

Using Basis as a Tool in Making Profitable Grain Marketing Decisions

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Prelude

This publication was written to serve as an **executive summary** for publication ER04-2, “The Historical Basis Record for Grain and Soybeans in Delaware; Marketing Years 1999/00 to 2003/04”. The executive summary includes basis information, taken from the original publication relevant to farmer’s grain and oilseed marketing decisions.

Introduction

Basis is a key component of all grain and oilseed marketing decisions. As used herein, it is the difference between the cash (spot) price and the nearby futures market price at the time and place where delivery is to take place. In the case of grains and oilseeds, the futures price generally refers to the price quoted for a specific delivery month for a commodity at the Chicago Board of Trade. Familiarity with the basis can greatly assist a grain marketer in increasing the profitability of their sales decisions. Basis is used in the grain marketing industry as a guide in making all buying and sales decisions.

The basis tables presented in this summary publication are directly applicable to old crop marketing decisions from the harvest period through the storage months. This publication provides an executive summary of the historical old crop basis record for the 1999/2000 to the 2003/2004 marketing years.

How to Use Basis Tables in Effecting Grain and Oilseed Sales Decisions

1. Select the appropriate table for the commodity in question (see Table 1. Northern Eastern Shore Average Corn Basis: Marketing Years 1999/00 to 2003/04).
2. Choose the futures contract month (across the top) in which you wish to hedge, forward contract, or to make the cash (spot) sale – for example, December futures.
3. Choose the month (left margin) in which the hedge, forward contract or spot sale is to be made – for example, December.
4. The figure corresponding to the futures contract month and the calendar month will be the correct historical basis to use in making the grain marketing decision – for example, the basis for December futures and the December calendar month in Table 1 is 14 over Dec, meaning that the cash price is historically 14 cents over the December futures price. The basis is then used to compute the localized futures price (the expected cash price at delivery).

Putting Basis to Work

Knowing the usual basis patterns for commodities that are bought and sold within a given production area can assist farmers in making informed and more profitable grain-marketing decisions. Basis is used regularly by grain traders and sellers for a variety of reasons:

- *To localize a futures price*
- *To accept or reject a given price*
- *Deciding which buyer or seller to use*
- *When to sell, store, or purchase a crop*
- *When to place or lift a hedge*

To Localize a Futures Price

Localized Futures Price – the expected cash price at delivery. The localized futures price is determined by adding or subtracting the anticipated basis to a specific futures price. For example,

July corn futures	\$2.61
Basis (+ or -)	<u>+08</u>
= Localized Futures Price	\$2.69

To Accept or Reject a Given Price

Historical basis information can help a grain seller to decide whether a particular cash bid is attractive. For example, a spot sale at harvest may represent a strong basis offer (30 over December). The historical record may also indicate a 14 over basis to be more common during this time period. In this case, the market is telling the seller to make the sale now.

Deciding Which Buyer or Seller to Use

Cash market bids typically represent different basis levels being offered by different buyers. Grain sellers can sometimes receive better basis offers by calling and checking with several buyers. The price offer the seller receives can sometimes be improved in this manner. As the basis bid becomes more positive, the price offering to the seller and the profit potential improves.

When to Sell, Store, or Purchase a Crop

Does the current price offer reflect the average basis or is it stronger or weaker than normal? If the average basis in the month of September, from the historical record, is found to be 6 over December futures and the current basis offer is 45 over December, the local market is indicating strongly that an immediate cash sale is warranted.

When to Place or Lift a Hedge

If the basis is weak during harvest (30 under), and basis improvement is likely to occur over the storage period, it may be wise to store and hedge. When the basis has improved (21 over March), the basis is indicating to make cash delivery and to lift the hedge.

**Table 1. Northern Eastern Shore Average Corn Basis;
Marketing Years 1999/00 to 2003/04**

Month	Futures Contracts				
	September	December	March	May	July
			dollars/bu		
August	0.16 (.09 to .24)	0.05 (-.03 to .11)	-0.05 (-.15 to .03)	-0.10 (-.23 to .01)	-0.13 (-.31 to .01)
September	0.20 (.10 to .33)	0.06 (-.09 to .24)	-0.19 (-.21 to .19)	-0.09 (-.28 to .16)	-0.12 (-.35 to .17)
October		0.02 (-.21 to .32)	-0.08 (-.33 to .26)	-0.13 (-.40 to .23)	-0.18 (-.47 to .22)
November		0.09 (-.30 to .35)	0.00 (-.41 to .32)	-0.06 (-.49 to .30)	-0.10 (-.56 to .29)
December		0.14 (-.25 to .39)	0.07 (-.32 to .36)	0.02 (-.39 to .34)	-0.03 (-.47 to .31)
January			0.15 (-.11 to .36)	0.09 (-.19 to .33)	0.03 (-.27 to .30)
February			0.19 (-.11 to .40)	0.13 (-.19 to .37)	0.07 (-.27 to .35)
March			0.21 (-.10 to .42)	0.15 (-.16 to .43)	0.10 (-.24 to .42)
April				0.19 (-.01 to .46)	0.13 (-.08 to .45)
May				0.25 (.14 to .37)	0.18 (-.04 to .40)
June					0.22 (.05 to .39)
July					0.18 (-.15 to .38)
Source: University of Delaware			Basis = Cash - Futures		

