

Understanding and Using Basis Data/Information

Basis = (Local Cash minus Futures)

Wyoming, February 2015

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Sample Basis Calculations

Basis = (Cash Minus Futures)

Date	Local <u>Cash</u> *	<u>Futures</u>	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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Estimating Local Cash Price

Futures Price for specific commodity

- **Transportation/Infrastructure**

- All costs Farm to Market

- **Local storage, handling, profit**

- **Commodity Discounts**

- Class = HRW Ord. versus 12%

- Quality = dirt, chaff, other, etc.

- + **Commodity Premiums**

- Protein, Plump, (Class & Quality)

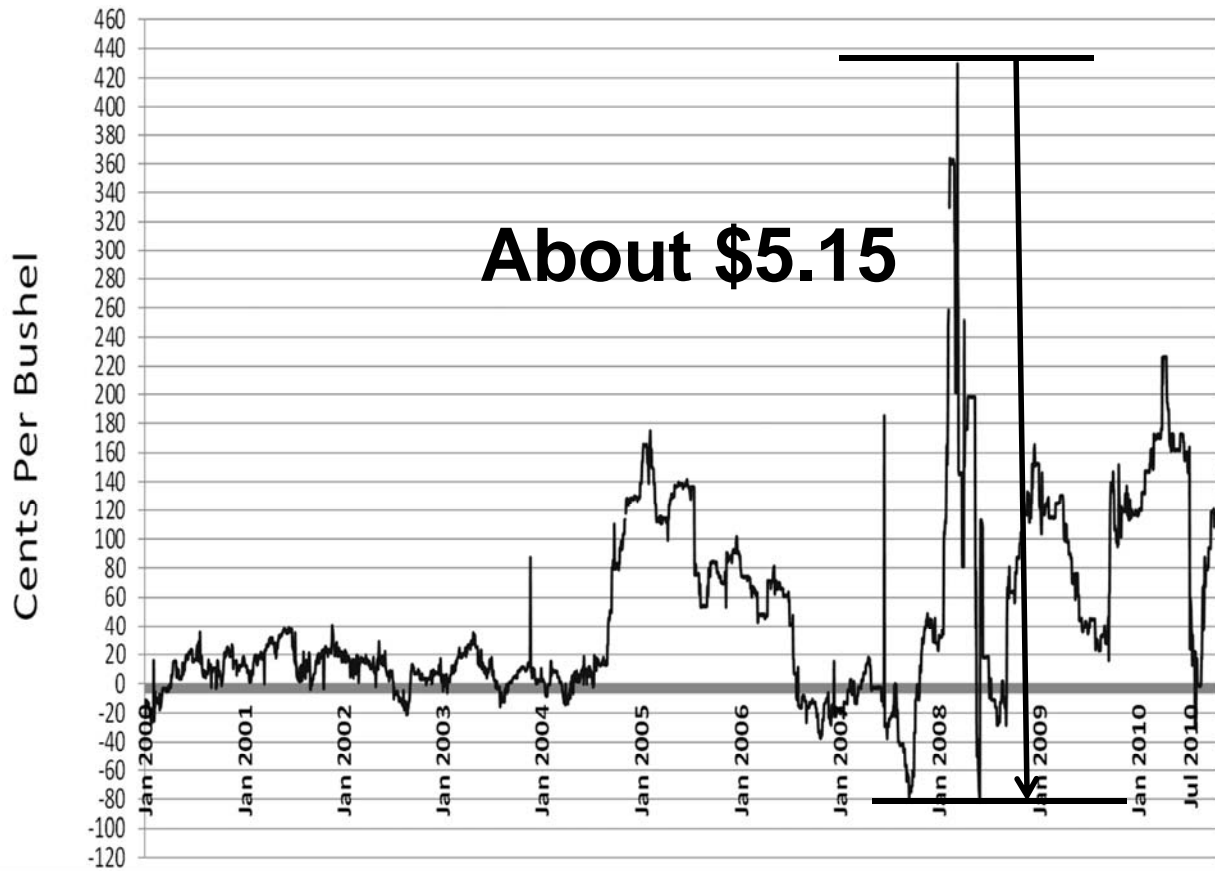
= Basis

= **Expected Local Cash Price for specific commodity**

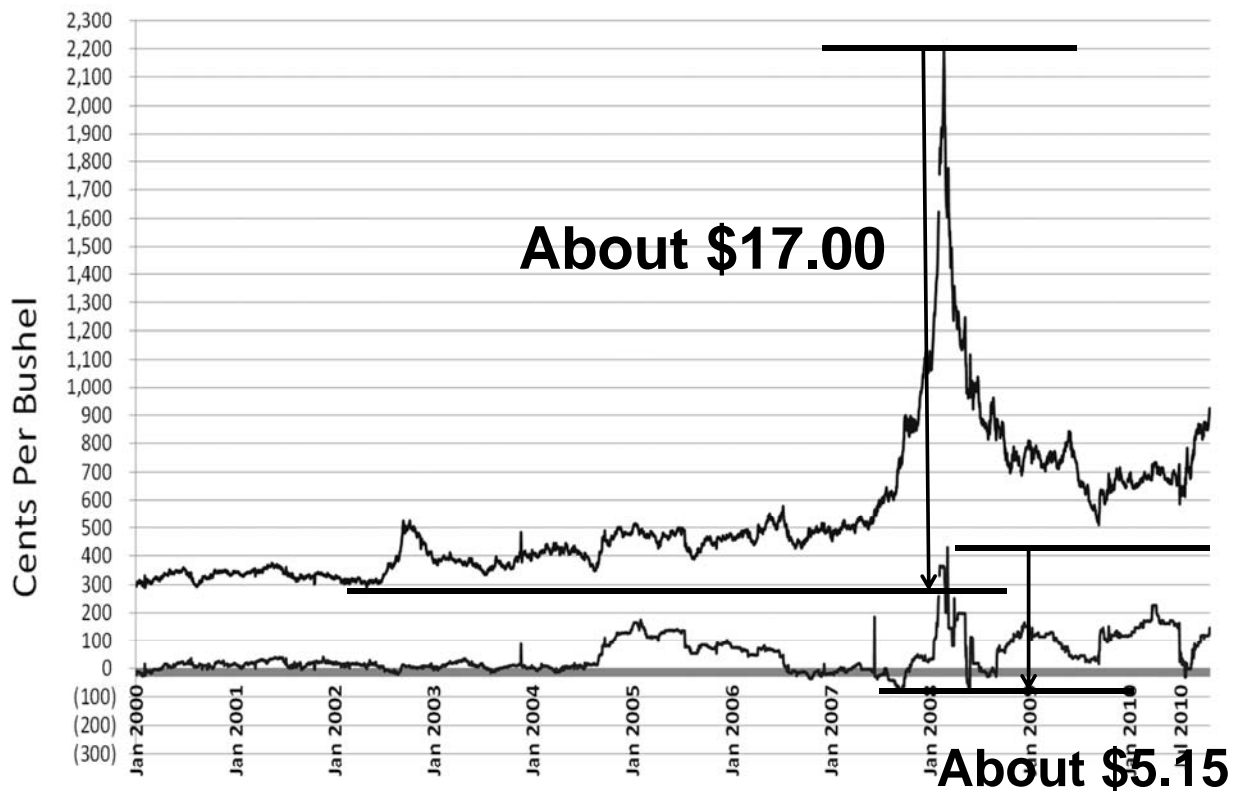
