

FUTURES CONTRACT

- Legally binding commitment to make or take delivery of some commodity on a predetermined date at a negotiated price
- Everything except price is standardized:
 - Quality
 - Quantity
 - Delivery location
 - Delivery date

FUTURES CONTRACTS

- Traded on margin
- Marked to market daily
- Allow for offsetting legal obligation

Date	Price per Bushel	Action	Margin Action	Account Balance
		Initial margin = \$600		
		Maintenance margin = \$360		
17-Jan	\$2.50	Buy July com	Deposit \$500	\$500
18-Jan	\$2.48			\$400
19-Jan	\$2.46			\$300
			Margin Call \$200	\$500
20-Jan	\$2.47			\$550
21-Jan	\$2.40			\$200
			Margin Call \$300	\$500
24-Jan	\$2.43			\$650
25-Jan	\$2.45			\$750
26-Jan	\$2.49			\$950
			Withdraw \$450	\$500
27-Jan	\$2.51			\$600
28-Jan	\$2.55	Sell July com		\$800

Even for producers who never actually trade a futures contract, understanding what price could be achieved through the futures market is critical in making good cash market decisions. Most every cash price opportunity is tied to the futures market.

Basis and Price Formation

Basis

Basis is the difference between a cash price at a specific location and the price of a particular futures contract. The cash price offered to a grain producer for any given marketing strategy is a function of local basis.

Basis Changes

- The lower the cash price relative to futures prices, the weaker the basis. A weak basis is good for cash buyers, and bad for cash sellers
- The higher the cash price is relative to futures, the stronger the basis. A strong basis is bad for cash buyers, and good for cash sellers.

Determination of Basis

Major Factors

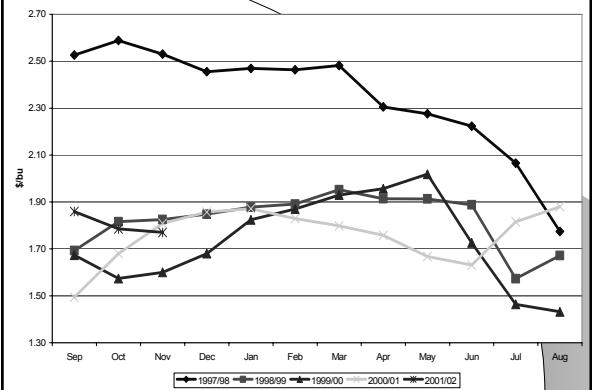
- **COST OF STORAGE:** Determines basis over a given crop year. Also affects the price difference between a nearby and a distant futures contract in a given crop year.
- **COST OF TRANSPORTATION:** Determines basis geographically.

Determination of Basis

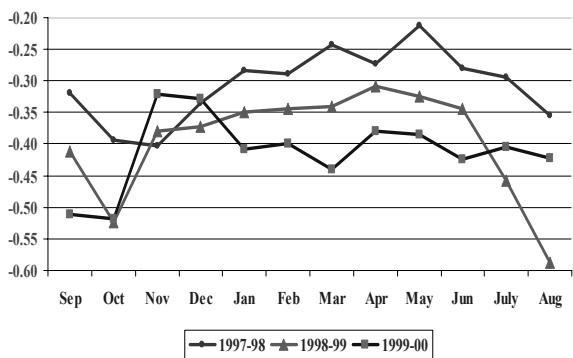
Other Factors:

- Local supply and demand conditions
- Grain quality
- Intensity of local Competition

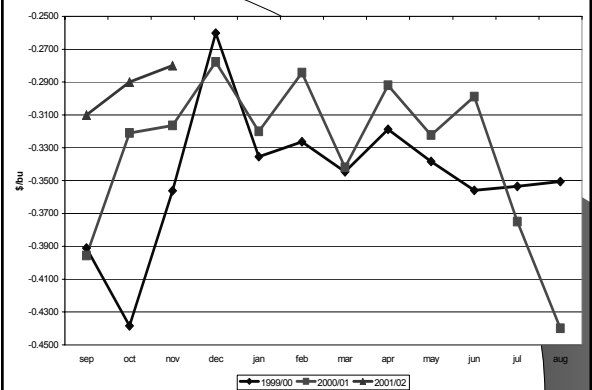
Cash Corn Prices - South Central Wisconsin

