grain

Laddonia

BASIS

What is a Basis Only contract?

A basis only contract allows you to lock in a favorable basis level prior to, or upon, delivery. You then have the opportunity to take advantage of any gains provided by the futures market.

What is a "basis"?

Basis is the difference between the current cash price and the futures price. Basis Contracts have to be priced out or rolled by the expiration

Advantages:

- **Ability to lock in a favorable basis level**
- **Downside basis risk eliminated**
- **Avoid storage or DP charges**
- **Opportunity for unlimited gains within the futures market**
- **No Fees or minimum amount of bushels**
- **80% advances after the contract is full**

Disadvantages:

- **Cant take advantage of basis improvements**
- **At risk of Future board price declines**
- **Pricing must be done by expiration date or rolled to the next option month for a fee of .01 plus the spread.**

How it works:

It is currently January and the March futures price is $3.60. The basis is -.12 under the March futures, making our cash price that day of $3.48 for March Delivery. With your contract, you will only be locking in the basis of **–.12**

It is February 15, and the March futures price for corn has increased to $3.65. Even though you have until the end of February to set the futures price, you decide to go ahead and apply the $3.65 to your contract.

Here's the math:

March Futures Price (on February 15)	$3.65
March basis (in January) locked in	-.12
Price Received	$3.53

You will be paid $3.53 for your corn—a gain of $0.05/bu.

Scenario #1: It is February 22 (your expiration date) and the futures price does not satisfied you, therefore you decide to roll your contract. The fee is .01 plus the spread between the March Futures and the May futures.

Roll Fee	-.01
Spread	-.09
Total	-.10

Adjusted Basis = -.12 +-.10= -.22

Now you must price or roll the contract by the end of April

Scenario #2 It is February 22 and futures are not looking to increase, you decided to price out your basis contract at the current future price for March.

March futures	3.62
Your locked basis	.12
Price Received-	3.50

Keys to Remember:

- **Being mindful of historical basis is very helpful. Basis is dictated by local market supply/ demand**
- **Knowing historical spikes for future prices**

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