Basis Contract

How it works

Basis contracts are a basis price only contract. This allows a producer to lock in the basis portion of the cash price while leaving the futures open. The Basis will be set at the time of the contract. Futures will remain open until the producer decides to lock in. Basis contracts are typically only offered one year prior to harvest of the chosen commodity. The price would be set free of charge and would be paid out upon delivery of the commodity to the elevator.

When to use

Producers would typically use Basis contracts when basis levels get higher than normal or if they believe basis is going to weaken. If export markets heat up, or if local supply and demand numbers get outside the average, basis tends to move. If producers believe futures have upside they could choose to use basis contracts to take advantage of higher basis levels while leaving futures open to priced later.

Primary Risks

Production Risk- This will be a risk in every contract. Use multi-year average yields to help determine the appropriate amount to forward sell per commodity.

Missed Opportunity Risk- By locking in basis you eliminate the ability to price at higher levels on the contracted bushels if the basis were to improve.

Futures Risk- Futures tend to be more volatile than basis. By leaving futures open there is the possibility the price weakens and could reduce the cash price.

Highlights:

- Lock in Basis price to eliminate all downside Basis price risk.
- No fee to lock in price
- Futures can be set at a later date if expected to improve
- Can take advantage of local supply and demand

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