

Understanding and Using Basis Data/Information

Basis = (Cash minus Futures)

Wyoming, March 2013

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Sample Basis Calculations

-----Prices-----

| Date | Local Cash* | Futures | Basis |
|---------|-------------|----------------------|----------------|
| 6/2/12 | \$ 6.45 | \$6.85 | -\$.40 |
| 6/3/12 | \$ 6.45 | \$6.89 | -\$.44 |
| 6/4/12 | \$ 6.50 | \$6.94 | -\$.44 |
| 6/5/12 | \$ 6.52 | \$6.96 | -\$.44 |
| 6/6/12 | \$ 6.50 | \$6.92 | -\$.42 |
| 6/9/12 | \$ 6.48 | \$6.90 | -\$.42 |
| 6/10/12 | \$ 6.45 | \$6.88 | -\$.43 |
| 6/11/12 | \$ 6.40 | \$6.85 | -\$.45 |
| | | Average Basis | -\$.43 |

* For specific type and quality of commodity



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Basis Versus Price Predictability

- Basis largely determined by stable factors
 - Storage, handling, transportation costs
 - Factors that can be controlled/managed
- Price effected by relatively volatile factors
 - Weather, Global market issues, Global supply and demand,
 - Has substantial effect on prices and maybe basis
- Using Basis transfers price risk to others
 - You take on Basis Risk



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Estimating Local Cash Price


Futures Price for specific commodity

- | | |
|---|-------------------|
| <ul style="list-style-type: none"> - Transportation <ul style="list-style-type: none"> – All costs Farm to Market - Local storage, handling, profit | = Basis |
| <ul style="list-style-type: none"> - Discounts <ul style="list-style-type: none"> – Class = HRW Ord. versus 12% – Quality = dirt, chaff, other, etc. + Premiums <ul style="list-style-type: none"> – Class & Quality | Commodity ???? |
| = Expected Local Cash Price for specific commodity | |



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| Basis | Prices |
|---|--|
| <ul style="list-style-type: none"> • Elevator storage & handling costs • Transportation | <ul style="list-style-type: none"> • Global markets (supply & demand) • Quality factors <ul style="list-style-type: none"> – Protein level – Premiums/Discounts • Global and local weather • Institutions & governments • Transportation |

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Stable Basis is What Makes Futures Work

- Basis = (Cash – Futures)
- What cash price minus what futures price
- Location, Time, Quality determine Basis amount
 - Local cash price for quality/grade of product
 - Terminal market cash price for quality/grade
- Must know your local basis
 - Nearest buyers – elevators, auctions, etc.
- Adjust Basis to your operation ?????

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Different Types of Basis

Current Cash Price by commodity, location, time
 Minus
 Near by Futures Price = “Continuous Basis”

OR

Current Cash Price by commodity, location, time
 Minus
 Specific Contract Month = “Point in Time”

Some basis data on the CD

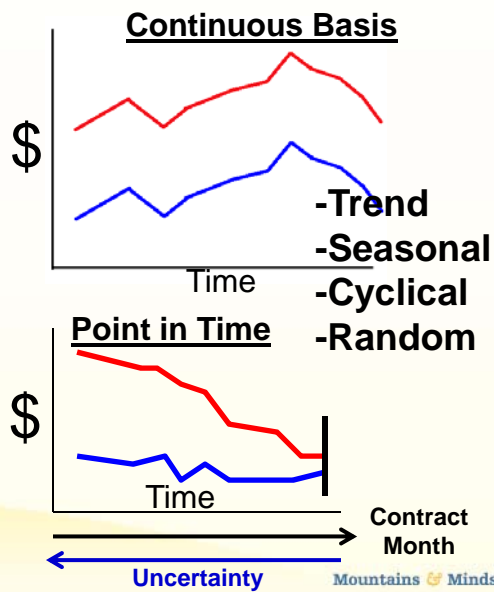


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Different Types of Basis

Current local cash
 price **minus** near
by futures

Current local
 cash price minus
specific futures
contract month



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Positive & Negative Basis

- If basis is positive the cash is greater than futures price
- If negative then cash is less than futures
- Basis will vary over time (random noise)
- As basis changes it is referred to as
 - Improving (strengthening) or
 - Weakening
- **Why not getting narrower or wider**
- Inverted Basis (opposite of normal)



