

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:

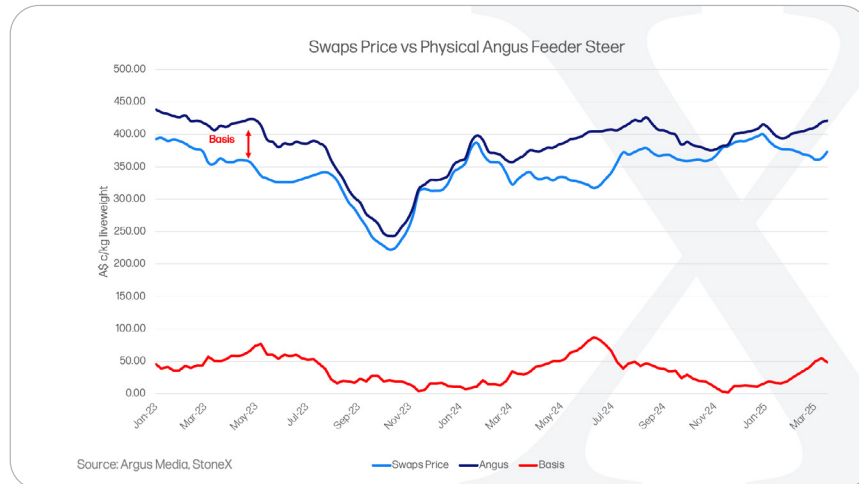
- **March-October:** Basis widens (+60c to +80c/kg lwt) as Angus supply becomes limited
- **October-March:** Basis narrows (sometimes to even) when Angus cattle are more plentiful

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.



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:

- Strengthening basis:** If basis moves to +80c/kg, your cattle sell for 480c/kg
- 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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