Explaining Basis

- 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)
 - Deviations from Contract Specifications
 - 500 Lb. calf Vs 700 Lb. contract spec
 - Global demand and supply
 - Institutional affects

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



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



Basis Versus Price Predictability

- Use Basis to transfer price risk to others
 - Use Futures or Options to “Lock In” Price
 - Your risk becomes the Basis Risk (variability)

Relatively Stable Basis 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"

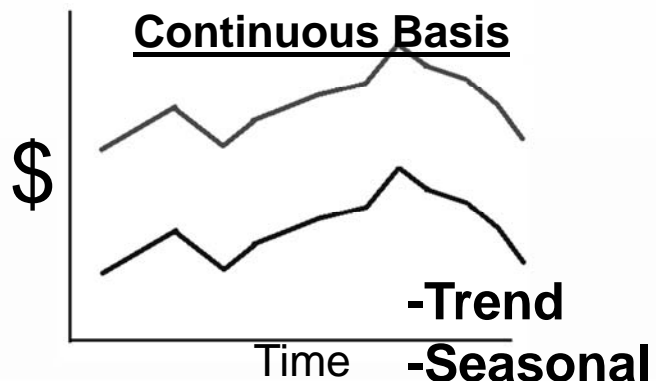
Some basis data available from University of Wyoming



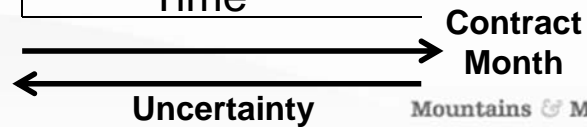
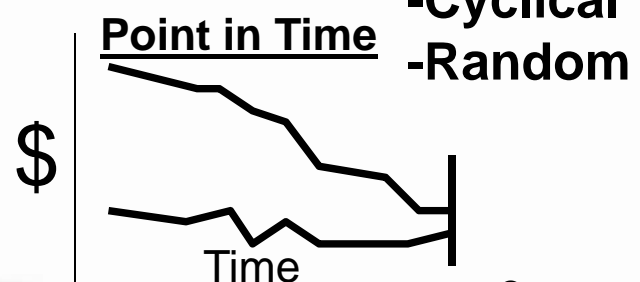
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Different Types of Basis

