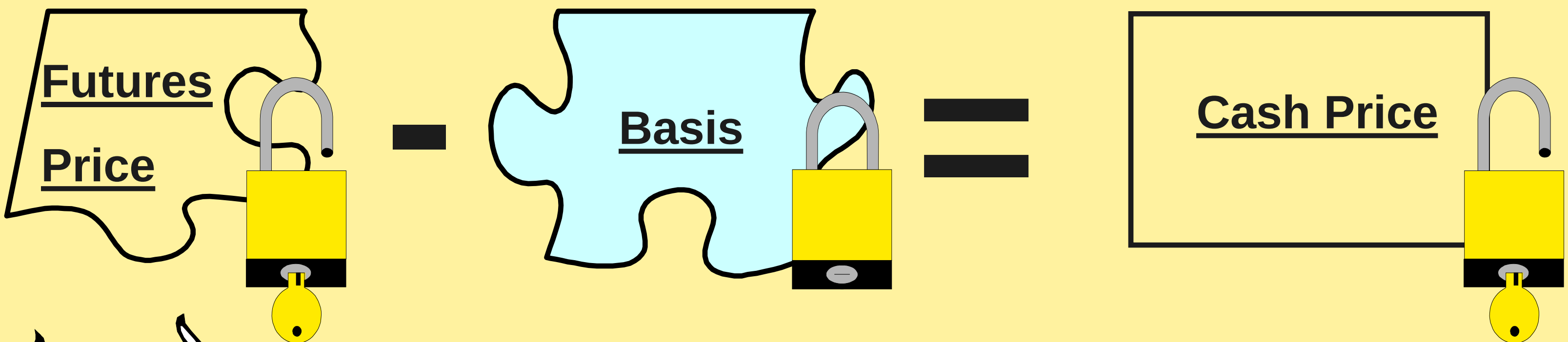
Basis Contract

Basis Contracts enable producers to lock in a basis, but establish the futures price at a later date. They also establish a day by which the grain must be delivered and priced. Title of the grain passes upon application to the contract, which also stops any storage charges. For the producer, basis contracts may be appealing because storage charges stop upon application and a Basis Contract may allow the producer to take advantage of higher futures prices. ***However***, while the basis is fixed, the producer is still subject to price risk if futures prices fall. The futures price does not need to be set on the entire contract quantity all at one time, instead it can be set in increments giving the producer more flexibility. **There is a minimum quantity of 500 bushels and no service fee**.



Benefits

*Benefit from futures rally

*Stops storage (if in the elevator)

*Can be done in small increments

* Can be done with farm stored grain

Risks

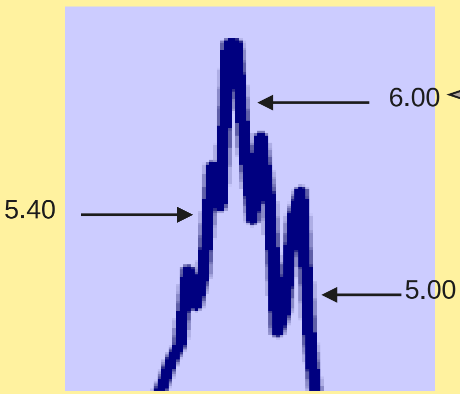
*If futures prices fall, the cash price will fall

* Non-production: If done as a pre-harvest contract, the risk of not harvesting enough bushels to fill the contract.

Basis Contract

Example:

You have 10,000 bu of milo in the elevator. Today's cash price at that location is $5.00 (5.40 March futures - .40 basis). You decide that you do not like today's cash price because futures are low but the basis is very good for your location. You decide to set the basis at -.40 March Futures and wait to set the futures at a later date. The contract says that you have to set the futures on or before Feb 28 during trading hours. Title of the grain passes and storage stops upon application to the contract.



A couple of weeks later March futures are at 6.00 and you decide to set the futures on 5,000 bu of your 10,000 bu basis contract. You would then have 5,000 bu priced at a cash price of **$5.60** and 5,000 bu that the futures are not set yet. The cash price comes from using 6.00 futures - .40 cent basis.

March futures continue to drop and you decide to set the futures on the remaining 5,000 bu at 5.00. This 5,000 bu would then have a cash price of **$4.60**. The $4.60 cash price comes from using 5.00 futures - .40 cent basis.

Basis contracts should be done when the basis is narrow and futures are low with the potential for futures to rally higher.