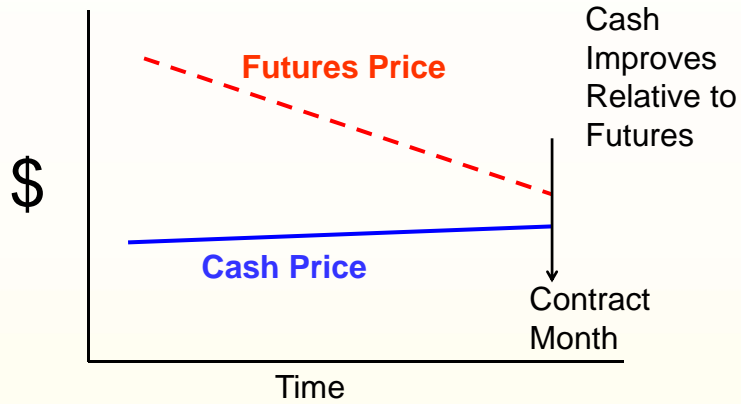
Strong or Strengthening Basis

- Basis is strong if the current basis is greater than the historical average basis
 - Basis is typically Positive
 - Larger than average positive number
 - Basis is typically Negative
 - Smaller than average negative number
 - Basis becomes inverted



Picture of Strong/Improving Basis

$$\text{Basis} = (\text{Cash} - \text{Futures})$$

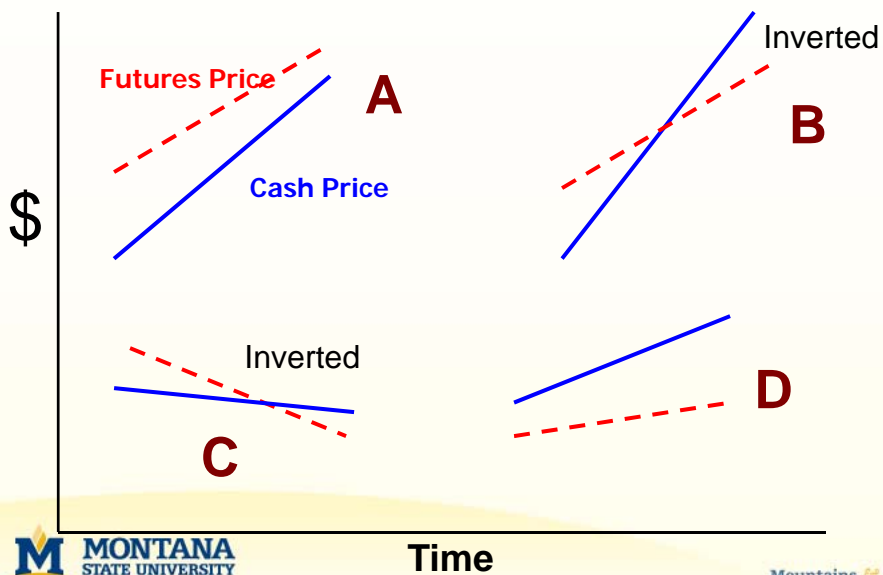


Basis is negative but is trending toward a smaller negative number



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Other Improving Basis Patterns