Current local cash
price minus near
by futures



Current local
cash price minus
specific futures
contract month



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Positive & Negative Basis

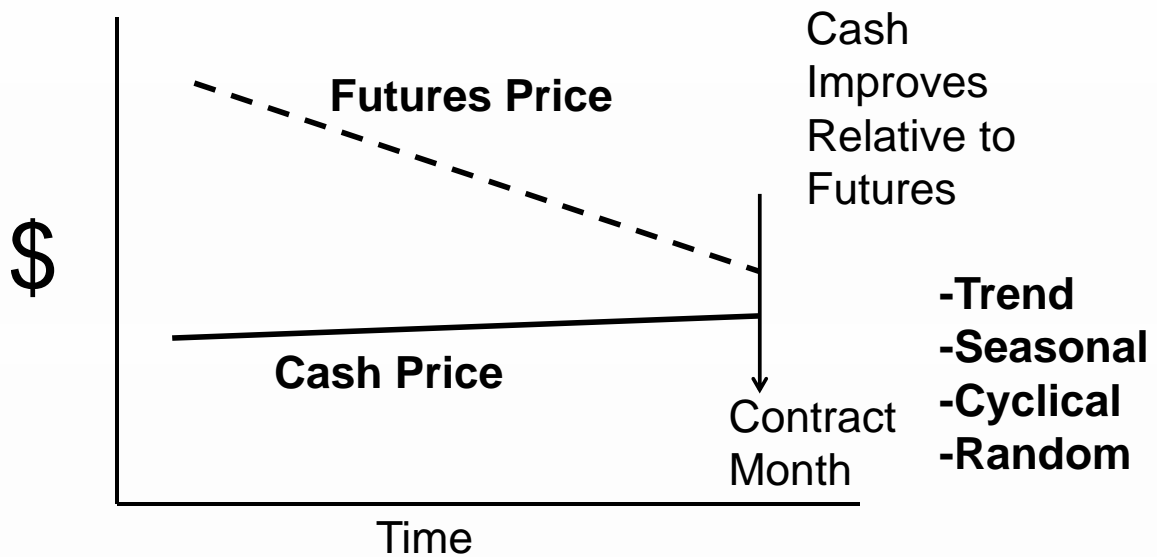
- If basis is positive the cash is greater than futures price
- If negative then cash is less than futures
- Basis will vary over time (random noise)
- As basis changes it is referred to as
 - Improving (strengthening) or
 - Weakening
- **Why not getting narrower or wider**
- Inverted Basis (opposite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

