

# ***IMPORTANCE OF CROP BASIS WHEN MARKETING GRAIN***

**Nathan Thompson**

**Associate Professor of Agricultural Economics**

**James Mintert**

**Director, Center for Commercial Agriculture &  
Professor of Agricultural Economics**



Center for Commercial Agriculture

# *What options are available to farmers to market grain?*

- Spot or cash price
- Forward contract
- Hedge using futures
- Hedge using options
- Hedge to arrive
- Various grain pricing contracts offered by grain buyers

**Choosing among these alternatives requires some knowledge of basis**

# *What is basis?*

- Basis = local cash price – futures price
- Local cash price = futures price + basis
- We can break the local cash price into its 2 components
  1. Futures price and
  2. Basis

## **This is important for risk management**

- Futures prices and basis follow different seasonal patterns so the ability to manage futures price risk and basis risk independently creates an opportunity to improve returns

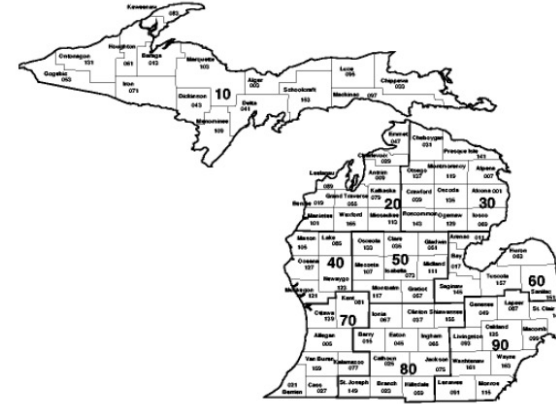
## *How can we forecast basis?*

- Rely on past basis data in your local market area to forecast basis
- Basis is seasonal, so several years of basis history from the time of year you are trying to forecast is very helpful
  - For example, if you are interested in knowing corn basis in your area the 1st week of October, knowing what corn basis was in your market area the last three years during the 1st week of October can help you anticipate what will happen this year
- To evaluate storage opportunities, it is helpful to have certain access to basis computed using deferred futures contracts

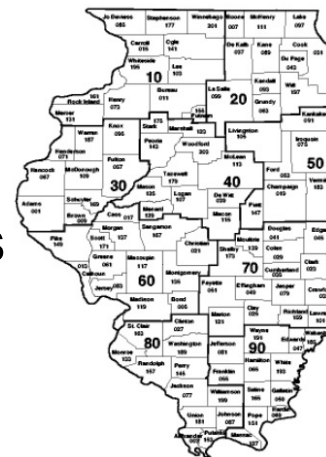
**Do you have historical basis data for your local area?**

# Purdue Center for Commercial Agriculture Crop Basis Tool

- Provides historical corn and soybean basis data
  - 2004/2005 crop year to current crop year
- Weekly (Wednesday) basis observations
- Updated every Friday
- Basis averaged by crop reporting district
- You select the count and the tool chooses the correct crop reporting district for you
- Available at [Purdue.edu/commercialag](http://Purdue.edu/commercialag)