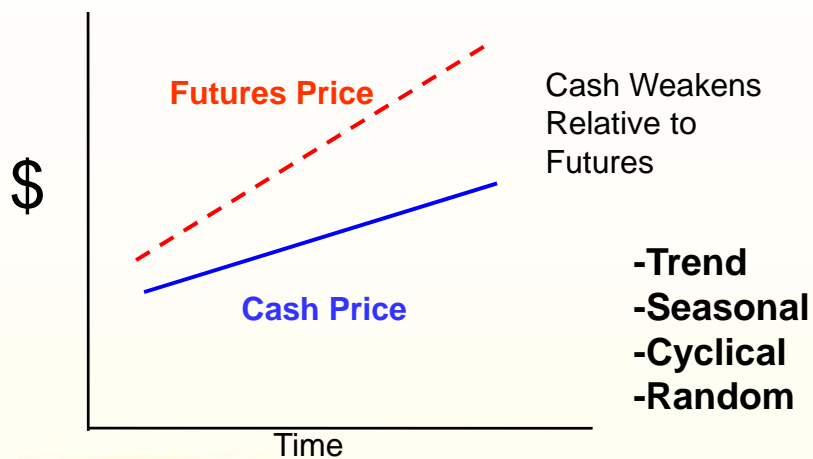


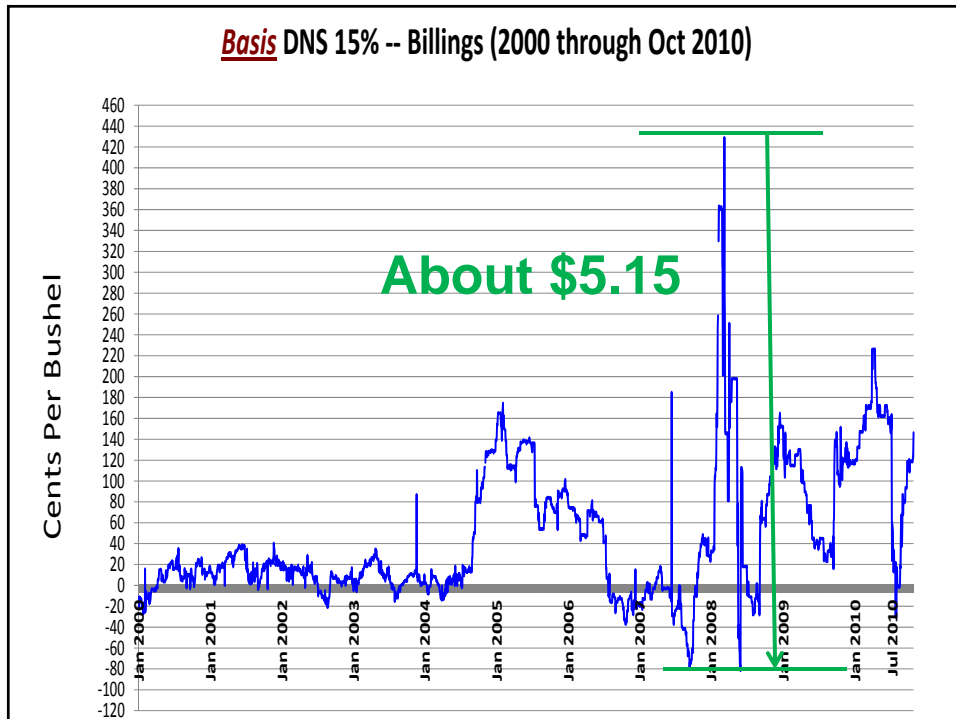
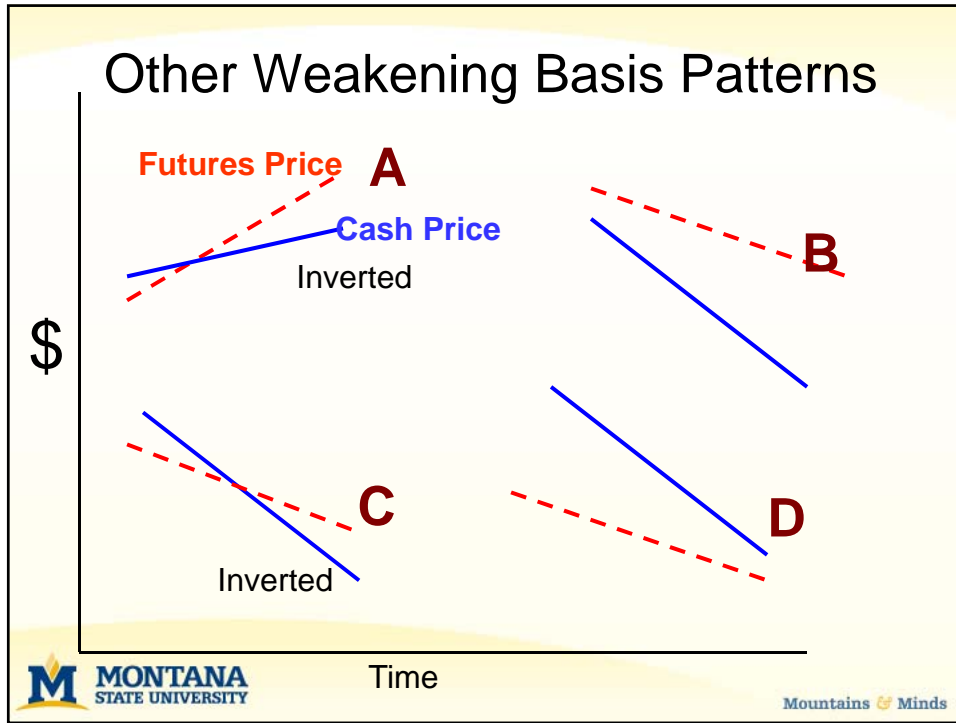
