

# **BASIS VOLATILITY: Causes & Opportunities**

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Wednesday, January 16, 2008

- CROP COMMENTS ▾
- EQUIPMENT ▾
- CORN ▾
- SOYBEANS ▾
- WHEAT ▾
- COTTON ▾
- CATTLE ▾
- DAIRY ▾
- HOGS ▾

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**Exclusive Features**

**(Sponsored)**

- PLANT HEALTH
- ULTIMATE FARM TRUCK
- BOTTOMLINE ON BEANS
- LOW-LIN SOY
- CROP QUIZ

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**There's no better**

### Cash Grain Bids

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**Cash Bids:**



*Enter Zip Code for five local results and click 'Go'*

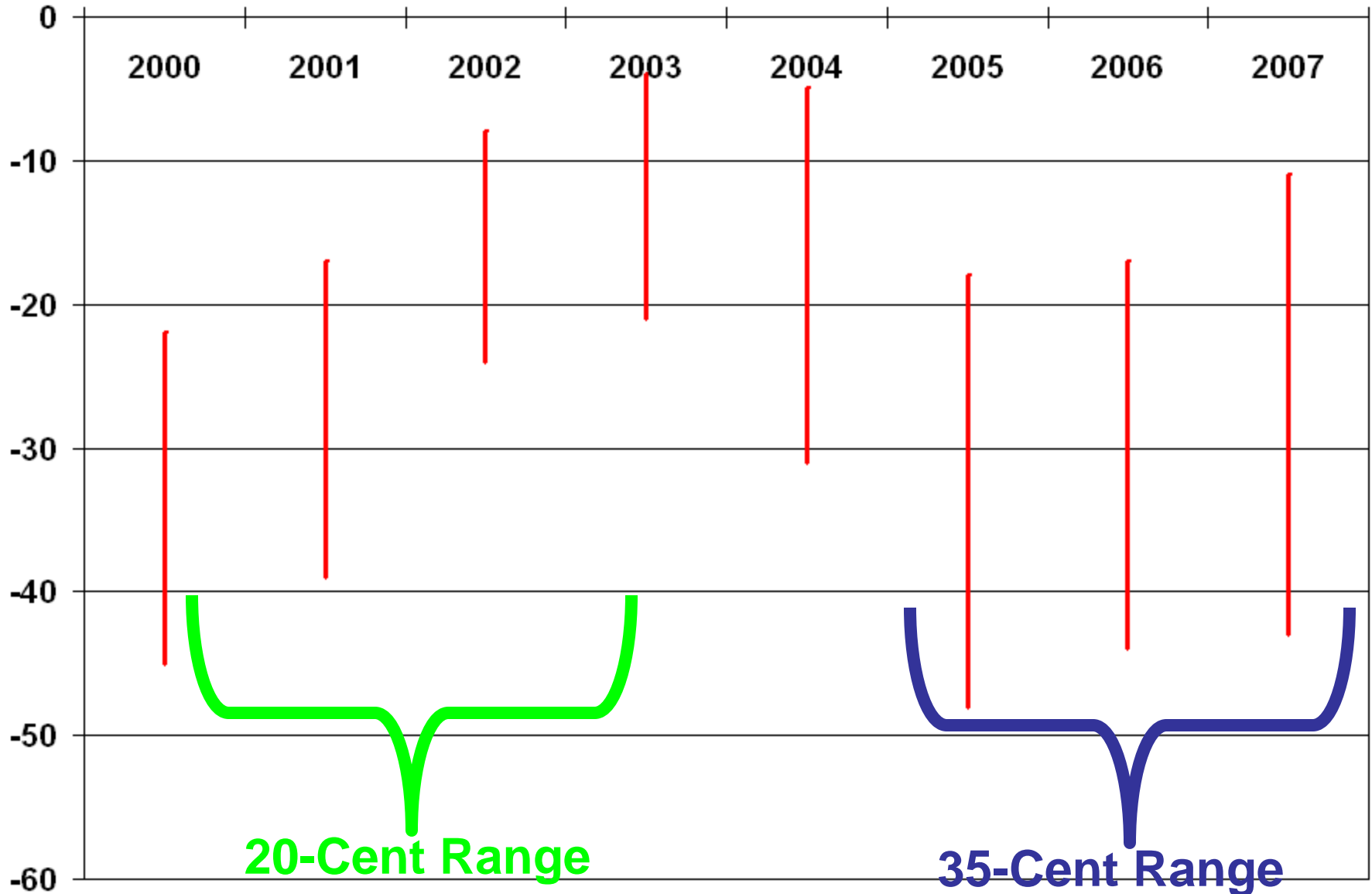
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Prices updated daily at market closing.

### Cargill - Council Bluffs , IA

Commodity	Price	Basis	Date
Corn	4.81	-0.28	1/15/2008
New-Crop Corn	4.92	-0.37	1/15/2008
Soybeans	11.92	-1.1	1/15/2008
New-Crop Soybeans	12.01	-0.84	1/15/2008

# US Corn Basis Range



# What Causes Basis Volatility

- **Ethanol Producers** – great consumers, lousy storers!
  - Between 2000 & 2007
    - Corn Use for Ethanol: + 2,500 mb
    - Commercial Storage Space: + 700 mb
  - Generally have two-week storage capacity.



