IOWA COMMODITY CHALLENGE

Basis, Carry and Cost of Ownership

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Basis

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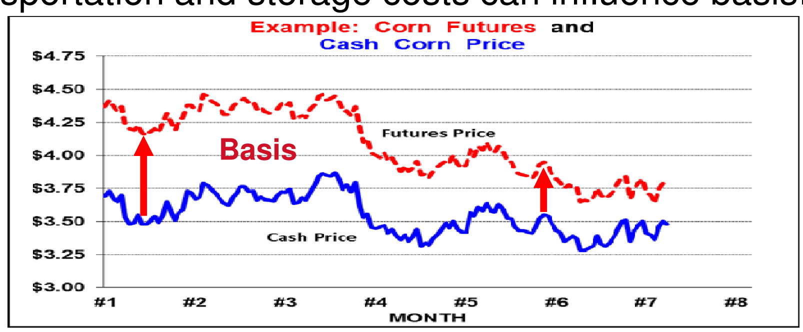
- The difference between the local cash price and the underlying futures price of a commodity. Formula: Cash Price minus Futures Price = Basis. Factors such as local supply and demand, as well as transportation and storage costs can influence basis.



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Carry Market

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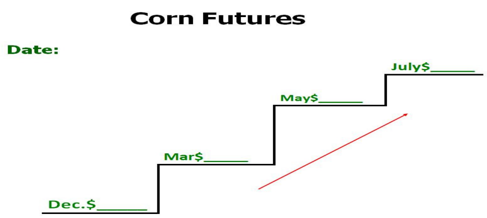
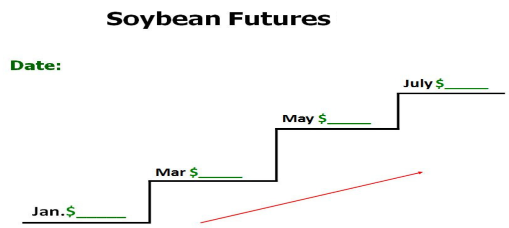
Defined: The difference in price between the nearby contract and the more distant delivery months (deferred). Compare the carry offered by the market to the costs of storing grain for the various delivery months.





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Inverted Market

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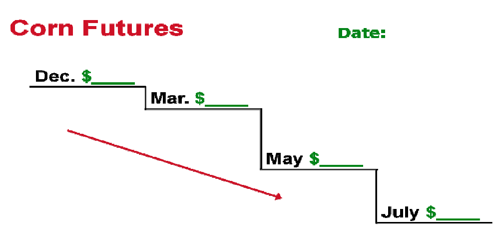
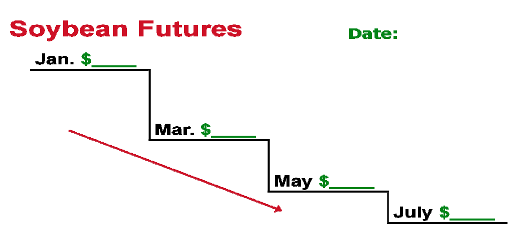
Some years there is little to no carry in the futures markets. This typically occurs when there's strong demand for the nearby delivery months. It likely reflects worries about securing adequate supplies in the near term.





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Corn Storage Costs

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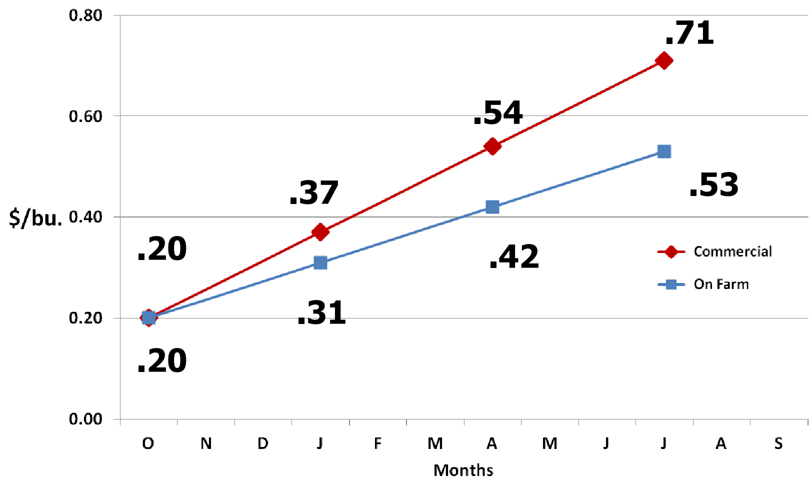
Assumption: Corn at Harvest valued at $3.50/bu. with interest charges @ 5% APR



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Soybean Storage Costs

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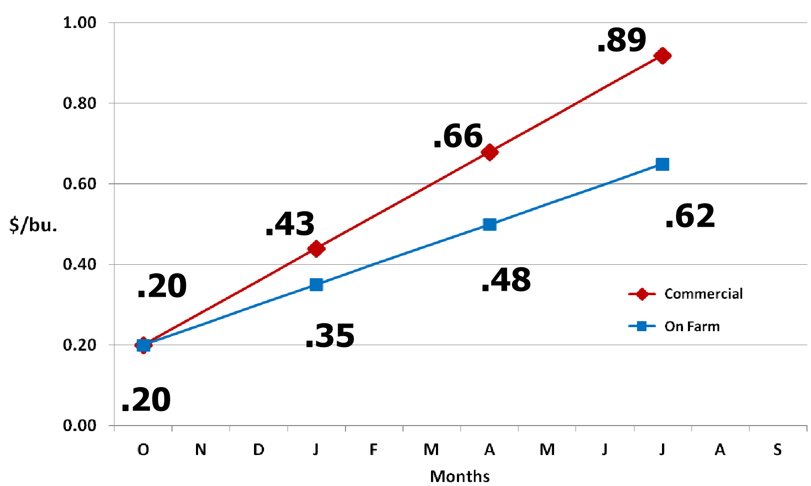
Assumption: Soybeans at Harvest valued at $9/bu. with interest charges @ 5% APR



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Cost of Ownership

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Corn

- On-Farm: Monthly Charge = 3¢/bushel
- Commercial: Monthly Charge = 6¢/bushel

Soybeans

- On-Farm: Monthly Charge = 4¢/bushel
- Commercial: Monthly Charge = 6¢/bushel

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Key points:

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Basis, Carry & Cost of Ownership

- Understand that basis reflects the local supply and demand for grain and can vary by location.
- Determine if a carry market is enough incentive to store grain, but also consider the storage costs.
- Before storing grain, calculate your own Cost of Ownership per bushel per month.

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