Basis Contract

Lock in the basis and capture the rally.

Take advantage if the futures market rallies with a basis contract.

What is it?

A basis contract lets you lock in a basis level but leave the future prices open until a later time. Contract basis values include all of the costs associated with marketing grain. Basis values are the difference between the futures and cash markets and are influenced by supply and demand.

How does it work?

You sign a contract for a specified number of tonnes and choose a delivery period. You fix the basis and leave the futures open.

What are the advantages of a Basis Contract?

- You can lock in a basis and wait for a potential futures rally.
- You have the option of setting a futures target that will be triggered if the futures rise to that level.
- You can price the futures on any portion of your contracted tonnage, multiple times.
- You have the ability to roll to forward future months.
- Allows you to eliminate storage risk by planning delivery of your crop.

What should you know?

- You hold the downside futures risk.
- Basis levels could improve.
- Your Basis contract must be priced or rolled by the priced by date on the contract.
- US Foreign Exchange (FX) is included in your basis value.
- When rolling a basis to a Forward Futures month, the spread conversion between futures months will be calculated at time of and may include a US FX cost.

When is it used?

Choose a basis contract if you think the basis is attractive, but you expect the futures to improve. This tool is often used when you need to secure a delivery in an unfavourable futures market.

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Example:

You have a basis contract for canola at ($18.00) under the November futures. What would the new basis price be if it were rolled under the March futures month?

Contract roll			
November 2023 futures	$725.00	March 2024 futures	$745.00
September delivery basis	($18.00)	March rolled basis	($38.00)

To establish a new basis, you will need to add or subtract the spread in the futures to the current basis contract price.

November/March futures spread

November 2023 futures	$725.00
Less: March 2024 futures price	$745.00
November to March futures spread	**($20.00)**

New fixed basis contract price

Original fixed basis contract price	($18.00)
November to March spread	($20.00)
New basis price after roll	**($38.00)**

Had the producer flat priced on September 27, they would have received $707.00/MT.

Wtih a basis roll, the producer would deliver in September and have the opportunity to defer futures establishment until March 2024.

This is a tactic for producers that are bullish and need harvest movement or want to transfer storage risk.

On January 30, 2024, the producer wants to finalize the contract and receive final payment.

Scenario 1 - futures rally

On January 30, March 2024 futures are $780.00.

The final, fully-priced contract value will be:

Basis	($38.00)
March 2024 futures	$780.00
Final price	**$742.00**

Scenario 2 - futures decline

On January 30, March 2024 futures are $780.00.

The final, fully-priced contract value will be:

Basis	($38.00)
March 2023 futures	$700.00
Final price	**$662.00**