

Understanding and Using Basis Data/Information

Basis = (Local Cash minus Futures)

Wyoming, January 2014

Duane Griffith, Montana State University



Profitable & Sustainable
AGRICULTURAL SYSTEMS
UW Cooperative Extension Service



Mountains & Minds

Sample Basis Calculations

Basis = (Cash Minus Futures)

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



Mountains & Minds

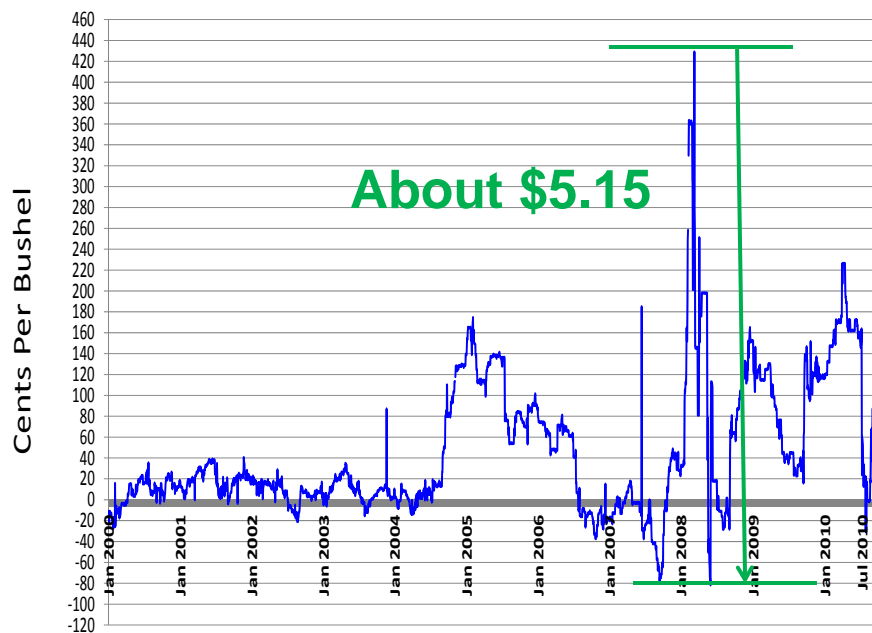
Explaining Basis

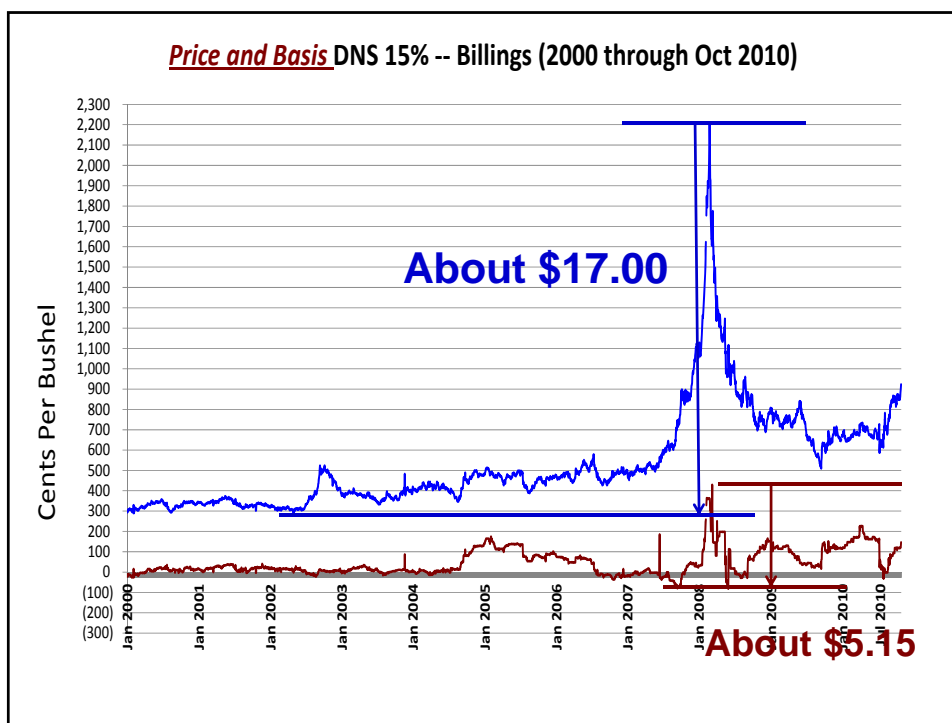
- Infrastructure Factors:
 - Storage capacity and through put
 - Transportation system(s) capacity
 - Relatively stable/known and can be managed
- Production and Marketing Factors
 - Weather
 - Quality (discounts and premiums)
 - Global demand and supply
 - Institutional affects



