Historical Corn Basis Patterns: Forward Contracts vs. Spot Delivery
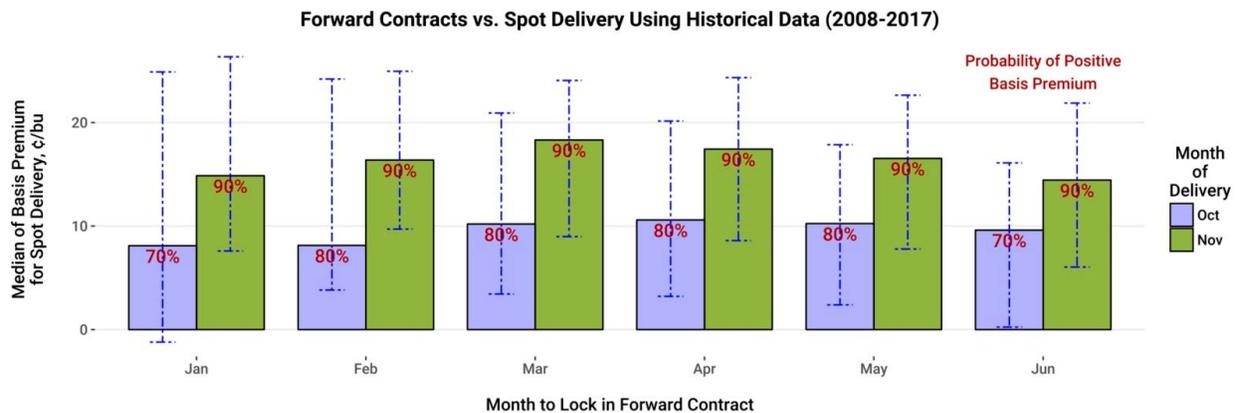
Background:
When you decide to lock in basis can have a large impact on the price you receive for your grain. Specifically, we analyzed the difference in corn basis when locking in basis in the spring with a forward contract for fall delivery vs. the basis for spot delivery in the fall.

Methodology:
- We analyzed all buyers within a 50-mile radius of your farm for the past 10 years (2008-2017).
- For each year, we calculated the average change, across the buyers in your region, between a) forward contract basis for fall delivery and b) spot delivery in the fall.
- We considered locking in basis with a forward contract in February, March, and April, and considered delivery in October or November. The average basis during the first week of each month was used to represent the price of that month.
- Basis premium for spot delivery = spot basis - forward contract basis.

I. The graph below shows the median, and lower and upper 25%, basis premium for spot delivery over the past 10 years.

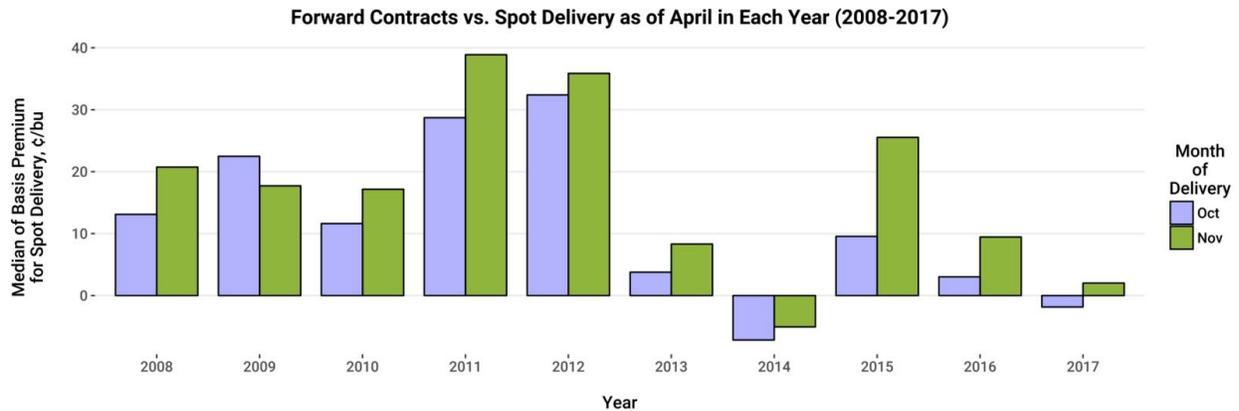Forward Contracts vs. Spot Delivery Using Historical Data (2008-2017)

Implications

- **Overall results:** It is clear that there is a basis premium in *all* of the months analyzed - from January through June - on average. This means that forward basis contracting for either October or November delivery is on average worse than pricing your basis on the spot upon delivery.
- **Basis premium likelihood**
  - The likelihood that this premium exists (the benefit of spot selling) varies by month, and no month has a basis premium 100% of the time. This means that in at least some years (more details on this in the graph below), there was no premium for waiting to price your basis until harvest.
  - In the observed data observation period, for all observed potential forward contracting months spot selling in November is on average more likely (90% in *all* observed months) than spot selling in October to yield a greater basis premium for all observed months.
- **Median basis premium**

- ○ The median basis premium also varies depending on the potential forward contracting month *and* the months for crop delivery
- ○ For November crop delivery, forward contracting in March is on the median your worst bet; leading to an about 18-cent basis premium for spot selling in November
- ○ For October crop delivery the distribution is more equal, but forward contracting in April is on the median your worst bet; leading to an about 18-cent basis premium for spot selling in October

II. This graph shows the basis premiums during each of the past 10 years:

Forward Contracts vs. Spot Delivery as of April in Each Year (2008-2017)

Implications

- ● **Basis premium likelihood**
  - ○ Basis premiums have been highly likely over the past 10 years: there is a positive basis premium in 9/10 years for November delivery, and 8/10 years for October delivery
- ● **Variability**
  - ○ There is clearly wide variability in basis premium across years over the past 10 years for both October delivery and November delivery
  - ○ In the past 5 years we observed (2013-2017), there has been on average a smaller basis premium or basis deficit than in the first five years we observed (2008-2012)
  - ○ Basis premiums typically go in tandem between crop for October delivery and for November delivery: there is only one year where there is a positive basis premium for one delivery month and negative for the other - 2017

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