**Table 2. Southern Eastern Shore Average Corn Basis;
Marketing Years 1999/00 to 2003/04**

Month	Futures Contracts					
	September	December	March	May	July	
			dollars/bu			
August	0.26 (.17 to .39)	0.15 (.08 to .26)	0.05 (-.03 to .18)	0.00 (-.10 to .16)	-0.05 (-.18 to .16)	
September	0.27 (.17 to .44)	0.13 (0 to .31)	0.03 (-.12 to .25)	-0.02 (-.19 to .22)	-0.06 (-.26 to .23)	
October		0.09 (-.14 to .41)	0.00 (-.26 to .35)	-0.06 (-.33 to .32)	-0.11 (-.39 to .31)	
November		0.20 (-.13 to .45)	0.11 (-.25 to .42)	-0.05 (-.33 to .40)	0.00 (-.40 to .39)	
December		0.26 (0 to .48)	0.19 (-.13 to .45)	0.13 (-.21 to .43)	0.09 (-.28 to .40)	
January			0.26 (.01 to .47)	0.20 (-.07 to .44)	0.14 (-.14 to .41)	
February			0.31 (.05 to .53)	0.24 (-.03 to .5)	0.19 (-.11 to .48)	
March			0.32 (.06 to .53)	0.28 (0 to .53)	0.22 (-.08 to .52)	
April				0.31 (.24 to .53)	0.25 (.09 to .52)	
May				0.35 (.28 to .45)	0.29 (.09 to .49)	
June					0.35 (.27 to .47)	
July					0.39 (.08 to .70)	
Source: University of Delaware			Basis = Cash - Futures			

**Table 3. Northern Eastern Shore Average Soybean Basis;
Marketing Years 1999/00 to 2003/04**

Month	Futures Prices						
	September	November	January	March	May	July	August
				dollars/bu			
September	-0.25 (-.43 to -.08)	-0.26 (-.36 to -.12)	-0.32 (-.43 to -.15)	-0.36 (-.49 to -.15)	-0.36 (-.49 to -.15)	-0.37 (-.59 to -.11)	-0.30 (-.59 to -.01)
October		-0.21 (-.37 to -.15)	-0.31 (-.44 to -.07)	-0.31 (-.49 to -.07)	-0.32 (-.54 to -.06)	-0.27 (-.58 to .20)	-0.15 (-.59 to .42)
November		-0.30 (-.44 to .01)	-0.28 (-.42 to -.05)	-0.30 (-.45 to -.01)	-0.26 (-.49 to .07)	-0.26 (-.54 to .12)	-0.13 (-.53 to .32)
December			-0.24 (-.39 to -.06)	-0.12 (-.48 to .10)	-0.11 (-.21 to .05)	-0.24 (-.61 to .20)	-0.24 (-.60 to .29)
January			-0.30 (-.93 to -.03)	-0.15 (-.22 to .05)	-0.25 (-.57 to .11)	-0.27 (-.39 to .14)	-0.19 (-.40 to .20)
February				-0.08 (-.17 to .03)	-0.10 (-.15 to .05)	-0.10 (-.24 to .06)	-0.01 (-.25 to .38)
March				-0.03 (-.11 to .09)	-0.10 (-.20 to .01)	-0.10 (-.30 to .04)	-0.01 (-.33 to .15)
April					-0.14 (-.19 to -.07)	-0.17 (-.32 to -.08)	-0.02 (-.35 to .48)
May					-0.16 (-.31 to -.05)	-0.12 (-.27 to .05)	0.01 (-.21 to -.59)
June						-0.12 (-.29 to -.03)	0.04 (-.23 to .64)
July						-0.30 (-.62 to -.07)	0.05 (-.39 to .82)
August							-0.08 (-.45 to .44)
Source: University of Delaware						Basis = Cash - Futures	

