

Using Basis as an Indicator in Making Profitable Grain Marketing Decisions

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Prelude

This executive summary is intended to serve as a supplement to the publication RR07- 03, “The Historical Basis Record for Grain and Soybeans in Delaware: Marketing Years 2004/05 to 2006/07.” The executive summary includes basis tables and information relevant to farmers’ grain and oilseed marketing decisions.

This publication considers the following to be strong basis levels for the Northern and Southern Eastern Shore of Delaware:

- Corn – (20 over or better)
- Soybeans – (20 under or better)
- Wheat – (30 under or better)

Introduction

Basis is a key component of all grain and oilseed marketing decisions. 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. The futures and cash (spot) price are taken from weekly recordings obtained from the Maryland Grain and Livestock Report for the Lower and Upper Eastern Shore.

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 selling decisions.

The basis tables presented in this summary publication are directly applicable to crop marketing decisions from the harvest period through the storage months. This publication provides an executive summary of “The Historical Basis Record for Grain and Soybeans in Delaware: Marketing Years 2004/05 to the 2006/07.”

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 2004/05 to 2006/07).
2. Choose the futures contract month (across the top) in which you wish to hedge, forward contract, or 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 is the correct historical basis to use in making the grain marketing decision. For example, the basis for December corn futures and the December calendar month in Table 1 is 20 over December. Meaning, over the past three years the cash price has averaged 20 cents over the December futures price. The basis recording from the table is used to compute the localized futures price (the expected cash price at delivery) for hedging and forward pricing sales opportunities, or to compare basis bids being offered.

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 and oilseed 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*
- *Deciding when to sell, store, or purchase a crop*
- *Deciding when to place or lift a hedge*

To Localize a Futures Price

The localized futures price is the expected cash price at delivery. The localized futures price is determined by adding or subtracting the anticipated basis from a specific futures price.

For example:

December corn futures	\$3.49
Basis (+ or -)	<u>+ .20</u>
= Localized Futures Price	\$3.69

To Accept or Reject a Given Price

Historical basis information can help a grain seller to decide whether a particular cash bid is acceptable. For example, a spot sale at harvest may represent a strong basis offer (30 over December). The historical record may indicate a 20 over basis is to be expected 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 December, from the historical record, is found to be 20 over December futures and the current basis offer is 45 over December, the local market is indicating 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. Once the basis has improved (21 over December), the basis is indicating to make a cash sale delivery and to lift/offset the hedge.

Table 1: Northern Eastern Shore Average Corn Basis: Marketing Years 2004/05 to 2006/07

Month	Basis				
	September	December	March	May	July
August	0.09	-0.04	-0.15	-0.22	-0.28
September	0.11	-0.04	-0.16	-0.23	-0.30
October		-0.09	-0.20	-0.27	-0.34
November		0.02	-0.12	-0.19	-0.25
December		0.20	0.08	0.01	-0.07
January			0.13	0.04	-0.03
February			0.15	0.05	-0.03
March			0.20	0.10	0.01
April				0.08	-0.02
May				0.14	0.04
June					0.12
July					0.15

Month	Range				
	September	December	March	May	July
August	(.04 to .11)	(-.09 to -.02)	(-.19 to -.12)	(-.23 to .15)	(-.31 to -.24)
September	(-.01 to .12)	(-.11 to 0.0)	(-.23 to -.12)	(-.29 to -.18)	(-.36 to -.25)
October		(-.16 to -.06)	(-.27 to -.18)	(-.30 to -.24)	(-.39 to -.29)
November		(-.07 to .11)	(-.20 to -.02)	(-.30 to -.20)	(-.34 to -.15)
December		(-.24 to .26)	(-.20 to .07)	(-.09 to .01)	(-.16 to .01)
January			(-.01 to .14)	(.03 to .06)	(-.07 to 0.0)
February			(.09 to .16)	(0.0 to .11)	(-.16 to .01)
March			(.11 to .19)	(.02 to .11)	(-.09 to .01)
April				(.04 to .09)	(-.06 to .05)
May				(.11 to .15)	(.01 to .07)
June					(.06 to .19)
July					(.13 to .17)

Source: University of Delaware

3 Year Average

Basis = Cash - Futures

Table 2: Southern Eastern Shore Average Corn Basis: Marketing Years 2004/05 to 2006/07

