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Wheat Basis Patterns From Selected Sites in Western Nebraska¹

Lynn H. Lutgen, Extension Marketing Economist

The following publication contains monthly average wheat "basis" patterns for several towns in western Nebraska. The ongoing price information was collected through surveys, newspaper, electronic media, etc. The listing includes towns that are representative of different geographic locations in western Nebraska. The amount of data varies among locations. This publication will be updated each year by adding a year's data to each location which will allow the user to observe the changes in the basis patterns over time.

Why is Basis Important?

The understanding of basis is extremely important to the producer who wishes to forward price wheat production. Basis is important in the evaluation of hedging, cash contracts, basis contracts, and hedge to arrive contracts. An example is wheat held in storage in November that the producer plans to sell in May. This is formally known as a selling storage hedge. In hedging, the producer is establishing in advance the price to be received when the grain is sold and the hedge is lifted. The price that is received when the commodity is sold on the futures market is not the actual price the producer will ultimately receive. The futures price is the Kansas City price for grain, not the Nebraska price, therefore there will be an adjustment made in the Kansas City price.

This adjustment is the basis. The basis can cause the producer to either gain an additional profit or receive a lower price for the product than anticipated when the hedge was placed. An understanding of the basis enables the producer to evaluate forward cash contract offers and hedge to arrive contracts, in addition to hedging opportunities.

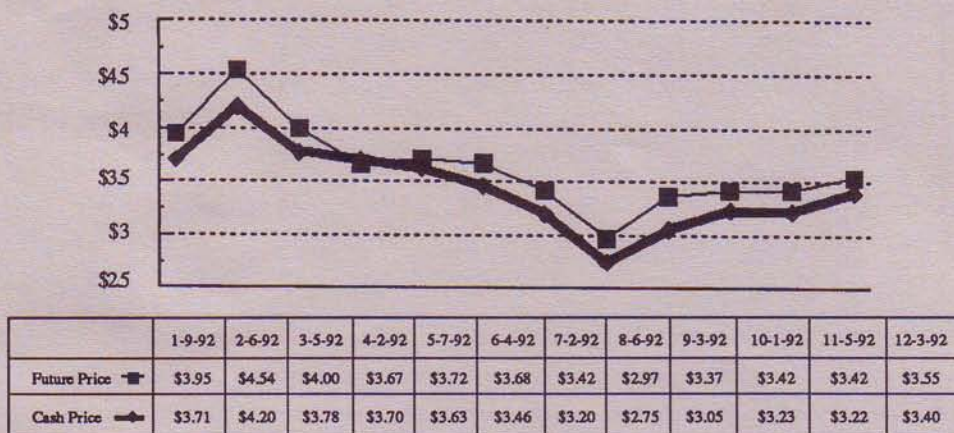
What is Basis?

Basis is the difference between the Chicago futures price and the cash price at a specific local market at a particular time. For an individual producer to determine the basis that is relevant, he must determine what the futures price is and then obtain a spot cash price from the local market where he intends to market his crop. When this spot cash price from the futures price and the result is the basis, or the localized futures price in the area. The formula used for this is:

$$\text{futures price} - \text{local cash price} = \text{local basis.}$$

The producer should be aware that the narrower or smaller the basis is at the time the hedge is liquidated, the higher his return will be. A negative basis would add an additional unexpected profit over the price position established by the futures price. For example, in Figure 1, the basis in Gothenburg on February 6, 1992 was 34 cents and on April 2, it was 3 cents. The basis was the widest on February 6, at

Figure 1
Wheat 1992
Gothenburg, NE



¹It is the intention of the author to update this report annually. Appropriate additions, revisions or deletions will be made at those times. Requests for the updated reports should be sent to the Department of Agricultural Economics, Institute of Agriculture and Natural Resources, 217 H.C. Filley Hall, UNL-East Campus, Lincoln, NE 68583-0922.



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34 cents. For further explanation of basis see NebGuide G78-416, *The Importance of the "Basis" in Trading on the Futures Market*.

The study of past basis movements and their patterns can be useful in understanding future market opportunities. For example, a producer who hedges wheat in June on the December futures must be able to estimate what the December basis will be when they lift their hedge and sell the grain on the cash market. It is for these reasons that this information has been compiled and hopefully will be of use to the producer who forward prices wheat. When evaluating the following basis information keep in mind how the basis for each location was formulated. The average cash prices used were the Thursday closing prices at the local elevator. Then these prices were averaged to give the monthly average shown in the tables. Futures prices are the near-by contract

month's closing price. The near-by contract months are December, March, May, July and September. To calculate the basis, each Thursday's local cash price was first subtracted from the near-by contract month's futures price and then averaged.