**Table 4. Southern Eastern Shore Average Soybean Basis;
Marketing Years 1999/00 to 2003/04**

Month	Futures Prices						August
	September	November	January	March	May	July	
				dollars/bu			
September	-0.19 (-.38 to .01)	-0.18 (-.33 to -.02)	-0.24 (-.40 to -.05)	-0.28 (-.46 to -.06)	-0.28 (-.48 to -.03)	-0.30 (-.50 to -.01)	-0.21 (-.51 to .10)
October		-0.15 (-.29 to .11)	-0.21 (-.36 to .11)	-0.15 (-.41 to .13)	-0.22 (-.47 to .18)	-0.17 (-.55 to .31)	-0.05 (-.56 to .47)
November		-0.19 (-.42 to .10)	-0.22 (-.47 to .15)	-0.24 (-.56 to .19)	-0.32 (-.64 to 0)	-0.20 (-.70 to .31)	-0.13 (-.71 to .40)
December			-0.13 (-.38 to .16)	-0.17 (-.47 to .20)	-0.17 (-.55 to .27)	-0.16 (-.60 to .30)	-0.09 (-.59 to .39)
January			-0.24 (-.82 to .07)	-0.13 (-.49 to .15)	-0.16 (-.48 to .20)	-0.20 (-.36 to .23)	-0.10 (-.30 to .30)
February				0.02 (-.07 to .14)	0.00 (-.09 to .16)	0.00 (-.17 to .17)	0.08 (-.19 to .48)
March				0.05 (-.09 to .19)	-0.01 (-.13 to .13)	-0.03 (-.23 to .16)	0.08 (-.26 to .48)
April					-0.07 (-.13 to .04)	-0.09 (-.24 to .04)	0.05 (-.27 to .47)
May					-0.04 (-.11 to .04)	-0.01 (-.12 to .14)	0.12 (-.06 to .68)
June						-0.03 (-.17 to .04)	0.14 (-.10 to .71)
July						-0.21 (-.54 to -.01)	0.14 (-.33 to .87)
August							0.02 (-.38 to .49)
Source: University of Delaware						Basis = Cash - Futures	

**Table 5. Northern Eastern Shore Average Wheat Basis;
Marketing Years 1999/00 to 2003/04**

Month	Futures Contracts					
	July	September	December	March	May	
			dollars/bu			
June	-0.29 (-.35 to -.25)	-0.39 (-.47 to -.32)	-0.52 (-.64 to -.41)	-0.60 (-.77 to -.42)	-0.61 (-.77 to -.36)	
July	-0.23 (-.29 to -.11)	-0.34 (-.43 to -.23)	-0.48 (-.60 to -.35)	-0.59 (-.77 to -.43)	-0.63 (-.86 to -.36)	
August		-0.49 (-1.27 to -.18)	-0.65 (-1.40 to -.34)	-0.96 (-1.48 to -.44)	-0.63 (-.89 to -.34)	
September		-0.35 (-.50 to -.27)	-0.44 (-.63 to -.25)	-0.55 (-.85 to -.33)	-0.52 (-.94 to -.12)	
October			-0.23 (-.33 to .06)	-0.31 (-.49 to -.12)	-0.31 (-.59 to -.06)	
November			-0.09 (-.22 to .05)	-0.26 (-.37 to -.13)	-0.25 (-.47 to .02)	
December			-0.09 (-.15 to -.03)	-0.30 (-.55 to -.18)	-0.33 (-.66 to -.06)	
January				0.29 (-.33 to 2.49)	0.25 (-.45 to 2.44)	
February				-0.28 (-.40 to -.18)	-0.35 (-.51 to -.20)	
March				-0.28 (-.39 to -.17)	-0.28 (-.37 to -.20)	
April					-0.15 (-.26 to -.02)	
May					-0.19 (-.19 to .18)	
Source: University of Delaware					Basis = Cash - Futures	

**Table 6. Southern Eastern Shore Average Wheat Basis;
Marketing Years 1999/00 to 2003/04**

Month	Futures Contracts					
	July	September	December	March	May	
			dollars/bu			
June	-0.29 (-.35 to -.23)	-0.38 (-.47 to -.30)	-0.51 (-.64 to -.40)	-0.59 (-.77 to -.41)	-0.62 (-.77 to -.35)	
July	-0.24 (-.28 to -.20)	-0.33 (-.42 to -.20)	-0.46 (-.60 to -.31)	-0.57 (-.76 to -.39)	-0.62 (-.86 to -.32)	
August		-0.48 (-1.19 to -.16)	-0.63 (-1.32 to -.32)	-0.76 (-1.40 to -.42)	-0.63 (-.96 to -.32)	
September		-0.31 (-.46 to -.01)	-0.43 (-.57 to -.28)	-0.54 (-.75 to -.32)	-0.52 (-.84 to -.11)	
October			-0.43 (-.63 to -.25)	-0.53 (-.80 to -.26)	-0.53 (-.90 to -.04)	
November			-0.34 (-.59 to .04)	-0.50 (-.70 to -.23)	-0.48 (-.80 to .02)	
December			-0.32 (-.51 to -.07)	-0.43 (-.63 to -.15)	-0.44 (-.69 to -.03)	
January				-0.40 (-.63 to -.18)	-0.42 (-.63 to -.15)	
February				-0.28 (-.41 to -.19)	-0.36 (-.53 to -.18)	
March				-0.28 (-.41 to -.17)	-0.30 (-.44 to -.18)	
April					-0.27 (-.37 to -.17)	
May					-0.23 (-.30 to -.16)	
Source: University of Delaware					Basis = Cash - Futures	

Selected References

Kothari Mihir, et al., “The Historical Basis Record for Grain and Soybeans in Delaware; Marketing Years 1999/00 to 2003/04”, ER04-02, November 2004.