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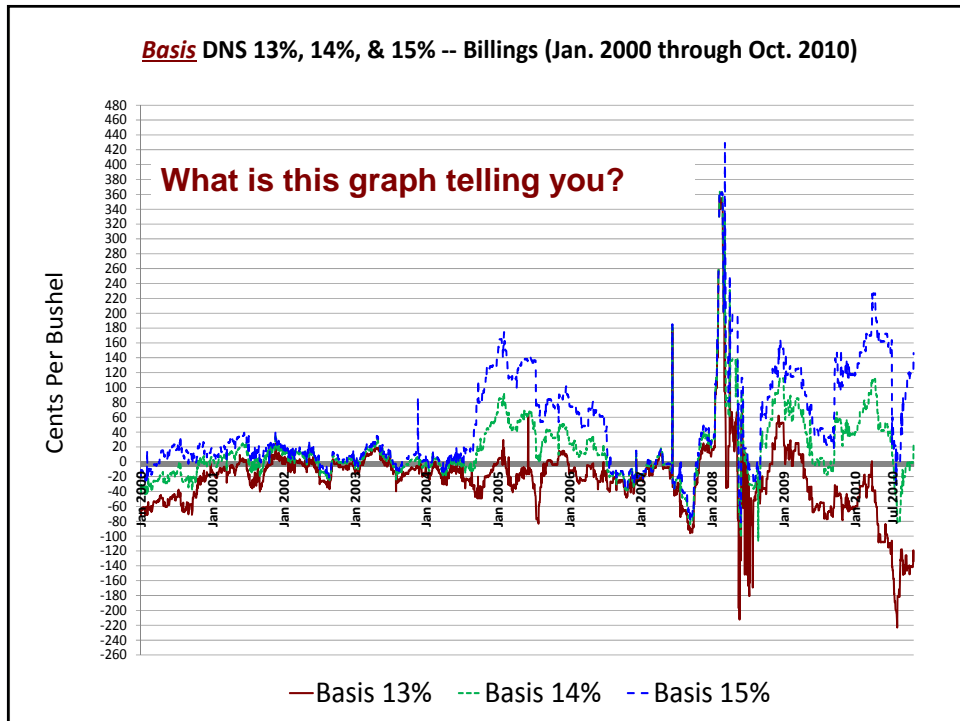
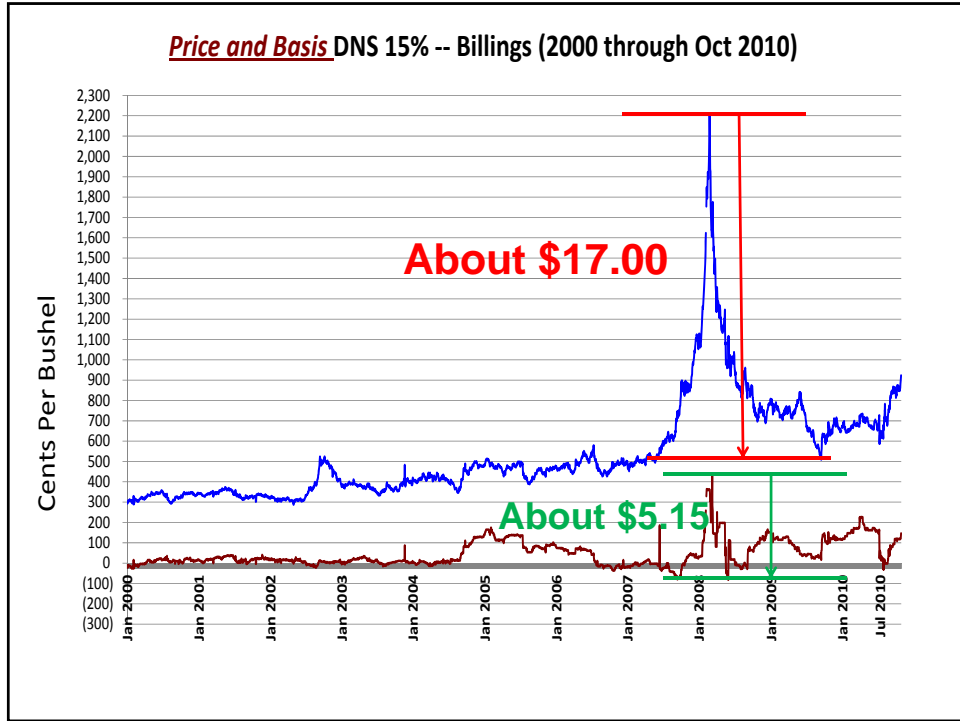
Weak or Weakening Basis

