

Welcome to the first issue of TN Soybean News. Your soybean checkoff has created this newsletter to keep you informed about what's happening at the state and national levels. Covering the latest issues in the soybean industry, TN Soybean News is just one more way your checkoff is working for you.

## **Cover Your Basis**

Futures and options contracts can be useful tools to market your soybeans and reduce price risk. To use futures and options effectively, it is important to understand the basis and how it affects the prices you receive in Tennessee.

Many farmers already use forward pricing tools and are aware of the challenges basis can present. Others may not be as familiar with forward pricing options, and want an explanation of basis.

Basis is the difference between the local cash price and the nearby futures price on the Chicago Board of Trade (CBOT). When the CBOT futures price is above the local cash price, the basis is negative, and when the local cash price is above the CBOT futures price, it is positive. Basis is determined by several factors, including supply and demand conditions, transportation, storage and handling facilities, location, quality and competition.

Transportation and its effect on basis has recently drawn the interest of the soybean checkoff. A study funded by the checkoff found that soybean basis has gradually, yet consistently, become wider and more negative during the last five years.

According to the report, which was conducted for the Soybean Transportation Coalition (STC), the soybean basis differed by as much as \$1.80 per bushel. When the basis is wider, farmers receive a smaller share of the CBOT price.

“Soybean basis has been widening in recent years, meaning that many producers are getting a smaller share of the CBOT price,” says Mark Newman, president of Market Solutions LLC, who conducted the analysis of the soybean basis for the STC. “Soybean prices are currently relatively high, so many producers may not notice the money they are losing to increased basis. If and when overall price levels fall, there is no reason to think that basis will narrow, especially if the widening is because transportation costs have increased.”

The next step for the STC is determining the extent to which transportation inefficiencies are contributing to the negative basis growth.

As transportation cost increase, buyers will likely pay less at the local market, and the local basis will widen. The basis may also weaken if local storage facilities become full during the harvest season, as the buyers have no place to put the soybeans.

In Tennessee, the basis is usually stronger along the Mississippi River due to its proximity to Gulf shipping facilities, and less expensive transportation, according to *The Importance of Basis in Marketing Soybeans: a 10-Year Soybean Basis Study for Six Tennessee Regions* by a University of Tennessee agricultural economics professor. Farmers further from the Mississippi River would expect a weaker basis, as buyers need to incur transportation costs to get the soybeans to the river. In areas where there are local uses for soybeans, such as processing and feed, the basis is likely to be more positive.

Using the futures market can be a useful tool for Tennessee farmers who do their homework. However, for farmers to use the futures market as a price management tool, having an estimate of their local basis is critical, and growing more important all the time.