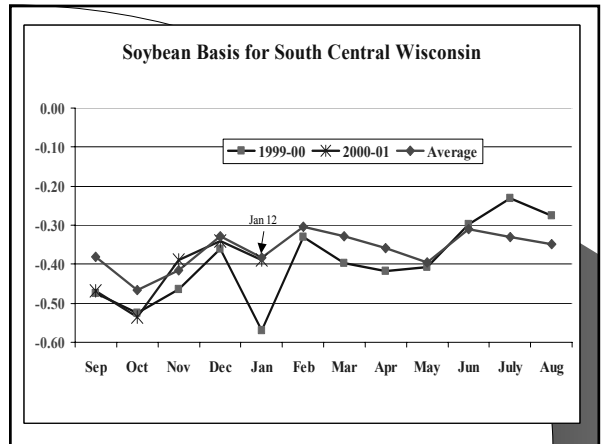
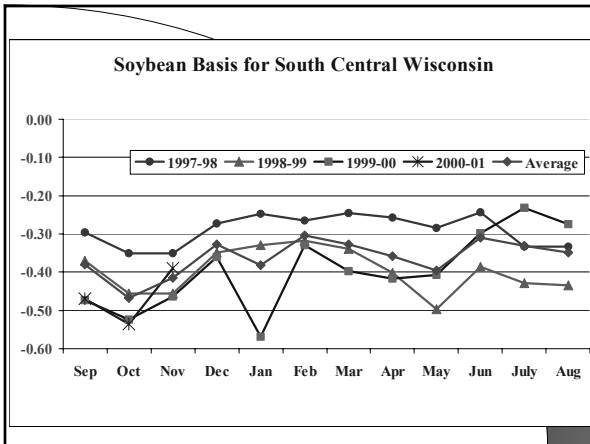
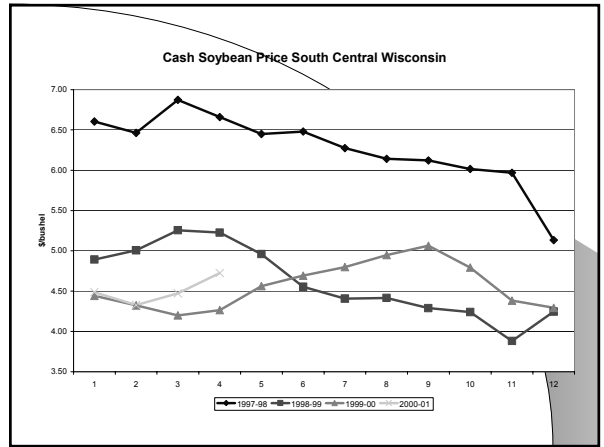
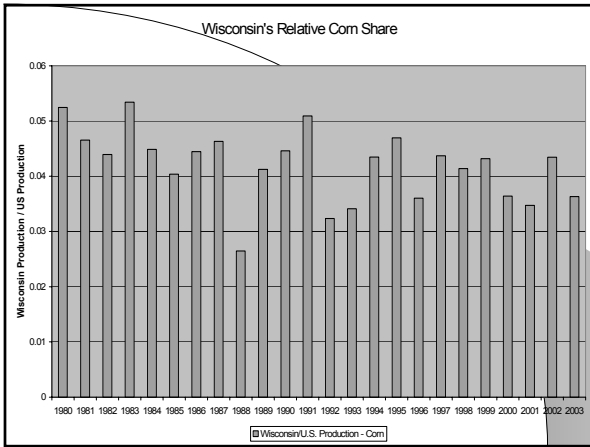
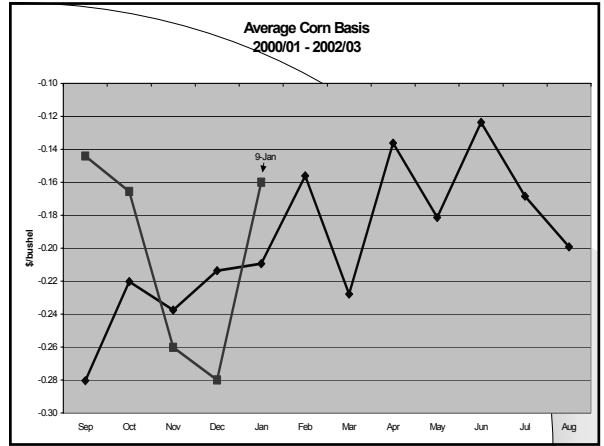
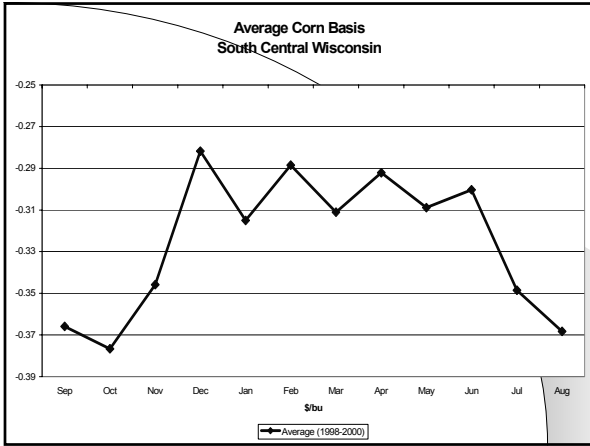