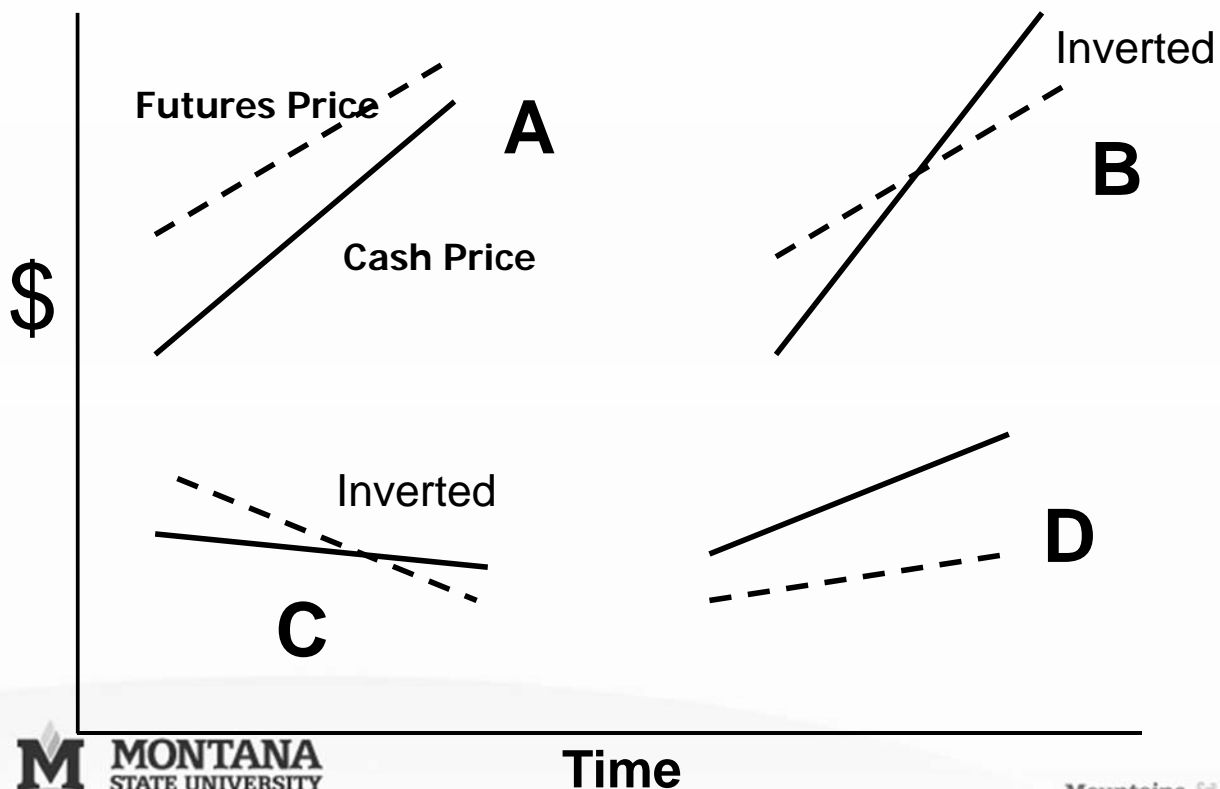
Picture of Strong/Improving Basis

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



Basis is negative but is trending toward a smaller negative number

