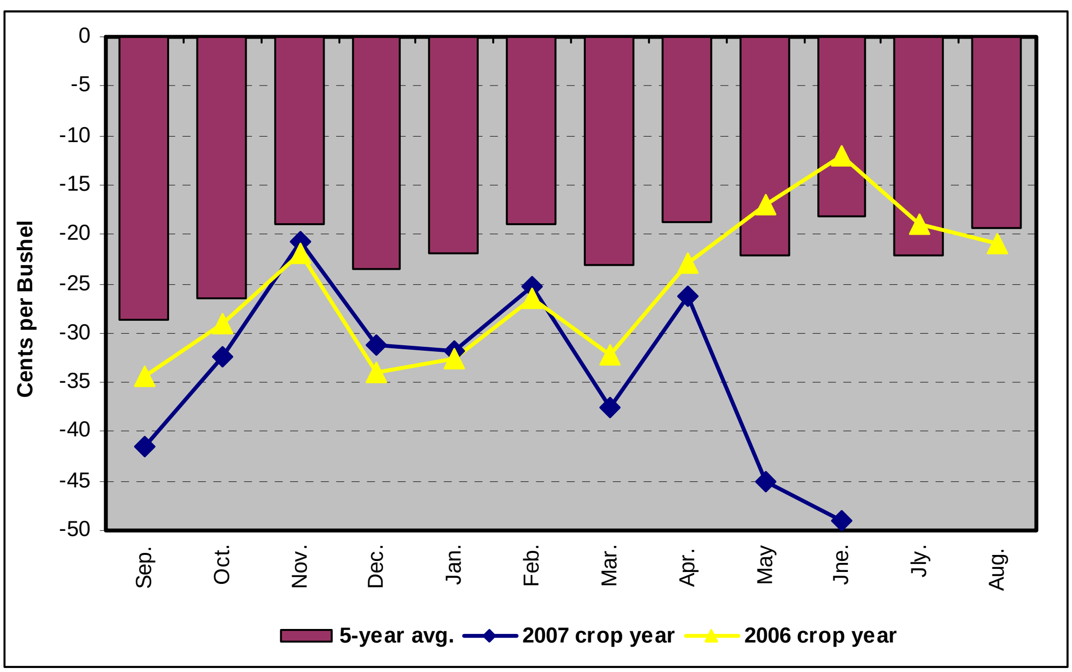
NCI-CME CORN SPREADS PROVIDE SEASONAL OPPORTUNITIES

Understanding basis and anticipating basis moves is a key to success for grain traders and merchandisers. Those who have been in the business for a while have intimate knowledge of basis behavior that may allow them to anticipate movement in the national average basis. They can capitalize on this knowledge by using the synthetic basis created with the MGEX (Minneapolis Grain Exchange) National Corn Index (NCI) and CME Group, Inc. (CME) corn contracts. One key component to understanding potential movement in these spreads is the innate seasonality in the basis.

The NCI represents a national average elevator or country-level price. Therefore, the spread between the NCI and the CME futures is effectively a national average basis. A synthetic short basis position is created through the sale of the NCI and purchase of the CME futures. Conversely, a long synthetic basis position is equivalent to a long NCI position coupled with a short CME futures position.

Figure 1 shows the NCI-CME spread has a historical tendency to strengthen from harvest time levels in September through November. This pattern was repeated in both the 2006 and 2007 crop years. There is also some tendency for the spread to weaken in March as it did in 2006 and 2007. With the USDA forecasting a relatively small carryout of corn for the 2008 crop year, large swings in the national average basis are starting to occur. Market participants can use their knowledge of the basis to effectively trade the NCI-CME corn spread.

Figure 1. NCI – CME Corn Spread



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