

Basis Contract For Ontario Producers

If you want to preserve an attractive basis level while waiting for improvements in the futures price, the South West Ag Partners Basis Contract may be a valuable marketing option for you.

What is it?

A Basis Contract allows you to choose a basis level without specifying the futures price.

You agree to deliver a specific quantity and quality of a commodity for either spot or future delivery at a predetermined value over or under a specific futures price. The final cash price is determined when you select or lock in the futures price.

What are the Advantages of a Basis Contract?

- From the day you enter into a basis Contract, you will pay no further storage costs.
- You may benefit from future increases in the futures market.
- You may roll this contract to capitalize on market inverses and delay final pricing.
- You may generate cash through an advance upon delivery feature that provides 75% of the contract value.
- It may be a lower-cost option than paying storage and interest.

What are the Risks and Disadvantages of the Basis Contract?

- You cannot benefit from further improvements in the basis level.
- You remain subject to the risk of sharp declines in futures price levels.
- If futures prices decrease so that the value of your contract goes above the 85% amount of an advance you may have received, you will be required to repay a portion of that advance so that no more than 75% of the full contract value is advanced on an un-priced contract.

When is it used?

Sellers generally use the Basis Contract when the basis level is attractive but overall prices are unattractive because of low future prices. Since the basis tends to be more attractive when futures levels are low, most sellers use the Basis Contract when they are confident that futures prices are going to move higher.

How do I roll a Basis Contract?

Rolling a Basis Contract allows you to shift forward the futures reference month on which the final pricing is based. You must notify your South West Ag Partners grain marketing specialist at least three (3) trading days prior to the first day of the applicable futures month as to how the pricing will be done, otherwise your Basis Contract will be automatically rolled forward.

If the contract is rolled, the final basis level will be adjusted by the positive or negative price spread between the two futures months at the time of the amendment. A basis contract may roll a maximum of 3 times and it must be priced out no later than three (3) trading days prior to the first day of the applicable futures month.

How Does It Work?

Let's say your local South West Ag Partners Farm Service Center quotes a price of \$3.00 per bushel for harvest-delivered corn. At that time, December futures are trading at \$2.25/bu, which implies a basis level of \$0.75. You believe this is a good basis and are concerned that it may narrow as harvest progresses. You also think that the futures will rally. So, you sign a Basis Contract for October delivery corn at \$0.75/bu over the December futures price.

On November 15th, the December corn futures price has risen to \$2.40/bu, and the basis level has dropped to \$0.65. You instruct your South West Ag Partners grain marketing specialist to price out your Basis Contract using your contracted basis of \$0.75 over the December futures price, for a final price of \$3.15/bu.



In this example, using a Basis Contract and waiting until November 15th to finalize the price would net you \$0.15/bu more than if you had sold on October 1st into the cash market.

	<u>Basis Contract</u>	<u>Cash Sale Contract</u>
	\$2.40 Dec futures on Nov 15	\$2.25 Dec futures on
Oct 1	\$0.75 your contracted basis level	\$0.75 Oct 1 basis
	\$3.15 your final price	\$3.00 Oct 1 spot bid

Note, however, that if the futures price had dropped below \$2.25/bu, you would receive less for your corn than if you had sold it into the cash market on October 1st.

Once a producer has entered into a Basis Contract with South West Ag Partners, no storage charges will be applied to grain delivered into the elevator against that contract.

This Marketing Alternative overview has been prepared to help you identify the marketing alternatives offered by South West Ag Partners Inc., along with the advantages and disadvantages of each. South West Ag Partners has used its best efforts to provide you with this useful and helpful information. However, we cannot guarantee that this contract alternative will function in the same way in each and every situation, and information, which may be accurate for one farmer, may not necessarily prove to be accurate for another. Therefore, we do not make any warranty or guarantee as to the accuracy of any of the information as it is applied in a particular marketing strategy. Entering into any of the transactions outlined in this presentation will not result in your opening a futures account with South West Ag Partners Inc. or otherwise, nor will you obtain a futures position. The only futures position relative to any transaction, if one exists, will be held by South West Ag Partners Inc. This and other contracts may employ the futures market as a grain pricing mechanism, but the contracts described are not, themselves, futures contracts.