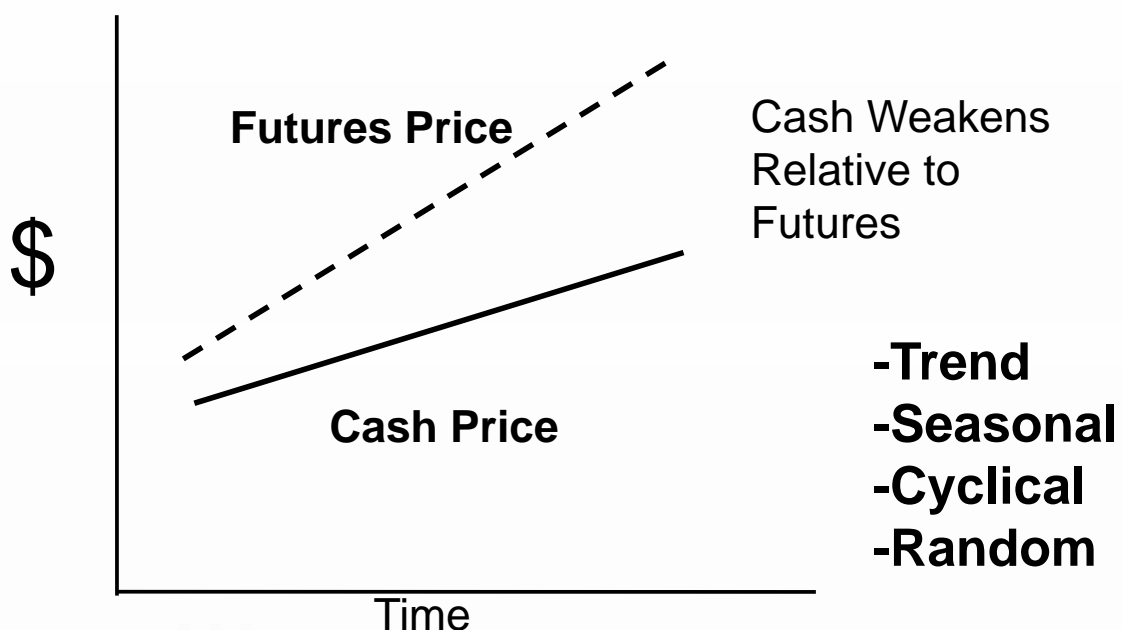
Other Improving Basis Patterns



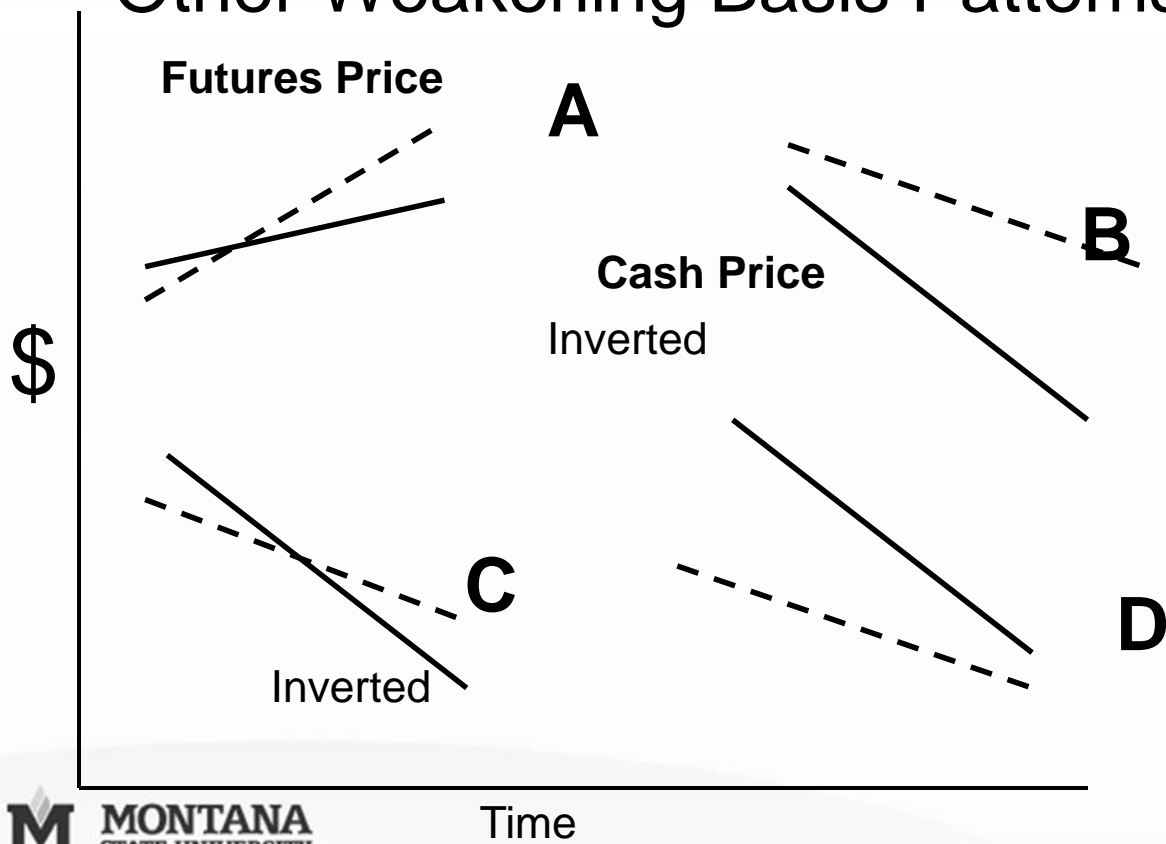
Weak or Weakening Basis

- 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