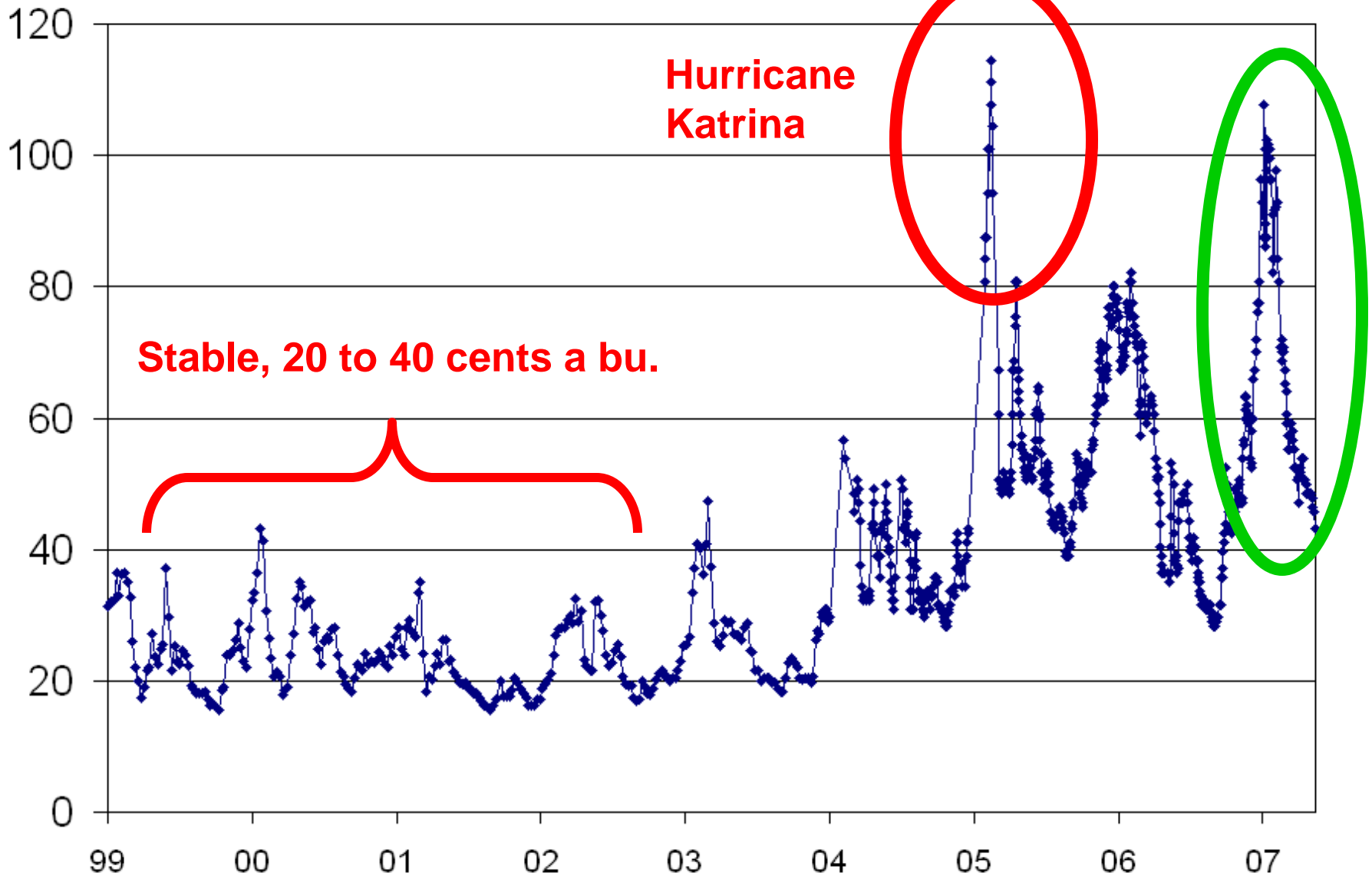
# What Causes Basis Volatility

- **Transportation Rates** – high energy costs, competing uses for shipping leading to volatile transportation costs.
  - Barge rates especially volatile

