Let's assume that the closing basis is $8.75 instead of $6.50 used in the initial example, or an additional $2.25. This difference is then subtracted from the original profit calculation of $8.50 so that the new profit potential (or actual if it took place when an offsetting contract was purchased) would only be $6.25 ($8.50-$2.25). Briefly stated, a narrowing basis increases profit while a widening basis reduces it for the short hedger such as a feeder cattle producer. In practice, it means the basis should be monitored near the time period cattle will be marketed and the contract offset (sell cash, buy back futures) when the most favorable basis occurs.

In each of the examples presented the hedger is assumed to reverse the futures position and hence must be concerned with the closing basis. If the closing basis begins to widen considerably, then the producer may find it more profitable to close out the position earlier than originally intended, even though that strategy would mean going back to an unhedged position and accepting the remaining price risk. Delivery of cattle is another option, but it is not very practical for most Florida feeder cattle producers, and is impossible when lighter weight cattle are hedged. This is precisely why a good understanding of basis patterns is essential to a good trading plan.

## Cyclical Basis Fluctuations

The basis for both calves and yearling feeders fluctuates when cattle prices make substantial upward or downward moves. In the case of calves, the basis widens when the general level of prices is low or declines, and narrows when prices increase. This is illustrated below where the left figure shows the general decline in the basis for 400-500 pound steers to negative values as cattle prices become higher. The scattering of the basis values are shown to illustrate the overall variability that can be expected.