Month	Basis				
	September	December	March	May	July
August	0.18	0.05	-0.06	-0.13	-0.18
September	0.20	0.05	-0.07	-0.14	-0.21
October		0.01	-0.11	-0.18	-0.25
November		0.13	-0.01	-0.08	-0.14
December		0.29	0.17	0.09	0.02
January			0.23	0.14	0.06
February			0.23	0.13	0.05
March			0.25	0.16	0.07
April				0.19	0.08
May				0.23	0.14
June					0.21
July					0.24

Month	Range				
	September	December	March	May	July
August	(.12 to .22)	(0.0 to .08)	(-.10 to -.02)	(-.17 to -.09)	(-.22 to -.15)
September	(.17 to .23)	(.03 to .06)	(-.13 to -.01)	(-.21 to -.04)	(-.27 to -.15)
October		(-.03 to .06)	(-.17 to -.05)	(-.23 to -.12)	(-.30 to -.19)
November		(.01 to .21)	(-.10 to .12)	(-.17 to .08)	(-.24 to .02)
December		(.11 to .29)	(.03 to .15)	(0.0 to .12)	(-.07 to .08)
January			(.18 to .25)	(.09 to .16)	(.01 to .09)
February			(.20 to .24)	(.10 to .14)	(.01 to .06)
March			(.20 to .29)	(.11 to .20)	(.04 to .10)
April				(.14 to .24)	(.04 to .14)
May				(.21 to .25)	(.10 to .17)
June					(.14 to .25)
July					(.21 to .26)

Source: University of Delaware

3 Year Average

Basis = Cash - Futures

Table 3: Northern Eastern Shore Average Soybean Basis: Marketing Years 2004/05 to 2006/07

Month	Basis						
	September	November	January	March	May	July	August
September	-0.11	-0.23	-0.32	-0.41	-0.48	-0.54	-0.62
October		-0.34	-0.45	-0.53	-0.59	-0.66	-0.67
November		-0.33	-0.40	-0.48	-0.54	-0.61	-0.63
December			-0.25	-0.32	-0.38	-0.46	-0.48
January			-0.12	-0.17	-0.23	-0.35	-0.33
February				-0.06	-0.15	-0.23	-0.26
March				0.00	-0.10	-0.19	-0.21
April					-0.16	-0.28	-0.31
May					-0.11	-0.21	-0.25
June						-0.25	-0.31
July						-0.28	-0.25
August							-0.27

Month	Range						
	September	November	January	March	May	July	August
September	(-.23 to -.01)	(-.34 to 0.0)	(-.44 to -.09)	(-.54 to -.17)	(-.60 to -.25)	(-.67 to -.32)	(-.67 to -.58)
October		(-.48 to -.24)	(-.58 to -.37)	(-.62 to -.45)	(-.71 to -.63)	(-.79 to -.58)	(-.80 to -.60)
November		(-.33 to -.32)	(-.41 to -.30)	(-.53 to -.38)	(-.59 to -.48)	(-.67 to -.52)	(-.68 to -.55)
December			(-.42 to -.21)	(-.50 to -.27)	(-.58 to -.34)	(-.68 to -.42)	(-.71 to -.44)
January			(-.25 to -.08)	(-.30 to -.12)	(-.39 to -.18)	(-.48 to -.29)	(-.51 to -.30)
February				(-.22 to -.03)	(-.33 to -.13)	(-.43 to -.22)	(-.46 to -.25)
March				(-.13 to -.04)	(-.35 to -.16)	(-.42 to -.14)	(-.45 to -.18)
April					(-.26 to -.17)	(-.39 to -.30)	(-.41 to -.34)
May					(-.20 to -.12)	(-.33 to -.21)	(-.38 to -.26)
June						(-.38 to -.19)	(-.47 to -.23)
July						(-.32 to -.23)	(-.37 to -.21)
August							(-.69 to -.52)

Source: University of Delaware

3 Year Average

Basis = Cash - Futures

Table 4: Southern Eastern Shore Average Soybean Basis: Marketing Years 2004/05 to 2006/07