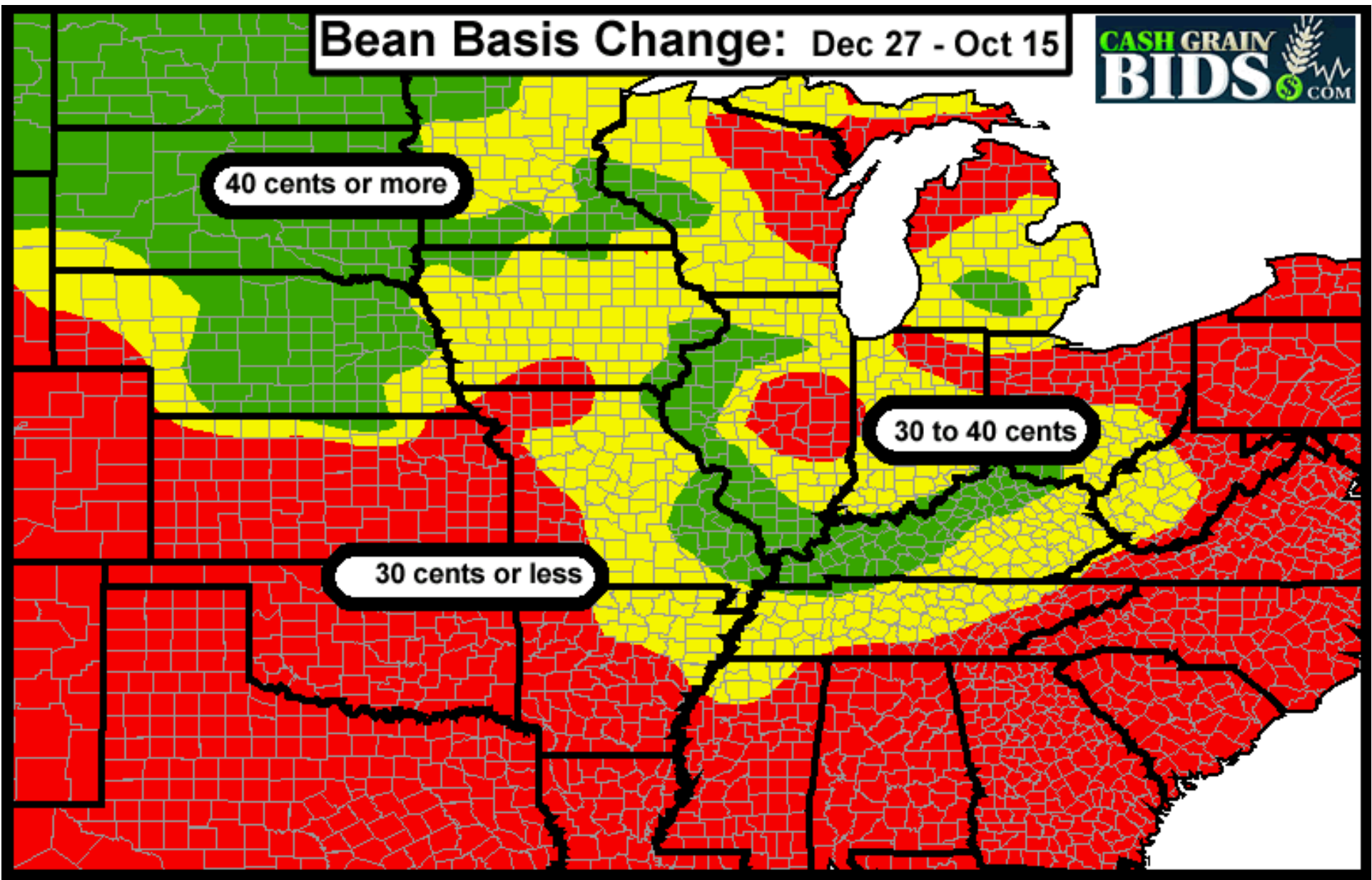


# IL River Barge Rates

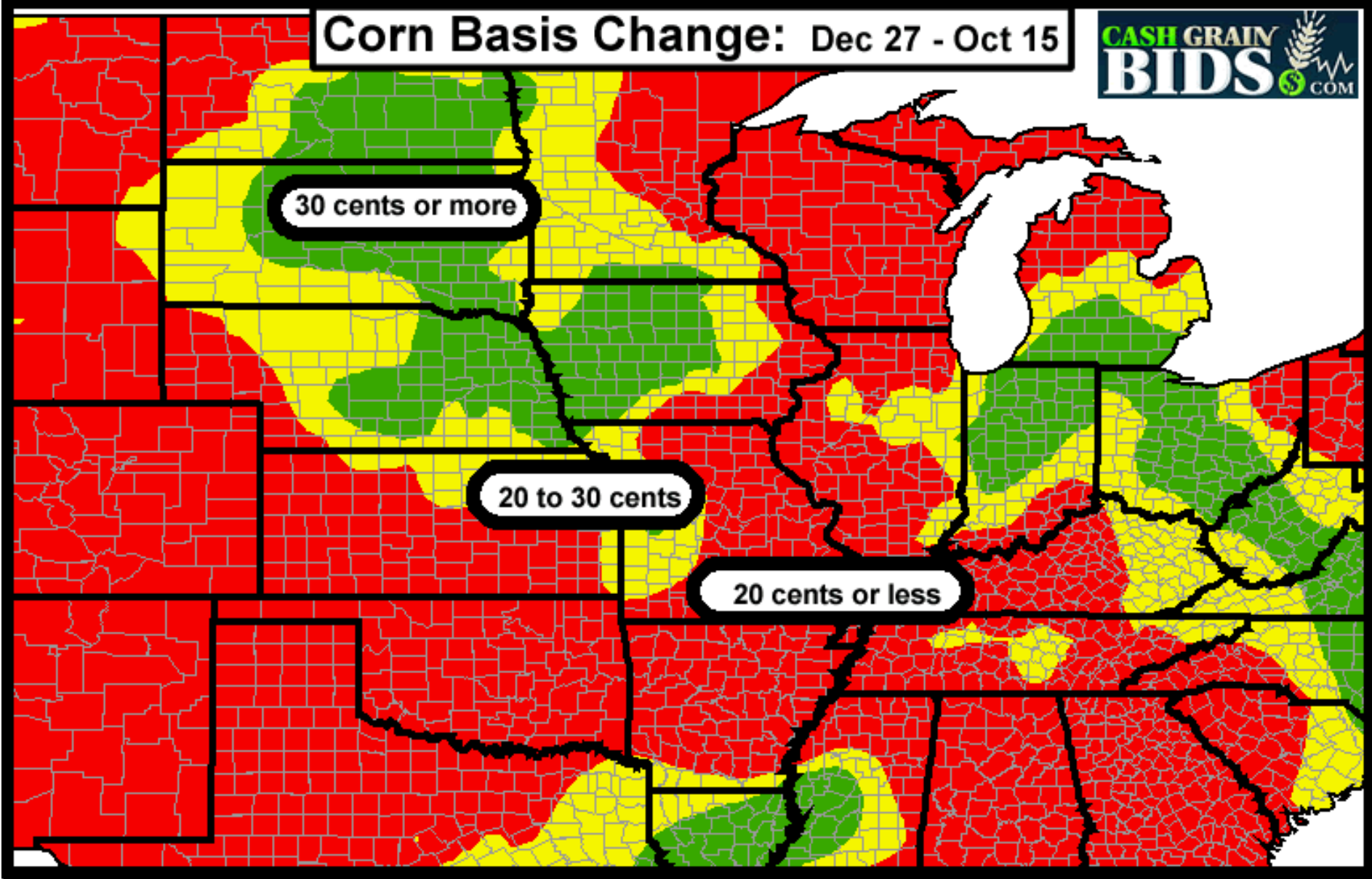
70-cent slide!