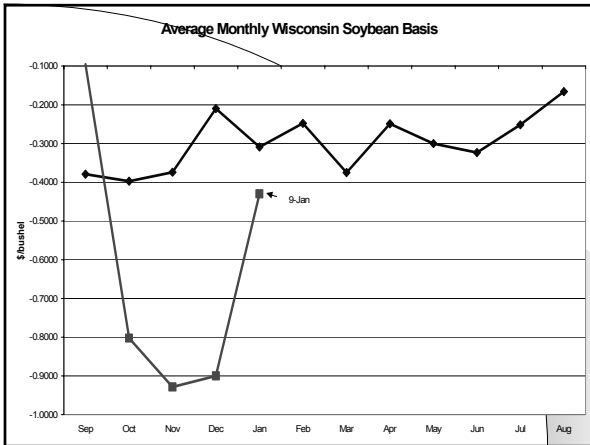
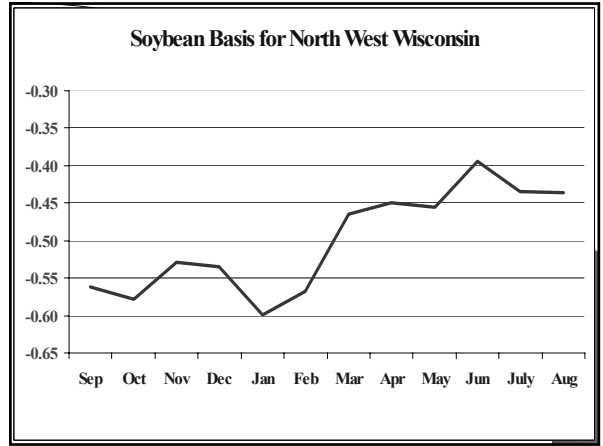
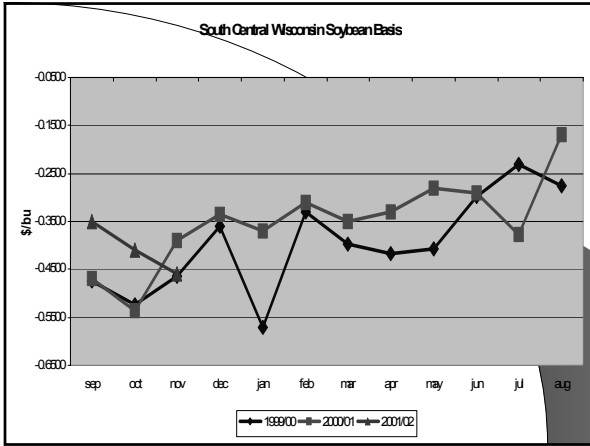
Corn Basis for North West Wisconsin



Central Wisconsin Corn Basis







Recording Basis

To record historical basis levels, collect closing futures prices for the contract closest to maturity (but not expiring in the current month) each Wednesday, and the corresponding cash price (collected later Wednesday or Thursday morning). Subtract the futures price from the cash price. Average the Wednesday basis calculations for each month to arrive at the average monthly basis level.

North West Wisconsin Corn Basis

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
1997-98	-0.31877	-0.39297	-0.40345	-0.33598	-0.26343	-0.28819	-0.24805	-0.27245	-0.2132	-0.27939	-0.28295	-0.35444
1998-99	-0.41107	-0.524	-0.37912	-0.37165	-0.34856	-0.34432	-0.34009	-0.30832	-0.32487	-0.34478	-0.45698	-0.5872
1999-00	-0.51178	-0.5177	-0.32119	-0.32746	-0.40758	-0.39983	-0.43966	-0.38024	-0.38507	-0.4233	-0.4417	-0.42223
2000-01	-0.4909	-0.3611	-0.37									
Average	-0.47125	-0.4676	-0.35677	-0.34503	-0.34652	-0.34411	-0.34093	-0.32034	-0.30771	-0.34923	-0.38503	-0.45462

Wisconsin Soybean Basis

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
2000/01	-0.44	-0.26	-0.39	-0.28	-0.31	-0.43	-0.29	-0.09	-0.26	-0.21	-0.38	-0.27
2001/02	0.02	-0.36	-0.36	-0.01	-0.23	-0.02	-0.29	-0.05	-0.21	-0.23	-0.38	-0.31
2002/03	-0.57	-0.30	-0.40	-0.33	-0.33	-0.41	-0.50	-0.36	-0.42	-0.24	-0.16	0.09
Average	-0.33	-0.31	-0.38	-0.20	-0.29	-0.29	-0.36	-0.17	-0.30	-0.23	-0.24	-0.16

Using basis information to evaluate a storage decision.

January 23, 2004

Today's cash price \$8.07
 March futures price \$8.40
 May futures price \$8.39
 July futures price \$8.27

Expected cash prices for later delivery on January 15:

Store Until:	February	March	April	May	June
Futures Price	\$8.40	\$8.39	\$8.39	\$8.27	\$8.27
Expected Basis	-\$0.29	-\$0.36	-\$0.17	-\$0.30	-\$0.23
Expected Cash Price	\$8.11	\$8.03	\$8.22	\$7.97	\$8.04
Storage Return					
Expected Cash Price	\$8.11	\$8.03	\$8.22	\$7.97	\$8.04
minus Today's Price	\$8.07	\$8.07	\$8.07	\$8.07	\$8.07
minus Storage Costs*	\$0.035	\$0.07	\$0.105	\$0.14	\$0.175
Total Return	\$0.005	-\$0.11	\$0.045	-\$0.24	-\$0.205
Per Month Return	\$0.005	-\$0.055	\$0.015	-\$0.06	-\$0.041

* Storage costs are 3.5 cents per month.