

Questions About Basis?

Jonah Bowles

Virginia Farm Bureau Federation

Virginia Cooperative Extension

Knowledge for the Commonwealth

Questions to be answered -



What is basis?



How can basis be an agricultural barometer?




How do world markets effect basis?




What can you do about the basis?

Futures +/- basis = cash value.

 **Basis – the difference between the price of a commodity and the price of a related futures contract.**

 **Cash price – futures price = basis.**

 **Basis can only be quoted by a cash merchandiser.**

Examples...

 New crop cash corn is quoted \$4.15.

 December 2009 corn trades \$4.30.

 Basis is quoted '-\$.15 Dec or Dec - \$.15'.

 Feeder cattle are bid \$91 for August.

 August feeder cattle trade \$97.

 Basis is quoted '-\$6.00 August'.

Examples...

 Old crop cash corn is quoted \$4.15.

 March 2009 corn trades \$3.90.

 Basis is quoted '+\$.25 Mar or Mar + \$.25'.

 New crop barley is quoted \$2.80.

 Dec 2009 Chicago corn trades \$4.00.

 Basis is quoted '70% Dec Corn'.

Basis is influenced by -

 Local supply and demand relationships for traded commodities.

 Supply and demand for competitive commodities.

 Transportation costs.

 Price levels for commodities.

Other influences on basis -



Politics



Strength/weakness of the dollar.

How do world markets affect basis?

- The US is in a world market and demand is determined by world consumption.
- Problems with foreign production will increase demand for domestic product – basis could firm.
- Problems with foreign demand will decrease demand for domestic product – basis could weaken.



What can you do about basis?

- Know what your normal basis has been.
- Know what might influence local basis this year.
- Determine probability of basis moving for or against you.
- Understand how to manage basis risks.
- Take advantage of a firm basis and leave poor basis alone.

What can you do about basis?

- Cash forward contract.
- Basis only contract.
- Basis with options contract.
- Hedge-to-arrive contract.
- Options only contract.
- Nothing.



**Basis can be volatile and is a
real part of price risk.**

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