Mountains & Minds

Basis DNS 15% -- Billings (2000 through Oct 2010)





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 ?????

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"

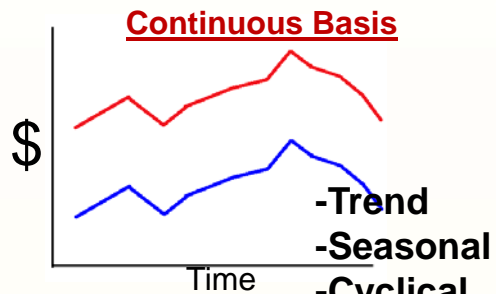
Some basis data available from University of Wyoming



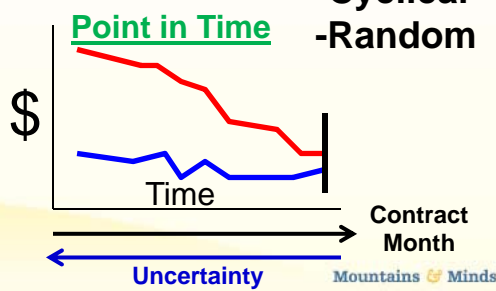
Mountains & Minds

Different Types of Basis

Current local cash price minus near by futures



Current local cash price minus specific futures contract month



Mountains & Minds

Positive & Negative Basis

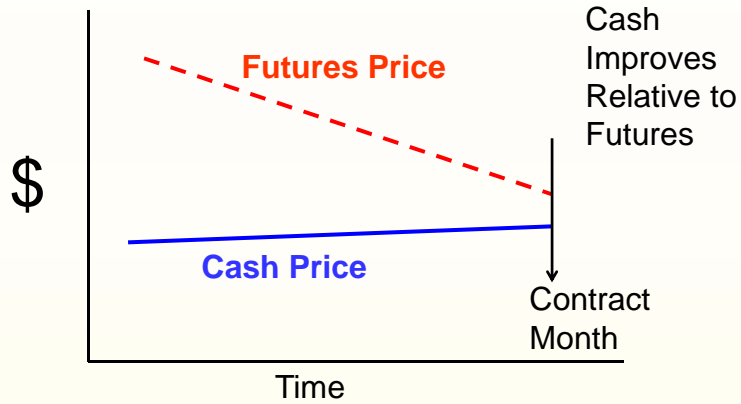
- If basis is positive the cash is greater than futures price
- If negative then cash is less than futures
- Basis will vary over time (random noise)
- As basis changes it is referred to as
 - Improving (strengthening) or
 - Weakening
- **Why not getting narrower or wider**
- Inverted Basis (opposite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