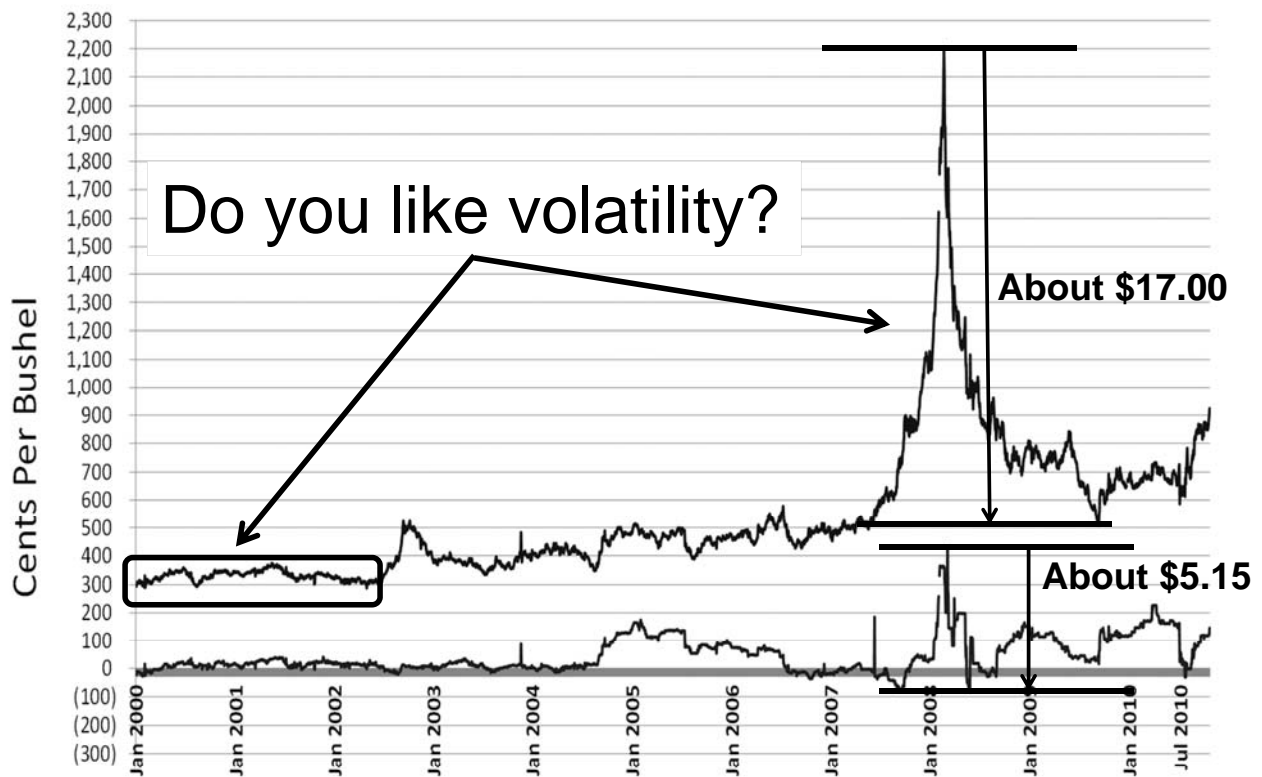
Picture of Weakening Basis



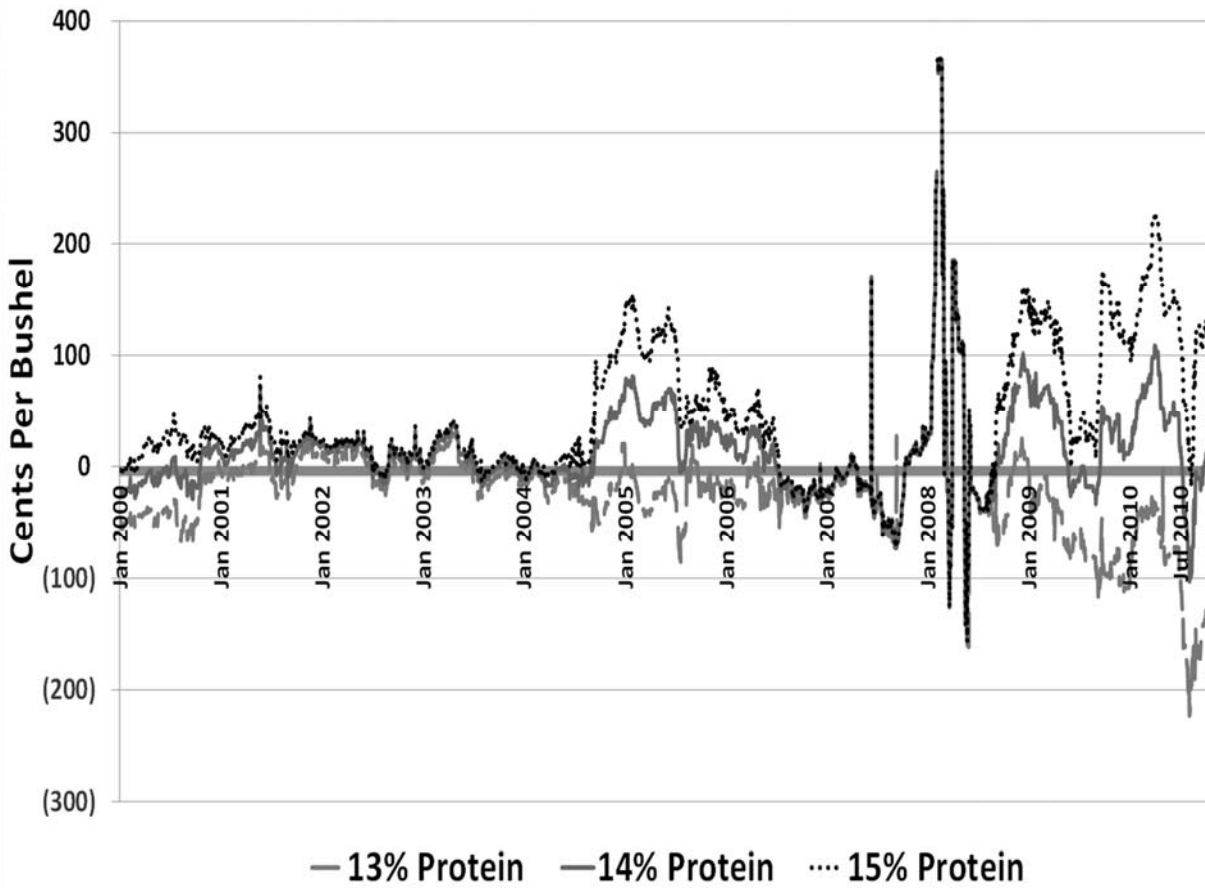
Other Weakening Basis Patterns



