trading Account Balance)		\$ 600
July 10 Sell 5000 bushel Chicago Dec. corn	@ \$1.27	
Nov. 1 Buy 5000 bushel Chicago December corn	@ 1.18	
Gain 9 cents per bushel		450
less commission		—30
Transaction gain		420
Balance from Trades 1 and 2 (\$1490—\$600 for margin)		\$890
Gain from Transaction 3		420
Present trading account balance		\$1910

NOTE: Some commodity brokers allow their proven customers to use any trading profits for additional trading margins even though the contract has not been terminated. No interest is paid on any margin deposits.



In futures trading, the hands speak. A trader with his hand up, palm away, is selling; palm toward him, buying. Each finger vertically indicates 5,000 bushels of grain or one contract of other commodities. Price is shown with fingers in horizontal positions.