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

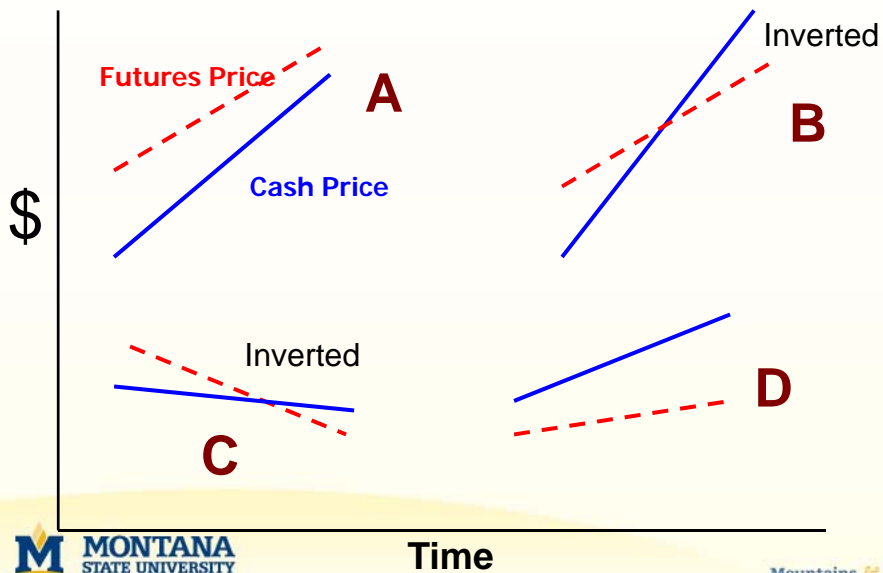


Basis is negative but is trending toward a smaller negative number



Mountains & Minds

Other Improving Basis Patterns



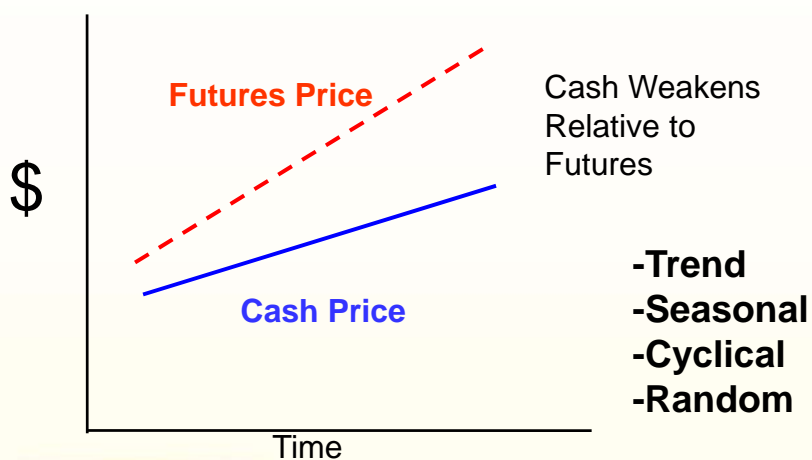
Time

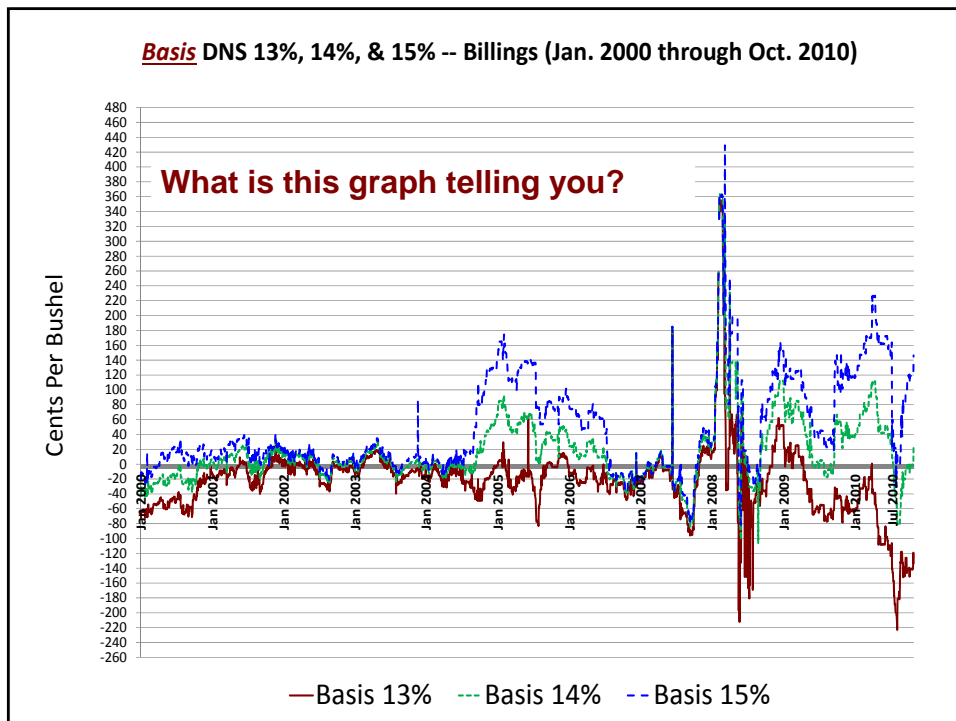