The towns included in the publication are:

Alliance	Alma
Atlanta	Grant
Gothenburg	Gurley
Hemingford	Imperial
Kearney	Kimball
Lexington	Maywood
McCook	Merna
Ravenna	Sidney

Average Monthly Wheat Prices 1989-93

1989

Town/Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Alma											.26	.26
Atlanta		.27	.31	.21	.30	.26	.24	.27	.29	.27	.27	.24
Grant			.36	.31	.35	.38	.35	.30	.25	.29	.32	.30
Gothenburg			.27	.17	.32	.29	.16	.22	.22	.21	.24	.23
Gurley	.30	.25	.19	.14	.19	.07						
Imperial		.37	.37	.32	.43	.38	.21	.25	.30	.31	.29	.31
Kimball	.31	.22	.20	.09	.24	—	.19	.17	.13	.16	.31	.36
Maywood							.18	.30	.29	.25	.26	.26
McCook							.25	.28	.31	.31	.32	.31
Merna		.23	.30	.20	.31	.16	.25	.29	.27	.27	.26	.27
Ravenna											.24	.27
Sidney							.19	.14	.08	.12	.16	.13

1990

Town/Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Alma	.15	.24	.20	.06	.09	.09	.39	.35	.44	.40	.26	.27
Atlanta	.22	.22	.16	.05	.04	.02	.38	.33	.43	.38	.24	.27
Grant	.31	.28	.18	.19	.20	.33	.45	.34	.40	.34	.29	.34
Gothenburg	.20	.20	.08	.07	.02	.30	.36	.30	.40	.36	.26	.27
Gurley									.25	.25	.14	.21
Imperial	.31	.34	.26	.19	.11	.24	.46	.36	.44	.38	.29	.33
Kearney									.40	.40	.36	.30
Kimball	.12	.19	.07	.08	.09	.19	.43	.30	.30	.29	.15	.22
Maywood	.32	.31	.15	.18	.08	.26	.45	.36	.42	.40	.30	.33
McCook	.42	.34	.21	.19	.11	.24	.46	.36	.44	.38	.29	.33
Merna	.26	.28	.12	.13	.04	.18	.40	.34	.42	.40	.29	.30
Ravenna	.27	.25	.22	.10	.07	.26	.35	.30	.39	.39	.36	.38
Sidney	.11	.16	.03	.07	.08	.19	.37	.28	.27	.21	.11	.19

1991

Town/Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Alliance	.29	.28	.36	.32	.32	.26	.28	.37	.45	.41	.40	.43
Alma	.31	.32	.36	.36	.35	.28	.30	.29	.37	.39	.35	.35
Atlanta	.31	.35	.25	.37	.32	.24	.29	.29	.34	.36	.34	.35
Grant	.33	.34	.39	.37	.36	.28	.32	.40	.41	.43	.31	.43
Gothenburg	.26	.25	.34	.32	.32	.28	.26	.31	.36	.35	.32	.33
Gurley	.28	.28	.35	.29	.26	.24	.28	.35	.41	.37	.38	.39
Hemingford				.36	.33	.25	.28	.38	.48	.45	.43	.49
Imperial	.34	.36	.41	.40	.39	.33	.33	.39	.43	.44	.41	.42
Kearney	.30	.28	.30	.30	.35	.28	.22	.30	.28			
Kimball	.27	.29	.35	.30	.29	.24	.28	.36	.42	.37	.38	.39
Lexington				.26	.26	.21	.21	.22	.28	.29	.22	.23
Maywood	.32	.31	.40	.40	.39	.34	.32	.40	.42	.44	.41	.41
McCook	.34	.35	.43	.41	.39	.33	.33	.39	.43	.44	.41	.41
Merna	.30	.30	.37	.34	.35	.30	.27	.29	.35	.36	.33	.36
Ravenna	.35	.25	.32	.32	.31	.24	.21	.29	.38			
Sidney	.23	.24	.30	.24	.21	.20	.24	.31	.36	.33	.34	.36

1992

Town/Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Alliance	.39	.40	.21	.12	.29	.25	.29	.32	.29	.29	.29	.27
Alma	.37	.34	.16	.09	.21	.29	.23	.22	.28	.22	.25	.19
Atlanta	.32	.35	.12	.20	.38							
Grant	.39	.40	.23	.18	.30	.29	.34	.31	.36	.30	.30	.23
Gothenburg	.28	.31	.12	.04	.16	.24	.21	.24	.26	.19	.20	.14
Gurley	.37	.37	.16	.11	.20	.17	.30	.31	.29	.27	.29	.24
Hemingford	.41	.44	.12	.15	.31	.28	.30	.32	.32	.31	.33	.17
Imperial	.40	.40	.18	.12	.22	.23	.27	.26	.29	.27	.28	.17
Kimball	.36	.36	.15	.12	.18	.17	.29	.31	.30	.27	.30	.24
Lexington	.20	.24	.10	.04	.15	.21	.14	.15	.10	.11	.15	.09
Maywood	.36	.39	.19	.12	.22	.27	.22	.24	.31	.25	.26	.20
McCook	.38	.39	.18	.11	.20	.21	.25	.24	.27	.25	.27	.18
Merna	.33	.35	.10	-.01	.14	.16	.21	.22	.26	.21	.22	.12
Ravenna			.16	.04	.15	.29	.17	.20	.22	.22	.23	.17
Sidney	.32	.32	.12	.06	.15	.13	.26	.28	.24	.18	.23	.19

1993

Town/Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Alliance	.24	.28	.10	.17								
Alma	.13	.16		.08								
Grant	.24	.25	.08	.18								
Gothenburg	.11	.16	-.03	.07								
Gurley	.22	.23	.08	.14								
Hemingford	.24	.27	.07	.20								
Imperial	.21	.26	.05	.17								
Kimball	.22	.24	.09	.18								
Lexington	.08	.11	-.13	-.05								
Maywood	.20	.22	.05	.13								
McCook	.19	.24	.03	.15								
Merna	.13	.14	-.02	.04								
Ravenna	.17	.14										
Sidney	.17	.18	.30	.10								