**Michigan**



**Illinois Indiana**



**Ohio**

# Purdue Crop Basis Tool

You choose crop, location, and comparison years

**State** Indiana

**Region** Tippecanoe (WC)

**Crop** Corn

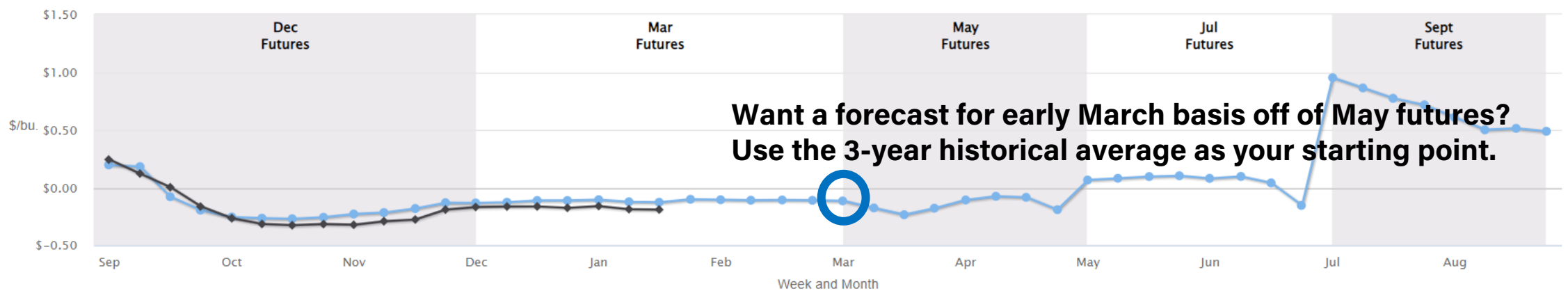
**Futures Contract** Nearby

**Crop Year(s)** Select Historical Year(s) to Average Across  
2022-2023 2021-2022 2020-2021

Submit

Purdue Center for Commercial Agriculture Crop Basis Tool

Corn: IN WC Region, Nearby Basis, Weekly  
Avg. of Selected Historical Crop Years [2020-2021, 2021-2022, 2022-2023]  
vs. Current Crop Year



# Purdue Crop Basis Tool

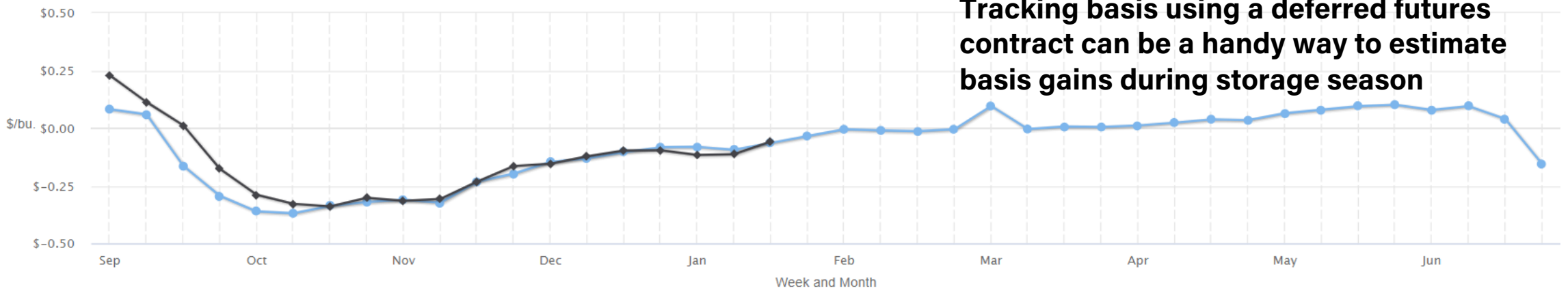
You can also track basis computed using deferred futures contracts

State: Indiana  
Region: Tippecanoe (WC)  
Crop: Corn  
Futures Contract: July  
Crop Year(s): 2022-2023, 2021-2022, 2020-2021

Submit

## Purdue Center for Commercial Agriculture Crop Basis Tool

Corn: IN WC Region, July Contract Basis, Weekly  
Avg. of Selected Historical Crop Years [2020-2021, 2021-2022, 2022-2023]  
vs. Current Crop Year



Tracking basis using a deferred futures contract can be a handy way to estimate basis gains during storage season

Historical July Contract Basis, Avg of Selected Crop Years    2022-2023 Regional July Contract Basis

<https://www.purdue.edu/commercialag>

# Takeaways

- Regardless of what crop marketing tools you use, basis is an important component
- Basis is seasonal so having historical basis data for your local market can help you build an expectation of future basis
- The *Purdue Crop Basis Tool* provides access to historical corn and soybean basis for crop reporting districts in
  1. Indiana
  2. Illinois
  3. Ohio
  4. Michigan
- In the next podcast in this crop marketing series we discuss thumb rules to use when forecasting basis using the *Purdue Crop Basis Tool*



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