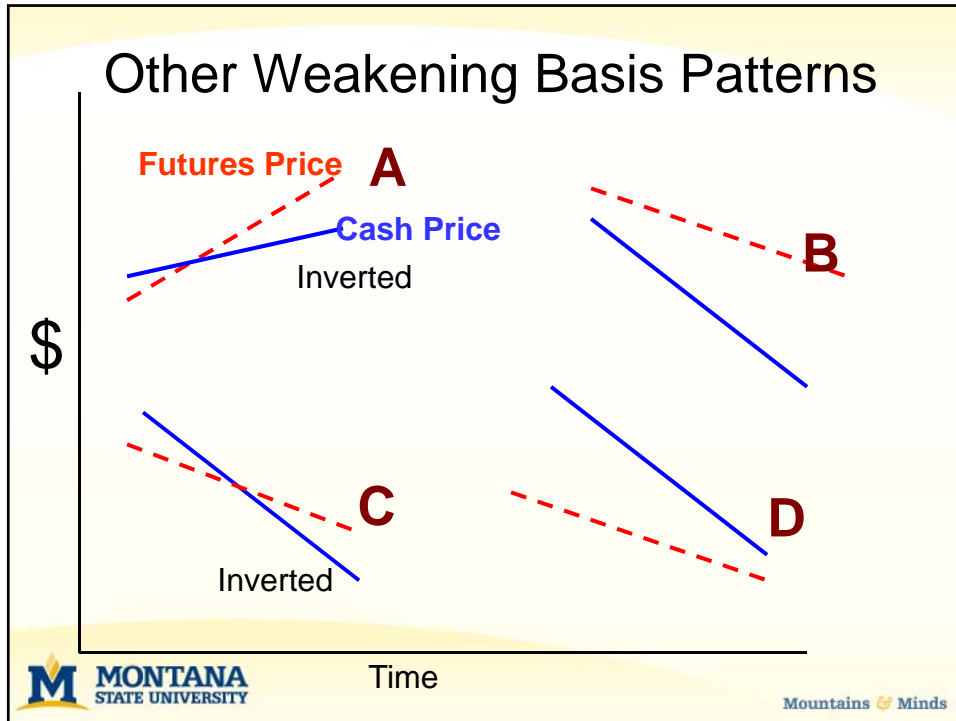
Mountains & Minds

Weak or Weakening Basis

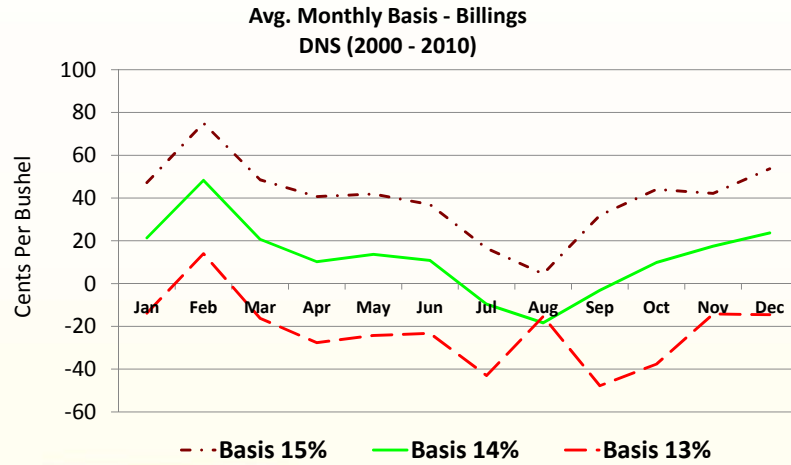
- Basis is weak if the current basis is less than the historical average basis.
 - Positive basis
 - Smaller than average positive number
 - Negative basis
 - Larger than average negative number

