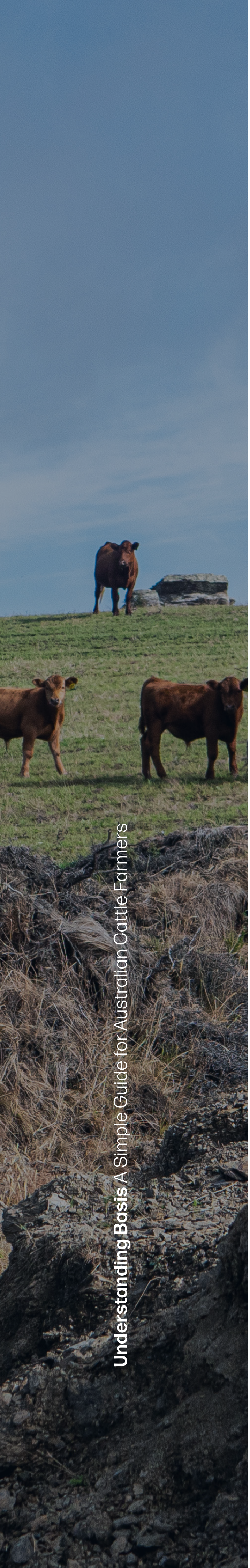
StoneX

# Understanding Basis

## A Simple Guide for Australian Cattle Farmers




## What is Basis?

**Basis** is the price difference between your cattle price and the price of the StoneX Australian Feeder Cattle Swap.

Simply put: **Basis = Your Local Physical Cattle Price - Swap Price**

Basis can be positive (you're cattle selling at a premium) or negative (you're cattle selling at a discount) compared to the swap price.

## Why is Basis Important?

**Understanding basis helps you:**

- Make smarter marketing decisions
- Know when to sell your cattle based on seasonality
- Effectively use price risk management tools
- Identify which buyer is offering the best deal
- Decide whether to sell now or hold and sell later

## Basis Changes Throughout the Year

**Basis is affected by:**

- **Local supply and demand -** When cattle are scarce in your area, basis strengthens
- **Seasonal patterns -** Different cattle types have different basis patterns during the year
- **Transportation costs -** Distance to processors affects basis
- **Quality differences -** Better quality cattle often command a stronger basis
- **Breed differences -** Premium breeds like Angus typically have a stronger basis

### Example: Angus vs. Flatback Basis

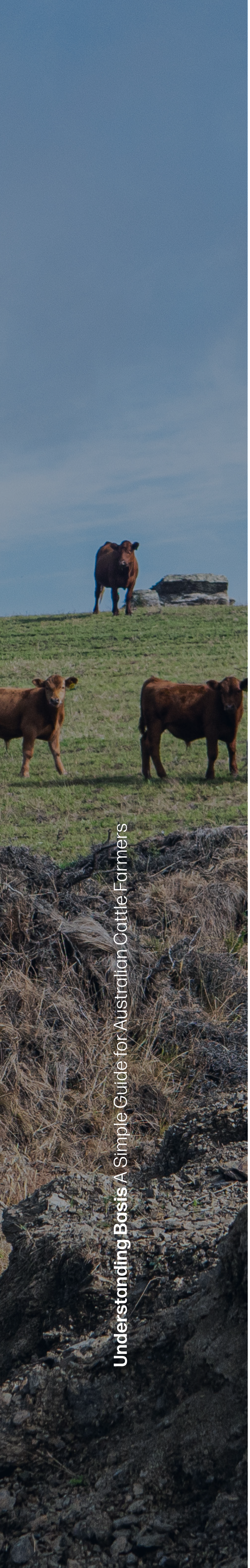
Angus feeder steers typically sell at a premium to QLD flatback feeder steers (the basis of the swap). This premium follows seasonal patterns:

- **March-October:** Basis widens (+60c to +80c/kg lwt) as Angus supply becomes limited
- **October-March:** Basis narrows (sometimes to even) when Angus cattle are more plentiful

## Basis in Practice - A Simple Example

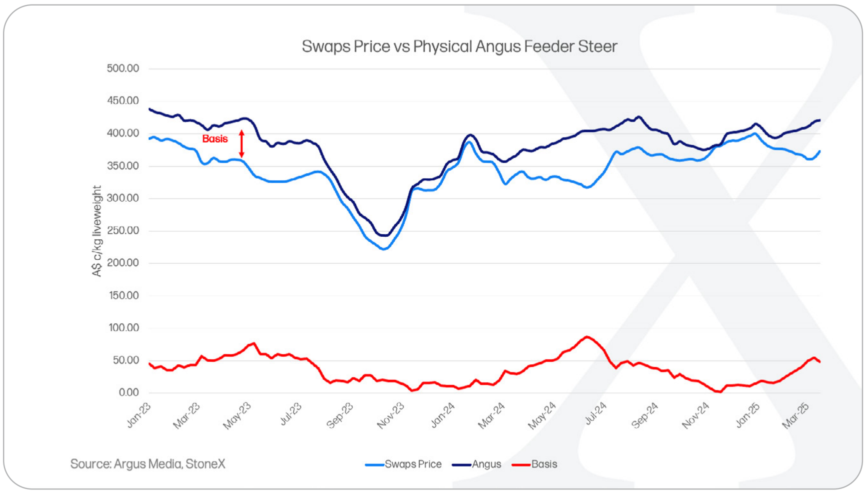
**Scenario:** Meet John, an Angus feeder steer producer from northern NSW.

- John plans to sell 100 Angus feeder steers into the Darling Downs feedlot market in August.





- John is aware that a price differential exists between the Angus feeder steers he sells and the swap market price, which is based on a flatback (<51% Bos indicus content) feeder steer delivered within a 300km radius of Dalby, 0-2 tooth, and weighing 380-480kg lwt.




Source: Argus Media, StoneX

**Current situation:**

- John sells the August StoneX Feeder Cattle swap at A$4.00/kg lwt
- Historical basis for Angus feeders in August: +70c/kg lwt
- Expected selling price: A$4.70c/kg lwt (400c + 70c)

**Outcome possibilities:**

1. **Strengthening basis:** If basis moves to +80c/kg, your cattle sell for 480c/kg
2. **Weakening basis:** If basis moves to +60c/kg, John's cattle would sell for 460c/kg

## Basis Risk

- In the outcome examples above, there is a risk that basis narrows, as shown in the weakening basis scenario when it moves to +60c –10c/kg lwt lower than the historical basis for August.
- The swap seller must be aware that basis can narrow and widen, as shown in the two outcome possibilities above, and must be comfortable with that situation potentially occurring.

## Key Takeaways

Understanding the typical basis for your cattle type at different times of the year helps you make informed decisions about when to hedge and when to sell.

- Track your local basis over time to understand patterns
- Consider basis when using risk management tools
- Basis risk is typically much smaller than overall price risk

# Contact us

**For more information on the StoneX Australian Feeder Cattle Swap and basis, contact your StoneX representative.**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