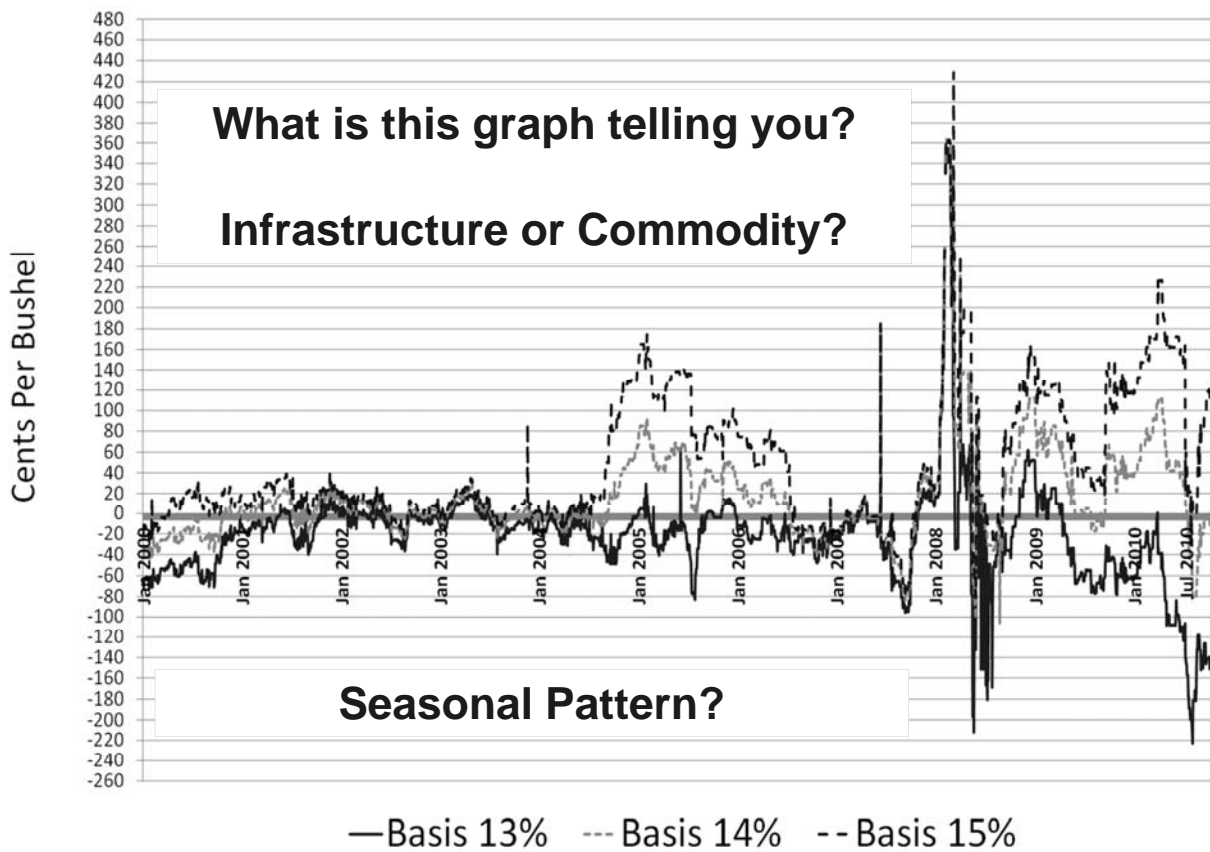
Price and Basis DNS 15% -- Billings (2000 through Oct 2010)



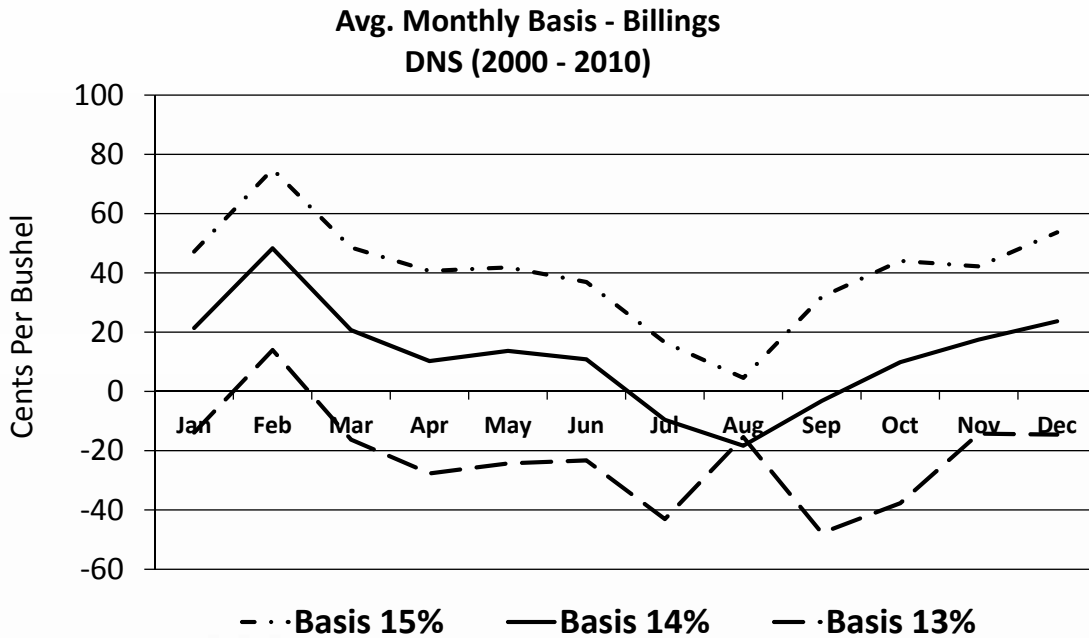
Basis DNS by Protein -- Golden Triangle, (2000 - 2010)