Picture of Weakening Basis



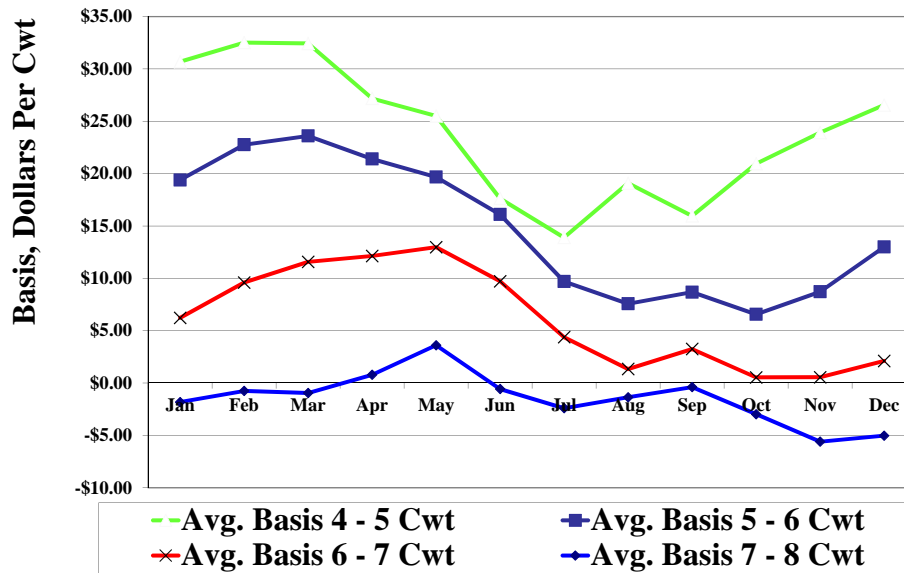


Dark Northern Spring, Billings Basis



Mountains & Minds

Average Monthly Basis, By Cwt Steers, Billings 2000 to 2012



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



Mountains & Minds

BEEFBASIS.COM
Decision Support for America's Beef Producers

Home Forecasting Tools Market Data Learn Historic Basis Tools Ration and Cost Calculator Contact Financial Tools About BeefBasis Other Tools

Home

Closing Feeder Futures Price by Contract

Welcome to BeefBasis

Quick Look Price Forecast: 8 Week

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.

On top of all of this, nobody is sure how the economy will react to the outcome of the fiscal cliff compromise, and we learned from 2008-2010 that beef is not a recession-proof food. In 2009, live cattle prices and the feeder cattle index declined as much as 17% from the same months two years earlier, while same month boxed beef price declines exceeded 19% from 2007 to 2009. These price declines were

