

Producer Perspective for Workshop Four – Understanding and Charting Basis
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- Have farmed near Great Falls on our own for 9 years.
- Until 1996, we raised all SWW. Flat price commodity, no marketing options. Sold all grain at one time, usually in Dec or Jan.
- In 1996, we started experimenting with hard red wheats and found we could raise comparable yields with good protein and more marketing opportunities.

The following are examples of tools I have used with some success.

*All examples show basis levels for 14.0 protein Hard Red Spring Wheat at Great Falls, MT
PNW basis bids are .98 cents higher than my local bids.*

1997 Crop Year

- First year raising Hard Red Spring Wheat – 250 Acres
- In July, 1997 : crop looked good, elevator manager told me he had a good new crop basis bid for 14 DNS at +.21 over the MWU97 (Mpls Sep futures)
- **BIG HURDLE** to sell a crop I hadn't harvested yet, but I knew I wouldn't really learn how to use the tools I had been hearing about until I applied them to my own situation.
- Wrote a basis fix contract for +.21 over MWU97 (PNW basis = 1.19)
- MWU97 futures at that time were around 3.50.
- Toward end of Aug, I had to price out or roll the contract. Futures were inverted .035 cents at this time and I felt they would go up some more, so I rolled the contract to a basis fix of +.245 over the MWZ97 (Mpls Dec. futures)
- MWZ97 futures at that time were around 3.90
- Delivered grain in September.
- Near the end of Nov. the futures market had a carry of .08 cents, so I rolled the basis again to a +.165 over the MWH98 (Mpls Mar. futures) Hoping for more gains in the futures market.
- MWH98 futures at that time were around 3.72
- On Jan. 26, 1998, I locked in a March futures price of 3.735 for a net of \$3.90
- On that some day, I sold the overfill of the contract for a cash price of \$3.68 (3.73 futures price minus .05 basis)

1998 Crop Year

- Feb, 1998 – Started watching the deferred futures months looking for an opportunity to price in some of the coming years harvest
- Wrote a hedge-to-arrive contract for MWZ98 (Mpls Dec 98) at 3.99
- Even **BIGGER HURDLE** to sell a crop I hadn't even seeded yet.
- Fixed the basis in Nov, 1998 at –.16 cents for a net cash price of \$3.83.
- Sold over fill of the contract at delivery for a cash price of \$3.43.

1999 Crop Year

- Oct, 1998 – Locked in MWU99 (Mpls Sep 99) at \$3.85
- In Aug, 1999 the basis for 14.0 DNS hovered around -.20, so I rolled my HTA to the MWZ99 futures contract at a .14 cent carry to equal \$3.99.
- At marketing club meeting in Sept, a neighbor said one elevator was offering a basis of -.04 cents for Dec.
- I locked in this basis on my HTA for a net cash price of \$3.95
- Current cash price at that time was around \$2.95

Lessons Learned

1. Basis trades in a range. Know what that range is and learn to recognize a good basis bid.
2. Know the difference between your local basis and PNW basis. Ask your elevator manager what he is taking off and which one he is quoting you.
3. Try using these tools on a contract or two. If your money is on the line, you will pay attention to what levels futures and basis are trading at.
4. Use the expertise offered by grain traders and brokers, but trust your own judgement. If you are keeping up on the news and current grain situation, you will have a pretty good feel for what direction the market is going to go.
5. Work with your elevator. Make sure they know what quality and protein grain you have so they can call you when they have a good deal.
6. Don't look back. Accept the decisions you've made and look forward to what pricing opportunities lie ahead.
7. I am still learning. I haven't used all the tools available, but I've had enough success with the ones I've used to know they work.