Basis DNS 13%, 14%, & 15% -- Billings (Jan. 2000 through Oct. 2010)

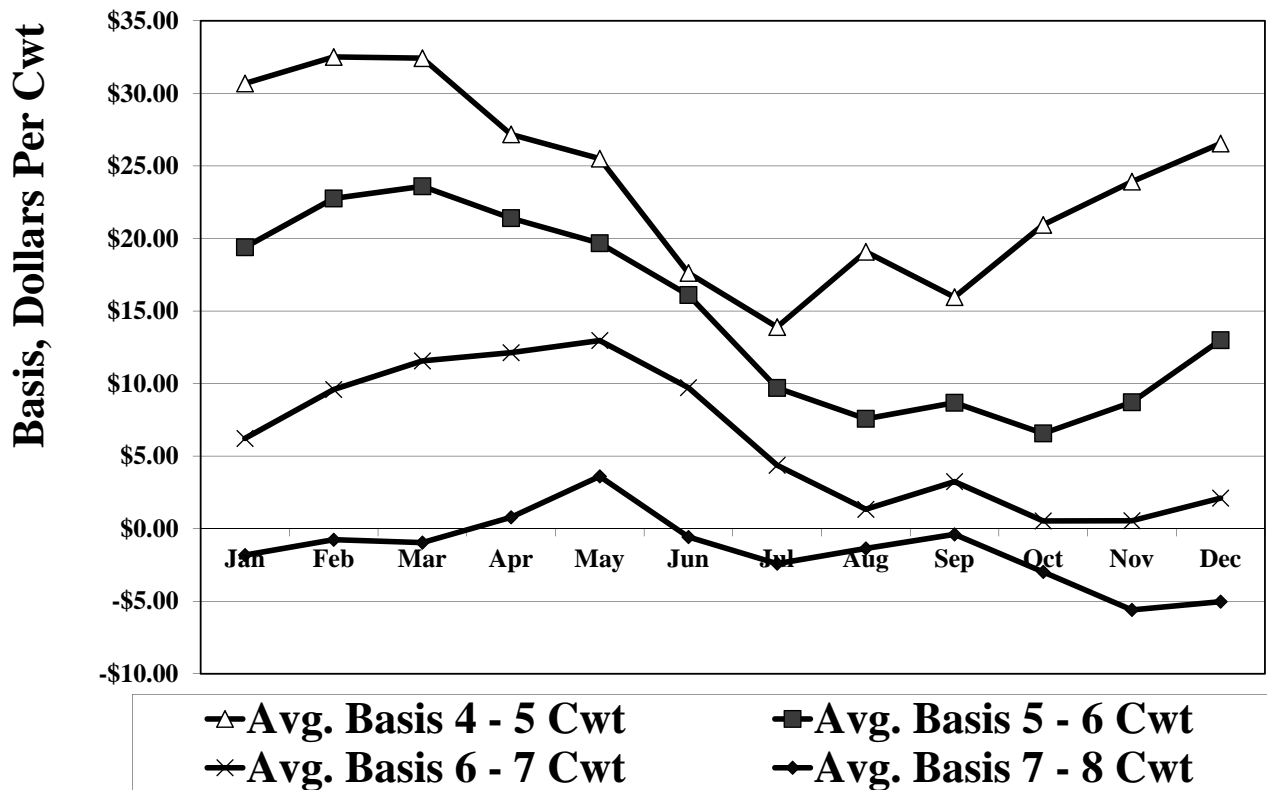


Dark Northern Spring, Billings Basis



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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



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Basis by Location - 16 Weeks

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[Daily National Carlot Meat Report](#)
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BeefBasis Stocker Index

Stocker Index

The Stocker Index reflects a 7-day weighted average price of medium and large framed steers weighing 350-650 pounds. The data used to calculate the index comes from auction reports generated by the USDA.

The Region Stocker Index is calculated like the Stocker Index, but only with data from the indicated region.

Click on a state to get started.

Feeder Cattle Futures Settlement by Contract

Future Price, \$/cwt

250
200
150

2013 2013 2013 2013 2014 2014 2014 2014 2014 2015 2015 2015 2015 2015 2016

What's New

We hope you enjoy the new BeefBasis.Com. This website was totally reworked to make it compatible with today's browsers.

If you have a problem with this site, let us [know!](#)

Announcements

Data for BeefBasis.com provided by USDA's Agriculture Marketing Service (AMS).

16 Weeks Out on February 6, 2015



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<http://rightrisk.org/presentations>