Quick Look Price Forecast: 16 Week

USDA Reports - Cattle

National Daily Cattle and Beef Summary

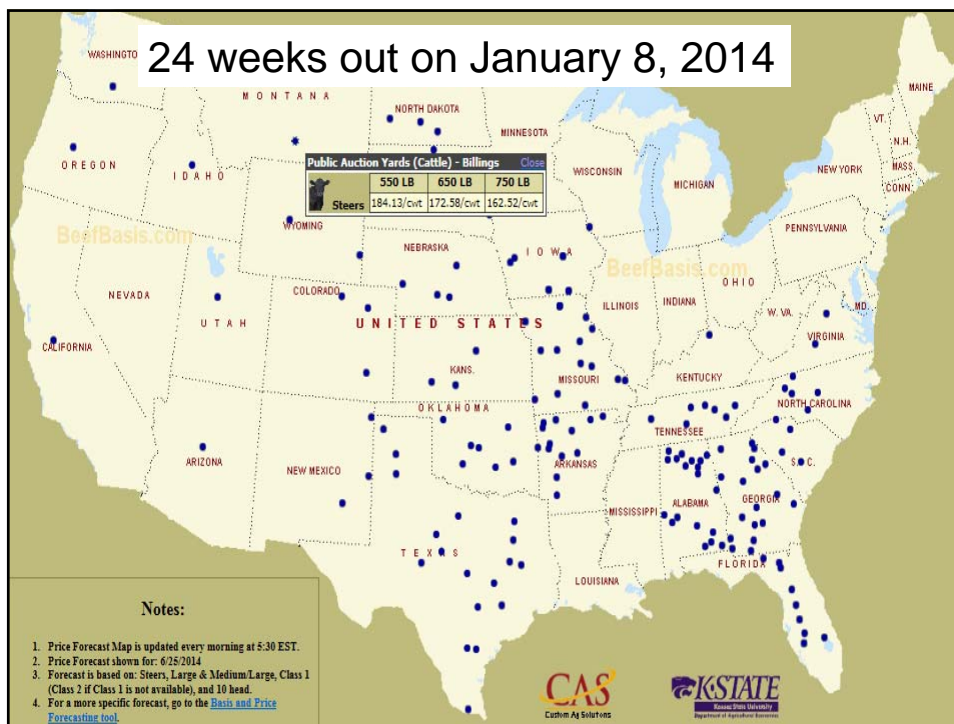
National Daily Cow and Boneless Beef Summary

National Weekly Cattle and Beef Summary

Daily National Carlot Meat Report

Daily Direct Steer and Heifer Slaughter Cattle Summary

Weekly Retail Beef Prices



United States Department of Agriculture
Agricultural Marketing Service

Home
About AMS
Newsroom
Opportunities
Online Forms
Help
Contact Us

Search AMS

Go

- Advanced Search
- Search Tips
- Market News Search

Browse by Subject

- Market News
- Commodity Areas
- Grading, Certification and Verification

Browse by Commodity

- Commodity Purchasing
- Agricultural Transportation
- Farmers Markets and Local Food Marketing
- Regulatory Programs
- Research and Promotion Programs
- Marketing Orders and Agreements
- Grant Programs
- International Marketing

You are here: Home

Market News

Livestock, Poultry, and Grain Market News

The primary function of the Livestock, Poultry, and Grain Market News Division (LPGMN) of the Livestock, Poultry, and Seed Program (LPS) is to compile and disseminate information that will aid producers, consumers, and distributors in the sale and purchase of livestock, meat, poultry, eggs, grains, and their related products regionally, nationally and internationally.

The new LPGMN Division will continue the long established marketing and distribution of farm commodities. Our current reports and personnel will remain the same. The only thing that is changing is our name.

<http://www.ams.usda.gov/AMSV1.0/LPSMarketNewsPage>

Browse by Commodity

Reports

- Cattle
- Feedstuffs
- Bioenergy
- Poultry & Eggs
- Goats
- Grains
- International
- Organic
- Other
- Sheep
- Hay
- Meat

Publications

- Livestock & Grain
- Poultry & Eggs

I Want To

- Subscribe to Reports
- Subscribe to Mobile Reports
- Find New Reports
- Contact a LPGMN Office
- Livestock and Grain Market News Portal
- Poultry and Egg Market News Portal
- All LPGMN Reports
- All LPGMN Reports by Office
- Reference Room / Glossary of Terms
- Find a NASS Report

The Next Slide

- If you are loaded this PowerPoint for the first time, the next slide will appear blank, except for the wording at the bottom of the slide.
- The contents of the slide, interactive software, only appears in the slide show mode.



Mountains & Minds

Introduction Input Data Futures Options SummaryResults Margin Account Cost of Prod. Save, Load, Delete Scenarios

MONTANA STATE UNIVERSITY
EXTENSION

Comparing Price Protection Levels With Futures and Options

This program allows comparison of levels of price protection offered by futures and options contracts. Adjustments are made for the differences in the way futures and options contracts are implemented and the transactions cost incurred for each type of contract.