Month	Basis						
	September	November	January	March	May	July	August
September	-0.01	-0.09	-0.19	-0.27	-0.34	-0.41	-0.44
October		-0.22	-0.34	-0.41	-0.48	-0.54	-0.56
November		-0.20	-0.24	-0.32	-0.38	-0.45	-0.48
December			-0.19	-0.25	-0.31	-0.37	-0.39
January			-0.05	-0.06	-0.15	-0.23	-0.24
February				0.02	-0.07	-0.15	-0.18
March				0.14	0.05	-0.04	-0.06
April					0.00	-0.12	-0.14
May					0.03	-0.07	-0.11
June						-0.08	-0.14
July						-0.14	-0.14
August							-0.15

Month	Range						
	September	November	January	March	May	July	August
September	(-.06 to .05)	(-.16 to .03)	(-.27 to -.06)	(-.36 to -.14)	(-.43 to -.20)	(-.45 to -.27)	(-.50 to -.36)
October		(-.36 to -.06)	(-.50 to -.21)	(-.55 to -.29)	(-.60 to -.33)	(-.70 to -.41)	(-.70 to -.42)
November		(-.20 to -.19)	(-.32 to -.18)	(-.41 to -.26)	(-.47 to -.32)	(-.55 to -.44)	(-.56 to -.41)
December			(-.23 to -.09)	(-.32 to -.16)	(-.40 to -.24)	(-.48 to -.31)	(-.51 to -.33)
January			(-.12 to .02)	(-.16 to 0.0)	(-.25 to -.07)	(-.35 to -.16)	(-.38 to -.20)
February				(-.16 to .04)	(-.19 to -.05)	(-.29 to -.13)	(-.32 to -.14)
March				(.03 to .08)	(-.13 to .12)	(-.24 to 0.0)	(-.27 to -.04)
April					(-.08 to -.04)	(-.22 to -.17)	(-.38 to -.20)
May					(-.04 to -.03)	(-.17 to -.07)	(-.25 to -.12)
June						(-.15 to -.04)	(-.22 to -.09)
July						(-.17 to -.08)	(-.22 to -.06)
August							(-.19 to -.10)

Source: University of Delaware

3 Year Average

Basis = Cash - Futures

Table 5: Northern Eastern Shore Average Wheat Basis: Marketing Years 2004/05 to 2006/07

Month	Basis				
	September	December	March	May	July
August					
September					
October					
November					
December					
January	Insufficient Data Available for Analysis				
February					
March					
April					
May					
June					
July					
	Range				
	September	December	March	May	July
August					
September					
October					
November					
December					
January	Insufficient Data Available for Analysis				
February					
March					
April					
May					
June					
July					
Source: University of Delaware	3 Year Average			Basis = Cash - Futures	

Table 6: Southern Eastern Shore Average Wheat Basis: Marketing Years 2004/05 to 2006/07

Month	Basis				
	September	December	March	May	July
August	-0.42	-0.58	-0.72	-0.79	-0.84
September	-0.36	-0.52	-0.66	-0.72	-0.76
October		-0.53	-0.66	-0.66	-0.54
November		-0.47	-0.63	-0.66	-0.63
December		-0.39	-0.55	-0.62	-0.62
January			-0.51	-0.60	-0.66
February			-0.46	-0.57	-0.66
March			-0.40	-0.47	-0.58
April				-0.50	-0.62
May				-0.39	-0.49
June					-0.52
July					-0.40

Month	Range				
	September	December	March	May	July
August	(-.47 to -.37)	(-.62 to -.53)	(-.69 to -.61)	(-.83 to -.74)	(-.87 to -.78)
September	(-.38 to -.33)	(-.62 to -.48)	(-.75 to -.60)	(-.77 to -.66)	(-.82 to -.70)
October		(-.62 to -.43)	(-.75 to -.54)	(-.74 to -.53)	(-.79 to -.41)
November		(-.56 to -.46)	(-.73 to -.37)	(-.78 to -.43)	(-.78 to -.41)
December		(-.47 to -.29)	(-.65 to -.44)	(-.78 to -.39)	(-.72 to -.51)
January			(-.58 to -.38)	(-.67 to -.48)	(-.74 to -.56)
February			(-.52 to -.40)	(-.63 to -.51)	(-.72 to -.60)
March			(-.43 to -.36)	(-.61 to -.32)	(-.71 to -.44)
April				(-.78 to -.43)	(-.66 to -.55)
May				(-.44 to -.32)	(-.56 to -.43)
June					(-.60 to -.38)
July					(-.55 to -.24)

Source: University of Delaware

3 Year Average

Basis = Cash - Futures

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