

# Basis Contract

**What It is:** A Basis contract locks the basis and delivery month on a set amount of bushels

**How it works:** Pick a delivery month. Lock in the basis for that delivery month on a set amount of bushels. Set the futures later. After the futures price is set you will have your final cash price.

**Advantages:**

- Downside basis risk is eliminated
- Open to take advantage of Futures board rallies
- Avoid storage or DP charges
- No minimum amount of bushels required
- 80% money advancement if wanted

**Disadvantages:**

- Cannot take advantage of future basis improvements
- At risk for Futures board price decline
- Knowledge of local historical basis is useful

Remember what a basis is and what it does... the basis is dictated by the local market, supply/demand, futures price, transportation cost etc.... Do we need corn or are we wanting corn later?

# Basis contract example

To come up with a final price on a basis contract, you need to set the futures. You can set the futures at any point and time between the day you make the contract, and first notice date of the futures trading period your basis contract is against .

(Ex) You think the overall price for a fall delivery is to low, but you know you won't have enough space to hold everything. You decide a basis contract for fall delivery is your best option.

## CORN

USDA has adjusted the calculations of LDP data.  
[Click here for more information.](#)

Delivery	Cash Price	Futures Month	Futures Price	Futures Change	Basis
Feb 17	3.49	@C7H	363'6	-0'2	-0.15
Mar 17	3.49	@C7H	363'6	-0'2	-0.15
Apr 17	3.56	@C7K	371'2	0'4	-0.15
May 17	3.56	@C7K	371'2	0'4	-0.15
June 17	3.58	@C7N	378'4	0'2	-0.20
July 17	3.58	@C7N	378'4	0'2	-0.20
Aug 17	3.63	@C7U	384'6	0'2	-0.22
Sep 17	3.60	@C7U	384'6	0'2	-0.25
Oct 17	3.61	@C7Z	391'2	0'2	-0.30
Nov 17	3.71	@C7Z	391'2	0'2	-0.20
Dec 17	3.71	@C7Z	391'2	0'2	-0.20
Jan 18	3.75	@C8H	399'6	0'2	-0.25

Price as of 02/27/17 07:32AM CST.

You lock in a -.20 basis for Nov/  
Dec del. against the December'17 futures

The last trading day against the December futures is November 24, 2017; you can set the December futures any time between now, and November 24<sup>th</sup>. Just call and tell us you would like to set the futures on your basis contract.

If on first notice day of your basis contract you have not set the futures portion of your contract and you feel as though the futures price is still too low you can roll your basis contract to the next trading period.

# Rolling a Basis Contract

**How it works:** At the end of the trading period (or “first notice day”) of your current basis contract we will roll or “move” your basis contract to the next trading period.

**How to calculate your new basis:** Calculate the carry between the two trading periods. Deduct the carry in the futures market off of your current basis. You will also need to deduct the fee of 1 cent for rolling the contract. Your new contract will show the new trading period with a basis that has the carry deducted off it. By doing this, you have given yourself more time in the market to see if the futures will go up. Your new contract will now have to be priced by the last trading day of your new futures month. **POET Laddonia allows rolls through the current harvest year.**

First Day Notice	
CK7 (May)	April 21 2017
CN7 (July)	June, 23 2017
CU7 (September)	August, 25 2017
CZ7 (December)	November, 24 2017
CH8(March 2018)	February, 23 2018

# Example of rolling a Basis Contract

Your current basis contract is set for a Nov/Dec '16 delivery. You delivered the grain but the futures board did not rally high enough and now you want more time in the market to see if you can get a higher price. You decide to roll your basis contract out to March'17 futures (CH7)

CORN

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Delivery	Cash Price	Futures Month	Futures Price	Futures Change	Basis
Oct 16	3.16	@C6Z	348'2s	-4'2	-0.32
Nov 16	3.20	@C6Z	348'2s	-4'2	-0.28
Dec 16	3.20	@C6Z	348'2s	-4'2	-0.28
Jan 17	3.33	@C7H	358'0s	-4'2	-0.25
Feb 17	3.38	@C7H	358'0s	-4'2	-0.20
Mar 17	3.38	@C7H	358'0s	-4'2	-0.20
Apr 17	3.45	@C7K	365'0s	-4'0	-0.20
May 17	3.45	@C7K	365'0s	-4'0	-0.20
June 17	3.51	@C7N	371'2s	-3'6	-0.20
Oct 17	3.56	@C7Z	386'2s	-2'6	-0.30

Price as of 10/24/16 02:21PM CDT.  
Select the futures or basis month to view Futures contract information.

The carry between the December'16 futures and March'17 futures is 10 cents. that 10 cents gets deducted from your current basis of -28/CZ6 which is based on the Oct/Nov delivery period. This now -38/CH7 futures. You are now pricing the March'17 futures.