Marketing Your Grain

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izes both storage space and working capital. A common procedure is to buy a year's supply, stipulating delivery and payment at quarterly periods. The millers naturally desire to meet the wishes of their customers, but before they can make definite sales they must see that they can buy enough wheat to fulfil the contracts. They also desire to put off taking delivery and making payment until the wheat is needed, so as to conserve their storage space and working capital. They therefore find sellers who will make present sales at fixed prices for future delivery and payment. With knowledge that they can so buy wheat at definite prices they can then quote prices for flour to their customers for different deliveries, and upon making such sales can immediately protect themselves by purchasing the required amount of wheat on a similar basis. It is this simple procedure which in practice establishes our big markets for the different future deliveries.

On the other hand, it would not be wise to sell all of a crop at once, even if it could be transported and delivered immediately. By offering it as the buyer needs it the price is much better maintained. As it has to be stored somewhere until consumption, it is economical to store it in small units near the fields of production, and then to efficiently utilize transportation facilities by shipping steadily at about the rate of consumption. It is therefore desirable for producers or owners to be able to sell at definite prices for delivery in the future when it is convenient to ship. The establishment of quotations for different deliveries enables the sellers to select sales which show them the greatest profit.

The whole system is thus both a convenience and a necessity to both producers and consumers. Thru it the entire trade is simplified, prices are stabilized, economy of capital, both fixed and liquid, is secured, and the necessary assistance by financial agencies is made effective and cheap.

What is a "Future"?

When a cash trade is made it involves the transfer of and payment for some particular grain as shown by warehouse receipts delivered. When a future trade is made no particular parcel of grain is covered. The trade only involves an obligation to deliver and to receive a definite amount of proper grade at a specified time and at a fixed price. Any parcel of grain of that grade may be delivered. Because not only an obligation or contract and not the actual grain itself is traded in, it is unnecessary to have the grain in hand when selling it.

Because the future trading involves only obligations, the rules of the Grain Exchange do not require any cash payments between buyers and sellers at the time the contracts are made. Instead of this, the rules require daily cash settlements according to market fluctuations. Thus, if X buys future wheat from Y and the price goes down, X loses and Y profits, and X pays Y every day the full amount. On the other hand, if the price goes up, then X gains and Y loses, and Y pays X every day the full amount. Thus the money representing fluctuations is paid back and forth every day and the differences are reduced to zero.

Altho these future trades involve only contracts or obligations, they are definite in their terms and may be freely dealt with. One may buy or sell and then sell or buy again before delivery time, thus cancelling the obligation. Futures may be "switched" from one delivery time to another by simply selling or buying the one future and then buying or selling the other.

The system of trading in futures is the result of the necessity of the millers to buy wheat to fill flour contracts sold ahead. Producers or sellers use it to sell at the various prices for corresponding deliveries to obtain better prices or to suit the convenience of deliveries. Its purpose is therefore sound as it is founded on the requirements of commerce. It is true that it provides an easy opportunity for speculation or gambling, but the Grain Exchange must not be blamed if its commercial uses are twisted to meet the desires of speculators. Any blame must be put upon the shoulders of those who use it for that purpose.

Speculation Outside the Trade

The institution of trading for the various futures simply multiplies the chances for fluctuations over extended periods due to laws of supply and demand and other contributing factors of value. If the market provided only for dealing in cash grain, all factors of value would be focused and concentrated therein. When the market provides for dealing in futures the influence of all the factors of value is spread over all the dealings, both for present and future deliveries. This immediately introduces new factors which confine fluctuations of the various prices to relatively narrow limits. The elements of value are so much talked about and the machinery of the exchange is so convenient that a very attractive field is opened to speculation. Speculators, both professional and amateur, are found on every grain market. They try to forecast and thus take advantage of the fluctuations in the various prices for different deliveries. It is a well-known fact that the broader the market, meaning the more sellers and buyers, the better and fairer are the prices. Therefore speculators who constitute both buyers and sellers probably are no disadvantage and may be of considerable advantage. It is immaterial that they do not expect to consume any grain. They must always depend upon the miller to eventually purchase all they may buy. They obviously cannot offer to pay less than the miller and obtain any grain. Thus they cannot depress prices below actual value. They therefore cannot hurt the producer. If they bid up prices the producer gets the benefit. They seem to exercise an unnecessary function, which nevertheless tends to broaden marketing facilities and to act as a stabilizer of prices.

Factors Determining Future Values

The differences between prices for spot and the various future deliveries of the same grade are due to several factors. Grain, particularly wheat, is not perishable. If it is in good condition it can be kept indefinitely. Present value is the cash price quoted for spot delivery, and is determined by the fundamental law of supply and demand. An owner of spot grain may carry it for future delivery at a cost covering interest on the money invested in the grain and storage charges in the elevator, which include insurance. This shows the three principal factors, namely, storage, insurance and interest, all of which involve duration of time. Occasionally there are other factors, but as they seldom appear they have no permanent or material bearing.

Terminal Charges Affect Prices

Under the rules of the Winnipeg Grain Exchange grain is deliverable upon contracts for spot or future delivery only when it is in store in a public terminal elevator at Fort William or Port Arthur. It is therefore evident that the charges in force in such public terminal elevators and which involve the element of time are reflected in the prices for future delivery. The only such item is the charge for storage, which includes full insurance and which becomes the principal factor entering into the cost of carrying grain. If one has grain in store which could be delivered immediately on a cash sale and for some reason he wants to carry it for future delivery, he will have to pay the terminal storage charge, which includes insurance, and he will have to pay or lose the interest on the money invested in the grain. He must therefore ask a buyer a price sufficiently higher than cash value to reimburse him for these charges or he will actually be out of pocket by the transaction. Such difference between prices for different deliveries constitutes what is known as "full carrying charge."

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Panama Canal earnings for the eleven months ending May 1, 1915, amount to \$3,883,074.93; the cost of operation was \$3,705,275.43; leaving a net profit of \$177,799.50. Interest and depreciation are not included in the expenditures.