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Prices convey information and incentives.

Stinson Dean is long in physical lumber (after he buys it.)

⇒ to hedge price risk, he should go short (sell futures to hedge his price risk.)

Now its October 2019, Mr. Dean is buying lumber.

May futures contract.
Sells at 3.80 (really, \$0.38/bd. ft.)

"Mr. Tong has gone short."

Q: How much did he sell in the futures market?

Basis = local cash price - futures price.

E.g., for Stinson Dean, in Oct. 2019,
if the Baton Rouge, LA lumber price was \$4.10 bd. foot, and the May futures price was \$3.80, then his basis was 4.10 - .38

\$.41

in Oct. basis = .41 - .38 = \$.03/bd ft.

in March basis = .29 - .26 (also \$.03 bd. ft.)

↑
Price of May futures in March

If basis is constant (@ \$0.03/bbl. ft in my example) then the price that Mr. Dean guaranteed for himself when he sold the May contract in October was $\$1.41 + .03 = \1.44

↑ ↑
May basis
futures price
when he sold