**Bean Basis Change: Dec 27 - Oct 15**



# Corn Basis Change: Dec 27 - Oct 15



30 cents or more

20 to 30 cents

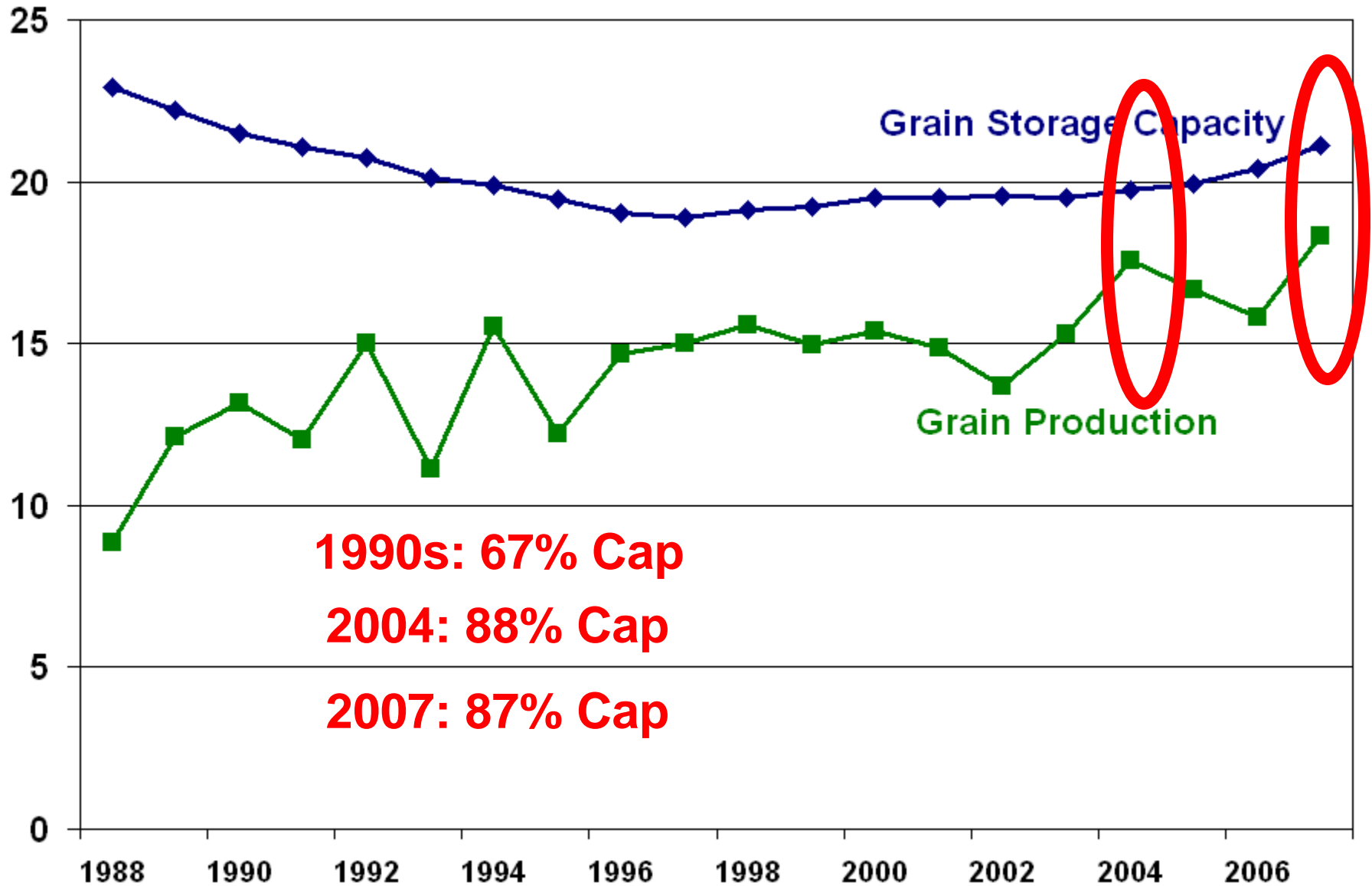
20 cents or less

# What Causes Basis Volatility

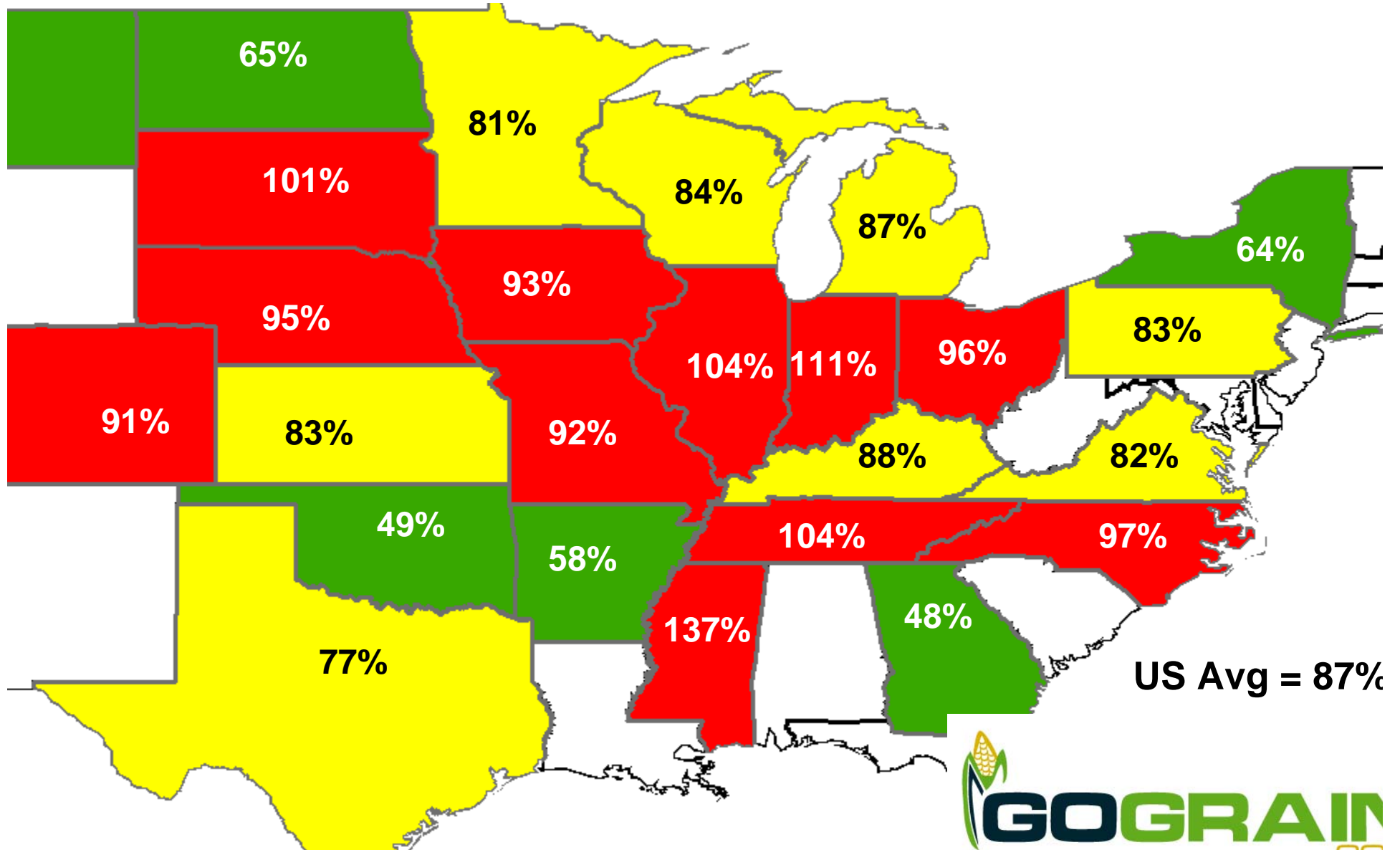
- **Storage Capacity Tightens** – larger crops are putting constraints on storage space