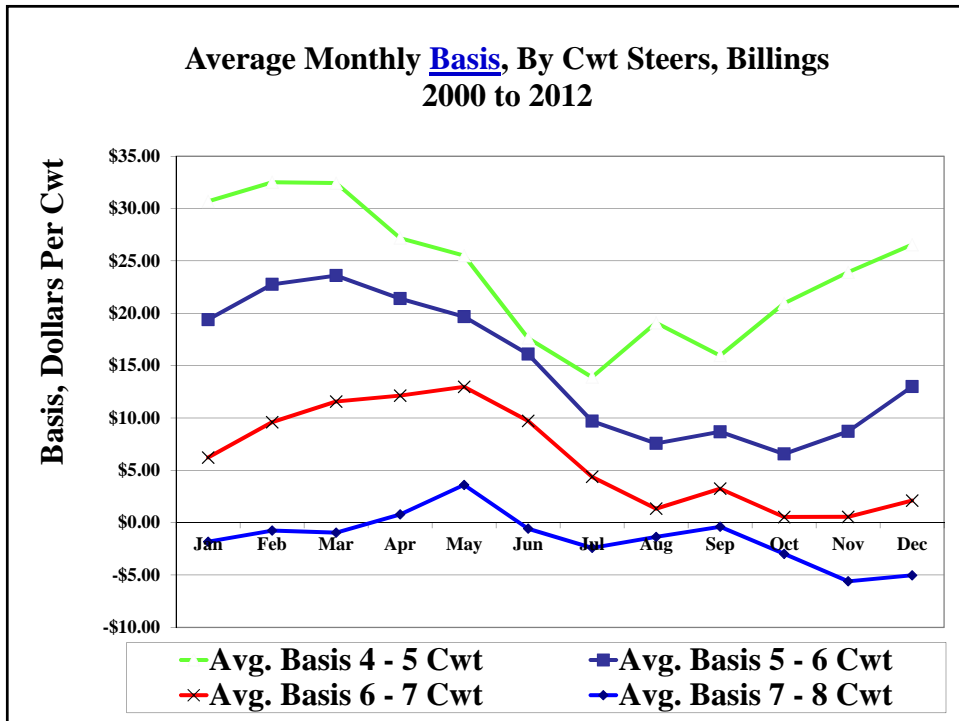
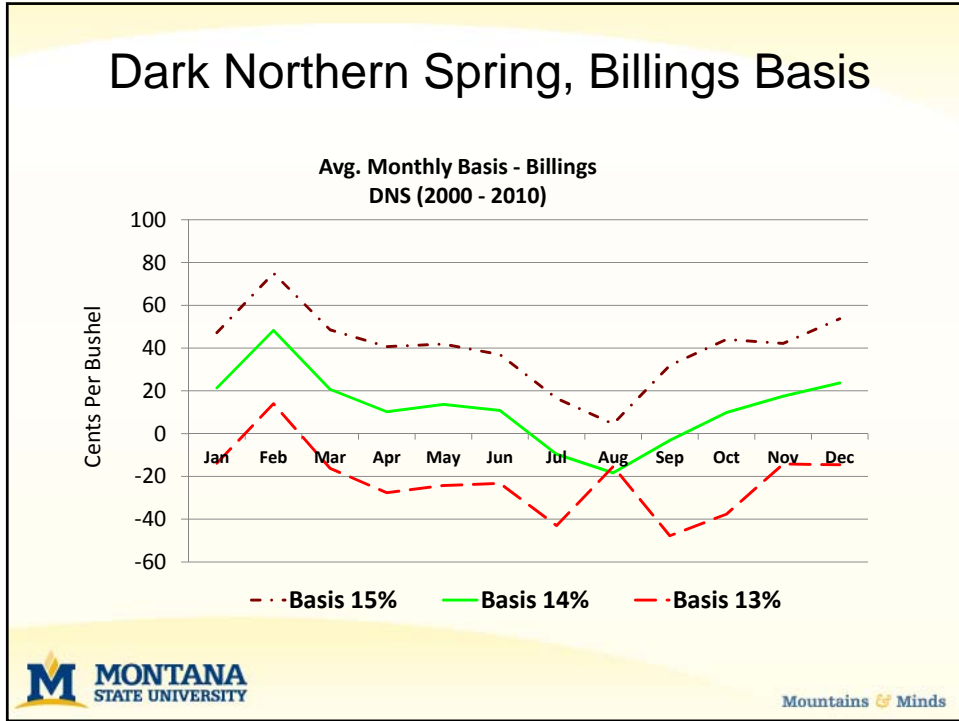
- Basis is weak if the current basis is less than the historical average basis.
 - Positive basis
 - Smaller than average positive number
 - Negative basis
 - Larger than average negative number