To complete this analysis, use the tabs across the top of the screen, going from left to right, and complete requested information on each page. Please note that some information, such as the current futures price at purchase time or initial position and the expected futures price at sale or time when the initial position is offset appear on several pages. You do not have to enter one of these prices more than once. Changing a value that appears on one page changes that value everywhere it appears. This also allows you to change numbers in "What If" analysis to see how price protection levels vary and how different factors affect price protection strategies.

Each individual page (tab) may have several data entry steps. Make sure you complete all that are necessary for the comparison you wish to make.

Mouse Over to Activate Off/On Click to Activate Off/On

Check Box to Display/Hide input, results or other informatio

Data Entry Demo: For any cell with a blue background, you can move your mouse over the cell and left click and drag up or down to change the cell value. If you computer is relatively slow, this may not change the values very fast. You can also double click and type in a new number, but you must delete the existing number first.


Number	Multiplier		Results
	Percent +/-		
1,000	100%		1,000

Authors:
Duane Griffith, Montana State University
griffith@montana.edu
406-994-2580

Reset Print

Spring Wheat Example: Futures, Options, & Margin Accounting

Introduction Input Data Futures Options SummaryResults Margin Account Cost of Prod. Save, Load, Delete Scenarios



Comparing Price Protection Levels With Futures and Options

This program allows comparison of levels of price protection offered by futures and options contracts. Adjustments are made for the differences in the way futures and options contracts are implemented and the transactions cost incurred for each type of contract.

To complete this analysis, use the tabs across the top of the screen, going from left to right, and complete requested information on each page. Please note that some information, such as the current futures price at purchase time or initial position and the expected futures price at sale or time when the initial position is offset appear on several pages. You do not have to enter one of these prices more than once. Changing a value that appears on one page changes that value everywhere it appears. This also allows you to change numbers in "What If" analysis to see how price protection levels vary and how different factors affect price protection strategies.

Each individual page (tab) may have several data entry steps. Make sure you complete all that are necessary for the comparison you wish to make.

Check Box to Display/Hide input, results or other informatio


Data Entry Demo: For any cell with a blue background, you can move your mouse over the cell and left click and drag up or down to change the cell value. If you computer is relatively slow, this may not change the values very fast. You can also double click and type in a new number, but you must delete the existing number first.

Number	Multiplier Percent +/-	Results
1,000	100%	1,000

Authors:
Duane Griffith, Montana State University
griffith@montana.edu
406-994-2580

Corn Example: Futures, Options, Margin Accounting

Introduction Input Data Futures Options SummaryResults Margin Account Cost of Prod. Save, Load, Delete Scenarios



Comparing Price Protection Levels With Futures and Options

This program allows comparison of levels of price protection offered by futures and options contracts. Adjustments are made for the differences in the way futures and options contracts are implemented and the transactions cost incurred for each type of contract.

To complete this analysis, use the tabs across the top of the screen, going from left to right, and complete requested information on each page. Please note that some information, such as the current futures price at purchase time or initial position and the expected futures price at sale or time when the initial position is offset appear on several pages. You do not have to enter one of these prices more than once. Changing a value that appears on one page changes that value everywhere it appears. This also allows you to change numbers in "What If" analysis to see how price protection levels vary and how different factors affect price protection strategies.

Each individual page (tab) may have several data entry steps. Make sure you complete all that are necessary for the comparison you wish to make.

Check Box to Display/Hide input, results or other informatio

Data Entry Demo: For any cell with a blue background, you can move your mouse over the cell and left click and drag up or down to change the cell value. If you computer is relatively slow, this may not change the values very fast. You can also double click and type in a new number, but you must delete the existing number first.

Number	Multiplier Percent +/-	Results
1,000	100%	1,000

Authors:
Duane Griffith, Montana State University
griffith@montana.edu
406-994-2580

Winter Wheat Example: Futures, Options, Margin Accounting

Questions