# US Grain

## Storage Capacity vs Production



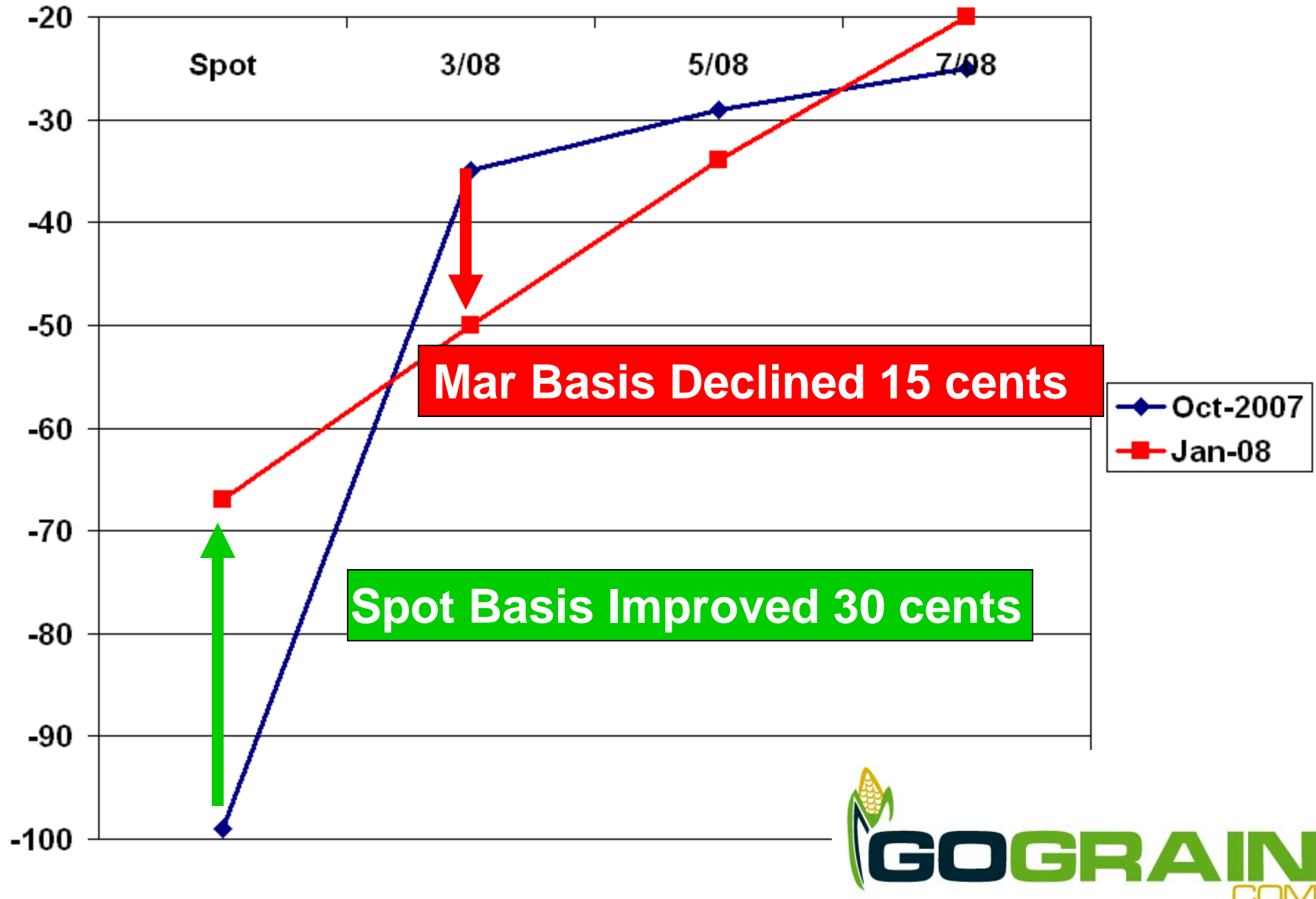
# Grain Production Relative to Storage Capacity: 2007



