

## Basis Contract

A Basis contract is priced in two separate steps. The initial contract specifies the bushel quantity, the delivery period and the basis relative to a specific futures contract month.

The second step of the Basis contract is to set the futures price (during CBOT trading hours) at a future time. Basis contracts must be priced before the CBOT delivery month begins. To offer more flexibility, a Basis contract can be rolled forward to another futures contract month for a 2 cents per bushel roll fee.

### Customer Advantages:

- Take advantage of CBOT futures market rallies.
- If bushels have been delivered to elevator or in storage already, customer able to receive an advance of 80% of contract value. Total bushels put on Basis contract multiplied by cash price, minus any storage, drying or quality discounts, the day the contract is signed.
- Downside basis risk is eliminated.

### Customer Disadvantages:

- Risk of lower price on the CBOT futures.
- If 80% advance and market price trades lower, may have to send in additional money to Prairie Central to maintain contract if it reaches 95% of market value.
- Missed opportunity of basis improvement.

### Example:

On October 2nd a customer sets a basis of -0.25 cents under the CBOT December 2015 corn futures on 20,000 bushels of corn that was delivered at harvest. At this time, a customer can receive an 80% cash advance on the contract.

On November 25, the customer prices the CBOT December 2015 futures at \$3.75. His contract price becomes \$3.50 ( $\$3.75 \text{ futures} - .25 \text{ cents basis} = \$3.50 \text{ flat price}$ ).