SUMMARY AND PERSPECTIVE

by
The Editor

Unlike a Futures transaction where one man's gain is another man's loss, the ideas expressed in conferences, such as these, redound to the benefit of every participant. The publication of the proceedings makes this knowledge accessible to many who may desire to study our deliberations beyond the confines of these Halls and countless others through eras other than our own. An attempt is made in these closing paragraphs to highlight a few points of agreement on which greater emphasis is pardonable as well as to recapitulate issues where notions diverged sharply among the conferees.

The relatively recent addition of futures contracts applicable to perishable commodities such as meats and livestock was generally regarded with favor by those attending the conferences. This method of buying, selling, and pricing adds another dimension to market services hitherto unavailable.

The existence of a futures market serves to attract increasing amounts of equity capital for financing production, and to expedite market functions. Capital requirements often exceed the financial resources of individual ranchers, feeders, and packers, consequently, greater accessibility to funds is considered a boon to the livestock industry.

Forward pricing makes it possible to plan production more precisely to demand requirements, and it permits the distributors of meat products to direct supplies into market channels with a higher degree of efficiency than prevailed under a unipartite cash market.

The futures market offers greater flexibility to sellers in their choice of buyers, in timing transfers of ownership, and in selecting the markets to which they make deliveries.

Ordinarily, under the cash market system, the ranchers and feeders were required to raise and feed livestock if they wished to earn a livelihood. The advent of a futures market makes it possible to cut in and out of production activities, and concentrate partially or solely in buying and selling futures. If price movements and trends are anticipated fairly accurately, profits can be realized by speculating in futures. Playing the role of a speculator is no stranger to livestock producers. The futures market serves to enlarge the stage upon which actors may present this drama of life. Anyone familiar with the industry would find it difficult to disclaim this dynamic attribute of futures trading even though the pot of gold at the end of the rainbow may be capriciously elusive. The risk element in livestock feeding can be substantially reduced, but not completely eliminated by entering into hedging transactions. This process of matching a sale against a purchase, or a purchase against a sale is a form of insurance covering abnormal losses due to wide gyrations in market prices.

The areas of disagreement among those participating in the current series of conferences will be of interest to scholars for years to come if their sense of perception is not greatly improved over their antecedents. Those who espouse the cause for trading in futures have steadfastly maintained that forward pricing serves to stabilize the market by shearing off the peaks and filling the valleys of the sawtooth price lines normally evolved in cash markets.

The adversaries are equally adamant in asserting that futures trading is the chief cause of wide fluctuations in price quotations. They conclude without empirical evidence that traders in the Commodity Exchanges conspire to create price fluctuations. Otherwise, they argue, there would be no profit potentials in contract trading because the institution would self-destruct by actually ironing out prices to the extent there would be no undulations. The protagonists retort, "This is the reasoning of one who has a hole in his wig" because it assumed that the professional traders can individually and independently appraise all dimensions of supply and demand so precisely and simultaneously that each variable factor is brought under their complete control. This is a degree of coordination in collective sagacity no societal institution has ever attained:

GENERAL OBSERVATIONS

"Twixt the optimist and pessimist
The difference is droll:
The optimist sees the doughnut
But the pessimist sees the hole."

During the past century, one commodity after another has burst the bonds of the cash market and edged its way into the pits of Commodity Exchanges. On each occasion the novelty of the transition is still so unique that it causes the sages to ponder whether the intruder is suitable and admissible to the esoteric circle. Differences in point of view on this issue appear to stem from an objective analysis, on the one hand, in which physical attributes of the commodity are subordinated to the legalistic elements of a transfer in ownership. The challenge to this stance emerges from a subjective attitude in which the contender maintains that distinct differences in corporeal features of the commodity ultimately determine whether the commodity under consideration can persevere in contract trading.

From time to time the question of *basis* trading comes to the surface in conclaves such as these, wherein some practitioners declare that they enter into hedging contracts for the sole purpose of realizing profits from the transactions. The *basis* is the difference in the cash price being paid at the local market, and the price quoted for a particular futures contract in a central market. The local price ordinarily is less than the futures quotation due to transportation, holding (storage), interest, and insurance costs. These costs are quite variable; so knowledgeable traders can make commitments when the basis differentials are narrow and divest themselves of the obligation when they widen. In a strict technical sense, the theorists disclaim such profits on the grounds that they are a misnomer. They maintain that whatever profits are realized in such situations should be attributed to handling and service cost differentials reflected in the cash market rather than from variations in the futures price and from transactional negotiations.

Another phenomenon that gives cause for conjecture is the appearance and disappearance of certain futures contracts on the Commodity Exchanges. Why do some futures contracts survive, ad infinitum, while others fail ignominiously? It has been hypothesized that one possible cause for failure is the high correlation in prices persisting between two futures contracts representing closely related products such as flour and wheat; barley and corn; wool tops and greasy wool. Another explanation might be found in locational differences. If there is to be compatibility, the closely related futures should not be offered in the same market unless they provide a sharply delineated service to justify this existence as can be illustrated by the presence of soybean, soybean meal, and soybean oil contracts in the same Commodity Exchange. Can it be concluded from this line of reasoning that the livehog contract is doomed because the pork belly futures contract on the same Exchange is eminently successful? Clearly, this is an intriguing area that should appeal to researchers of the future. Possibly the highest point of contention extracted from the foregoing papers and comments is focused on the function of pricing. One finds among others such statements as:

The primary role of a futures market is one of determining prices for the present, and projecting them into the future.

Although the mechanism for registering prices in future months is provided, — this is not in itself a faculty for accurate projection of prices.

The futures market is the dominant market because it serves as a guide for pricing cash deliveries.

The view that the futures market is the dominant institution is unacceptable.

Futures prices are determined primarily by hedging, hence such "forecasts" as are implied in futures prices are the "forecasts" of hedging firms.

Clearly, much more research effort is urgently needed relative to the function of pricing, particularly in the futures markets. What is the true role of the position (speculative) trader, the broker, the scalper, the odd-lot dealer, the hedger, and the arbitrager (spreader)? How is it possible for hedgers to exert influence, if any, in pricing when in many instances only a small percentage of the transactions are classified as hedges? This question is especially pertinent when hedgers are presumably engaged in merely off-setting a cash transaction with an opposite and equal futures transaction which counter-balances any price judgement he may have given expression to in such transactions.

Is the classical concept of hedging entirely passé?

Finally, it has been suggested that the transitional markets covering the vast area between the cash and futures markets i.e. "Contract to deliver" and "Contract to arrive" agreements have been almost completely neglected by researchers. This could be one aspect of marketing which might be especially rewarding to those who find it possible to muster the necessary resources for investigation.