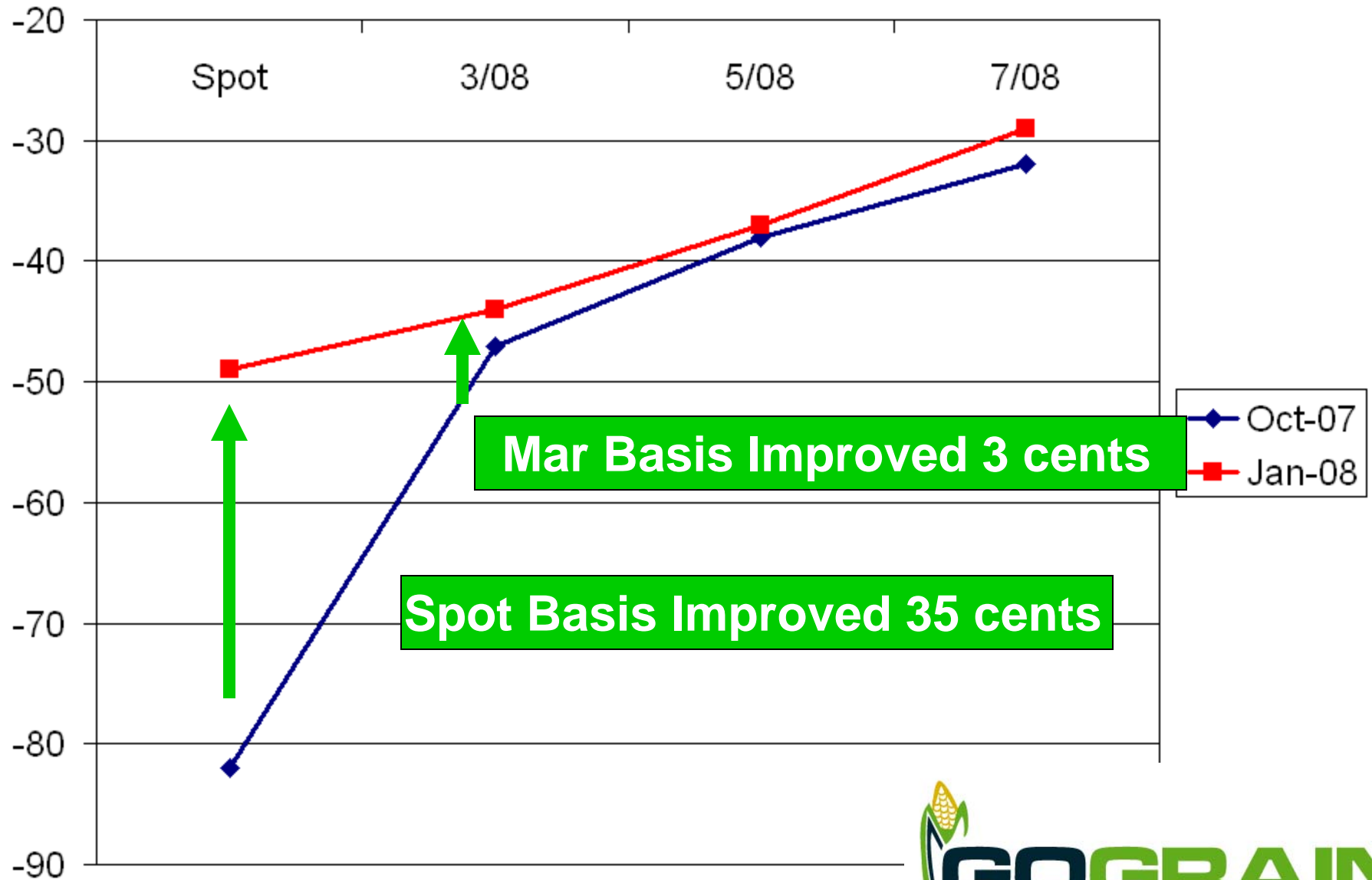
# Cash Marketing Tips

- **Fallacy #1 – Because basis improves after harvest, it is Best to Wait to Forward Contract Basis After Harvest.**
  - This is not the same question as selling at harvest

# Claypool, IN Soybean Jul Basis



# Fort Dodge, IA Corn Jul Basis



# Cash Marketing Tips

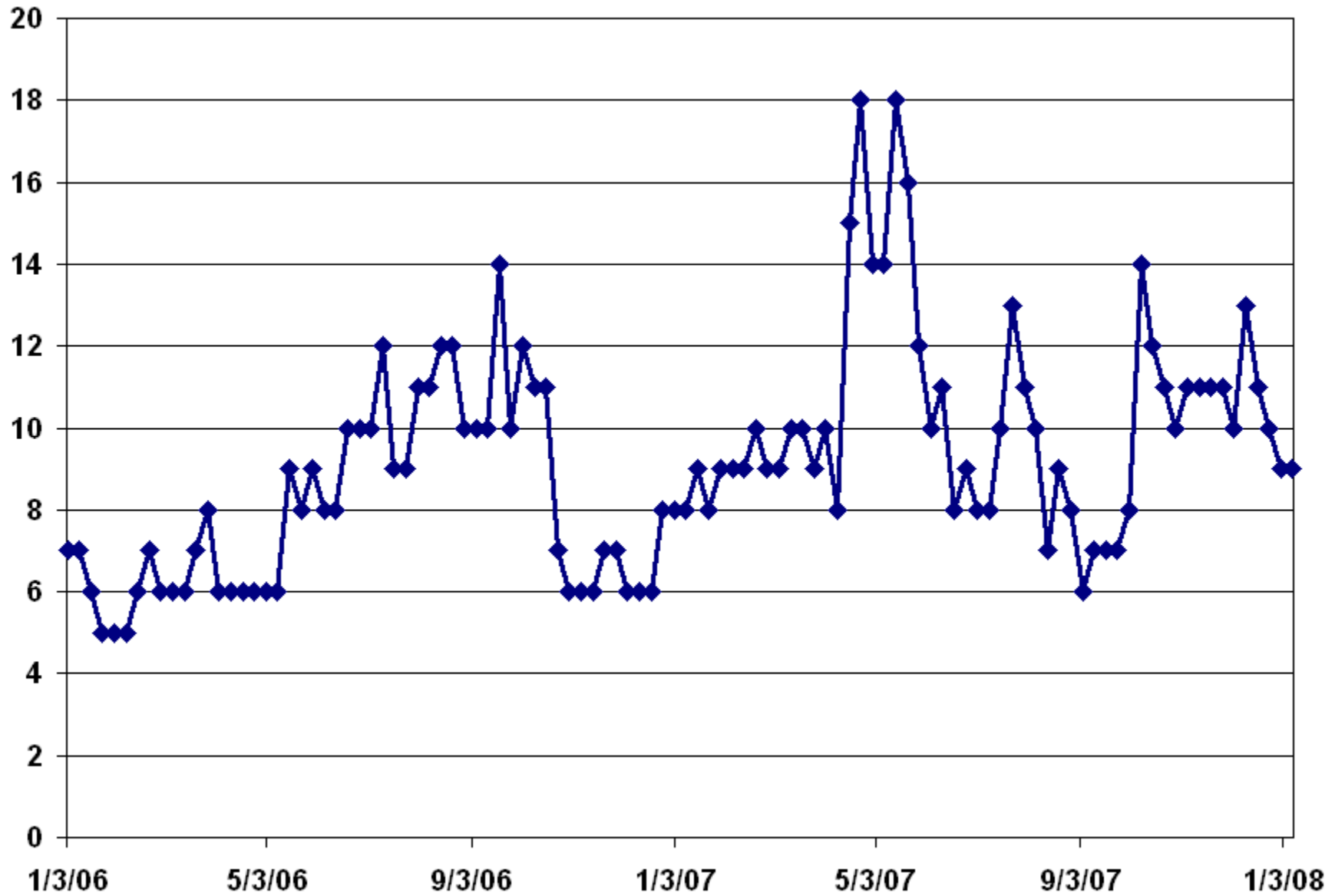
- **Fallacy #2 – I sell my grain to one premium market, its always the best option for me.**
  - Maybe, maybe not