Picture of Weakening Basis









Data Available to Calculate Local Basis

- Grains by type and protein level
 - Agricultural Marketing Service (AMS)
 - <http://www.ams.usda.gov/AMSV1.0/>
- Livestock Market Information Center (LMIC)
 - <http://www.lmic.info/>
- Your local:
 - Extension Agent or Specialist
 - Elevator,
 - Auction yard,
 - Marketing club



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Decision Support for America's Beef Producers

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Closing Feeder Futures Price by Contract



Welcome to BeefBasis

Quick Look Price Forecast: 8 Week



USDA Reports - Cattle

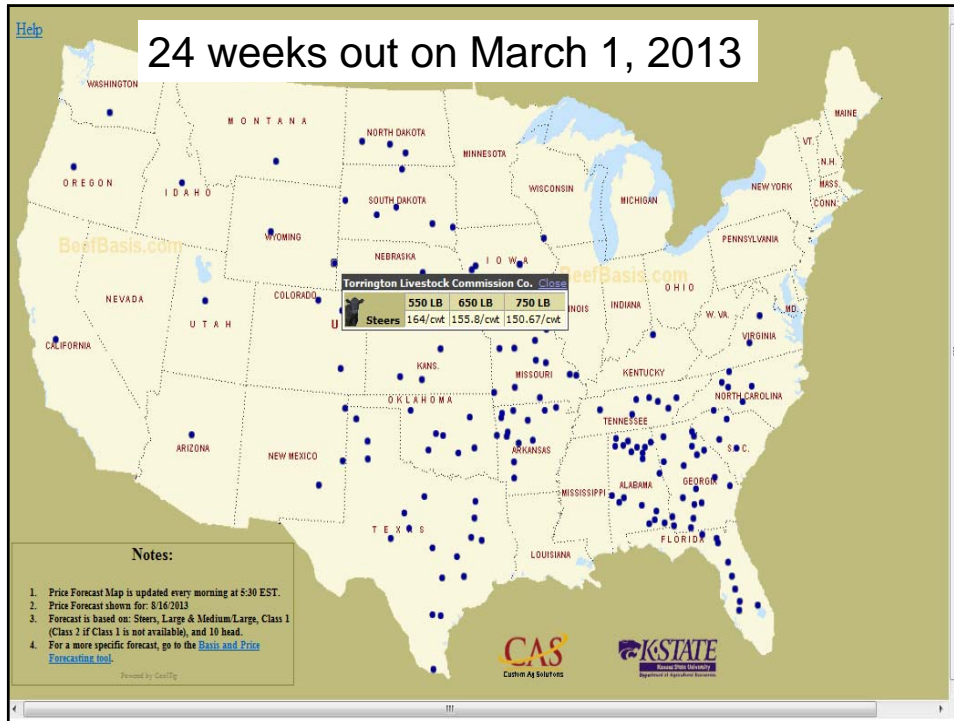
- [National Daily Cattle and Beef Summary](#)
- [National Daily Cow and Boneless Beef Summary](#)
- [National Weekly Cattle and Beef Summary](#)
- [Daily National Carlot Meat Report](#)
- [Daily Direct Steer and Heifer Slaughter Cattle Summary](#)

Hedging Calves in 2013 By: Brett Crosby

The new year begins with the cattle industry in an interesting position. On the bright side, consumers keep paying more for beef, suggesting demand erosion from high prices is not outpacing reduced supplies. Also, low inventory numbers have spurred moderate demand for feeder cattle in feedlots despite a high cost of gain environment. On the down side, the cost of gain is near record levels due to relatively high corn prices, and the drought over Kansas and Nebraska has dramatically reduced available wheat pasture for grazing. These factors have curtailed light-weight calf prices and raise concern about next year's feed costs if the drought continues through spring.

Quick Look Price Forecast: 16 Week





USDA United States Department of Agriculture
Agricultural Marketing Service

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Futures, Options, Margin Accounting- Use Slideshow Mode

Questions