# Cash Grain Bid Clients

- **73% of the time, best to sell outside of 'local' market**
- **Within one month, 60% of our users will find two different 'best' markets**
- **Returns to trucking grain to a premium market will vary widely.**



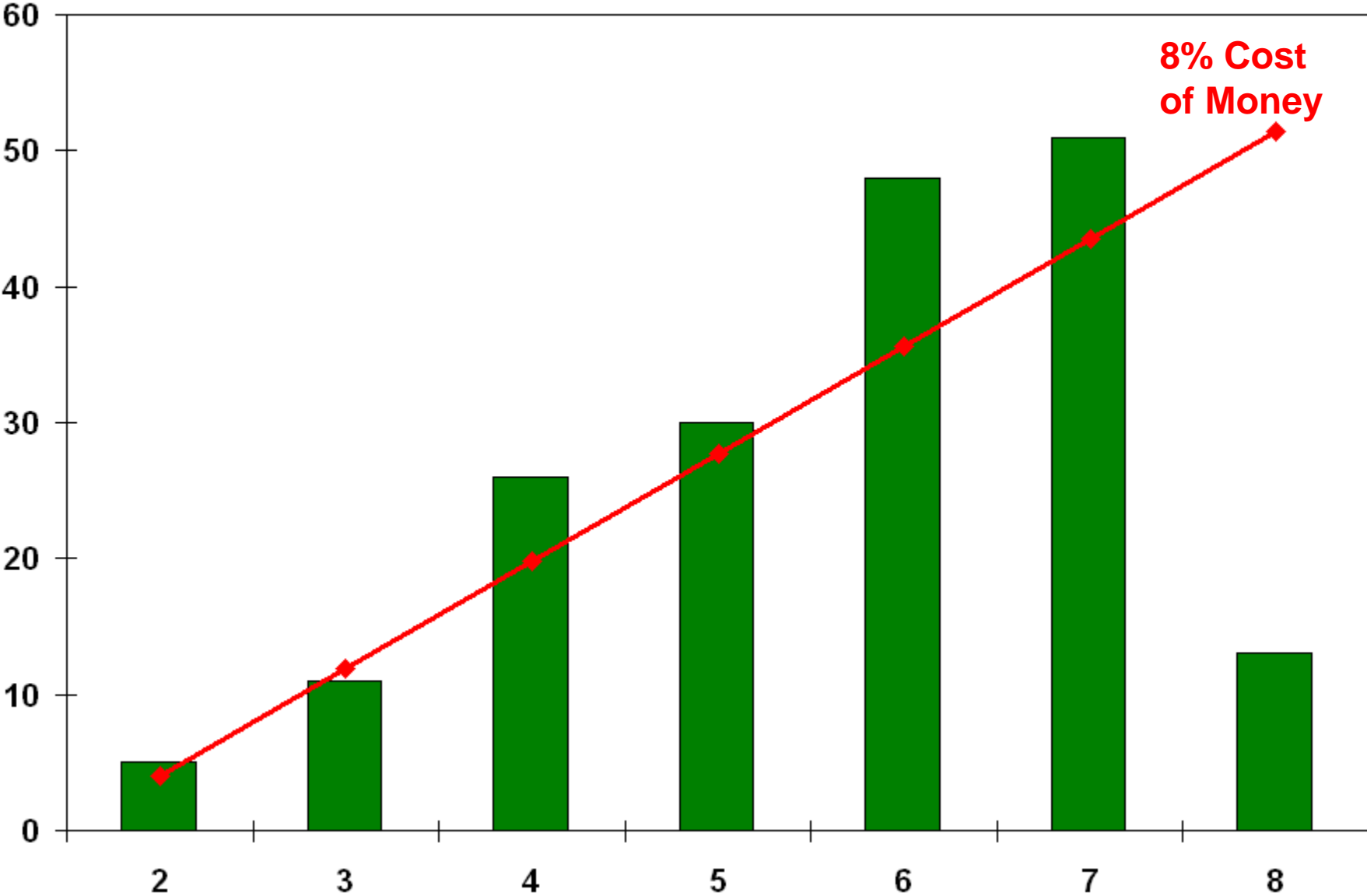
# Trucking Net>Returns to Blair, NE



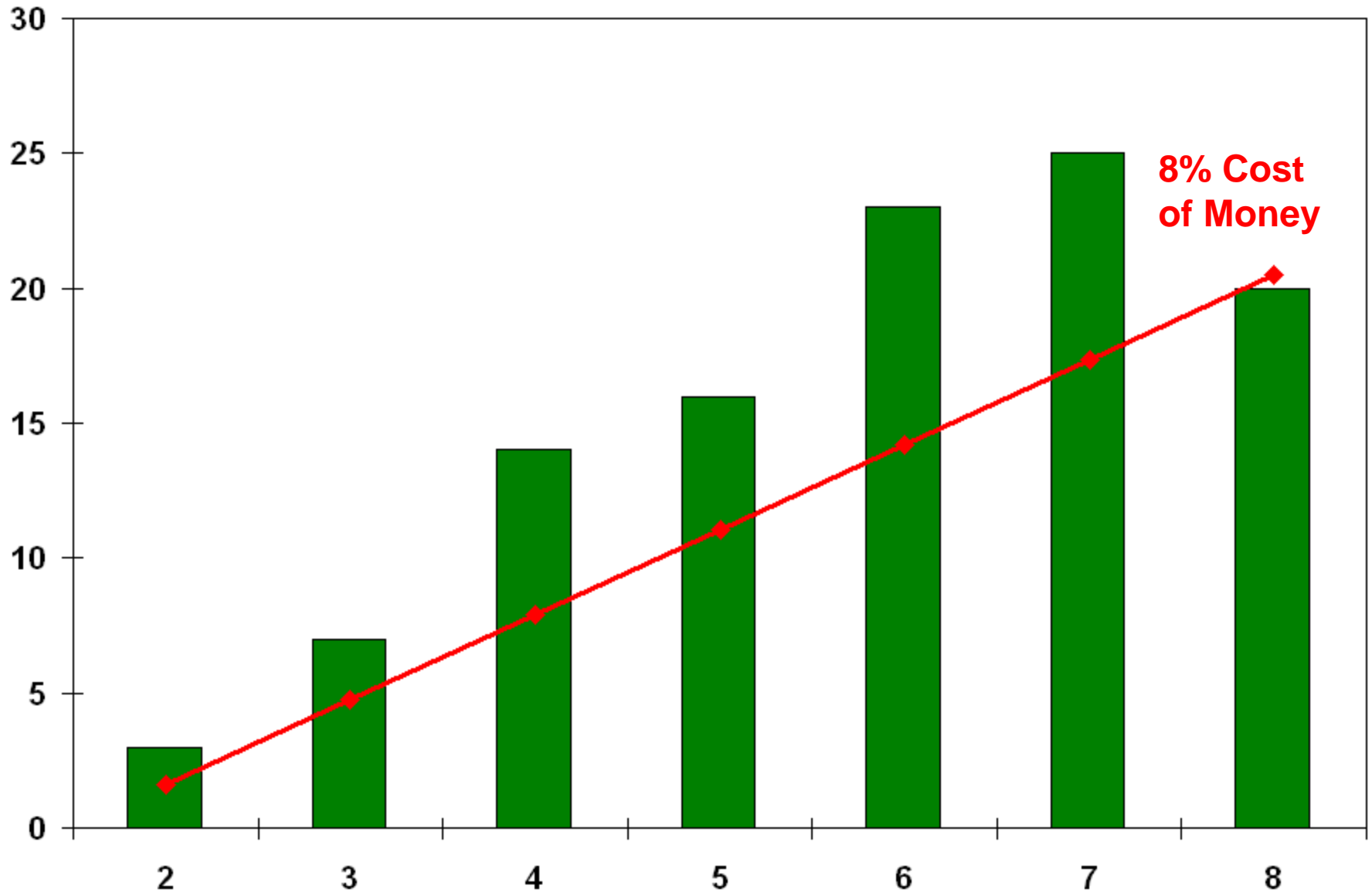
# Tips for Managing Basis Risk

- **Limited Opportunities to Lock-In Storage Returns – Forward Carry is Tight.**

# US Cash Soybean Forward Carry



# US Cash Corn Forward Carry



# Tips for Managing Basis Risk

- Limited Opportunities to Lock-In Storage Returns – Forward Carry is Tight.
- **2008 will be a bin-buster. Get your basis protection early.**



# October Corn Basis: Avg vs 2008

State	3-Yr Avg	2008 Oct Bas
IA	-48	-51
IL	-31	-48
IN	-33	-40
KS	-21	-22
KY	-20	-33
MI	-43	-48
MN	-52	-53
MO	-31	-44
MS	-30	-44
NC	0	-8
NE	-41	-44
OH	-37	-46
SD	-53	-60
TN	-21	-31
WI	-48	-61

# October Bean Basis: Avg vs 2008

State	3-Yr Avg	2008 Oct Bas
IA	-73	-96
IL	-44	-73
IN	-45	-67
KS	-72	-97
KY	-43	-65
MI	-66	-80
MN	-82	-105
MO	-56	-86
MS	-45	-49
NC	-30	-42
NE	-82	-108
OH	-53	-74
SD	-95	-120
WI	-79	-104

# Tips for Managing Basis Risk

- Limited Opportunities to Lock-In Storage Returns – Forward Carry is Tight.
- 2008 will be a bin-buster. Get your basis protection early.
- **Look for trucking/storage opportunities in your local market – conditions change quickly.**



# Tips for Managing Basis Risk

- Limited Opportunities to Lock-In Storage Returns – Forward Carry is Tight.
- 2008 will be a bin-buster. Get your basis protection early.
- Look for trucking/storage opportunities in your local market – conditions change quickly.
- **Manage Basis Risk and Futures Risk separately.**



# Questions?

