



FLOUR FACTS

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Weekly Market Highlights

- Wheat futures prices have dropped nearly eighty cents per bushel this week.
- Bearish inputs exerted pressure on prices: the possibility of spring rains improving the winter wheat crop, news that China's wheat reserves were adequate, and less-than-impressive wheat export data.
- Thursday's USDA supply and demand reporting added further fuel by increasing domestic ending stocks, reducing export estimates, and increasing global wheat stocks; easing concerns that world wheat supplies are inadequate.
- Basis premium levels are higher, with railroads still weeks behind in placing cars, but one day the double-buying will dramatically limit demand, and the basis could fall fast and hard as well.
- It seems at current levels the markets may soon find support.

Facts on Flour

The Wheat Basis in Perspective

We've discussed previously that flour is priced based on the interaction of Wheat futures, cash basis and millfeed. Most would agree that futures are usually the main determinant of the flour price and almost always the most highly publicized. Of the three components (futures, basis and millfeed) the cash wheat basis is probably the least understood and probably of the greatest focus to the flour miller.

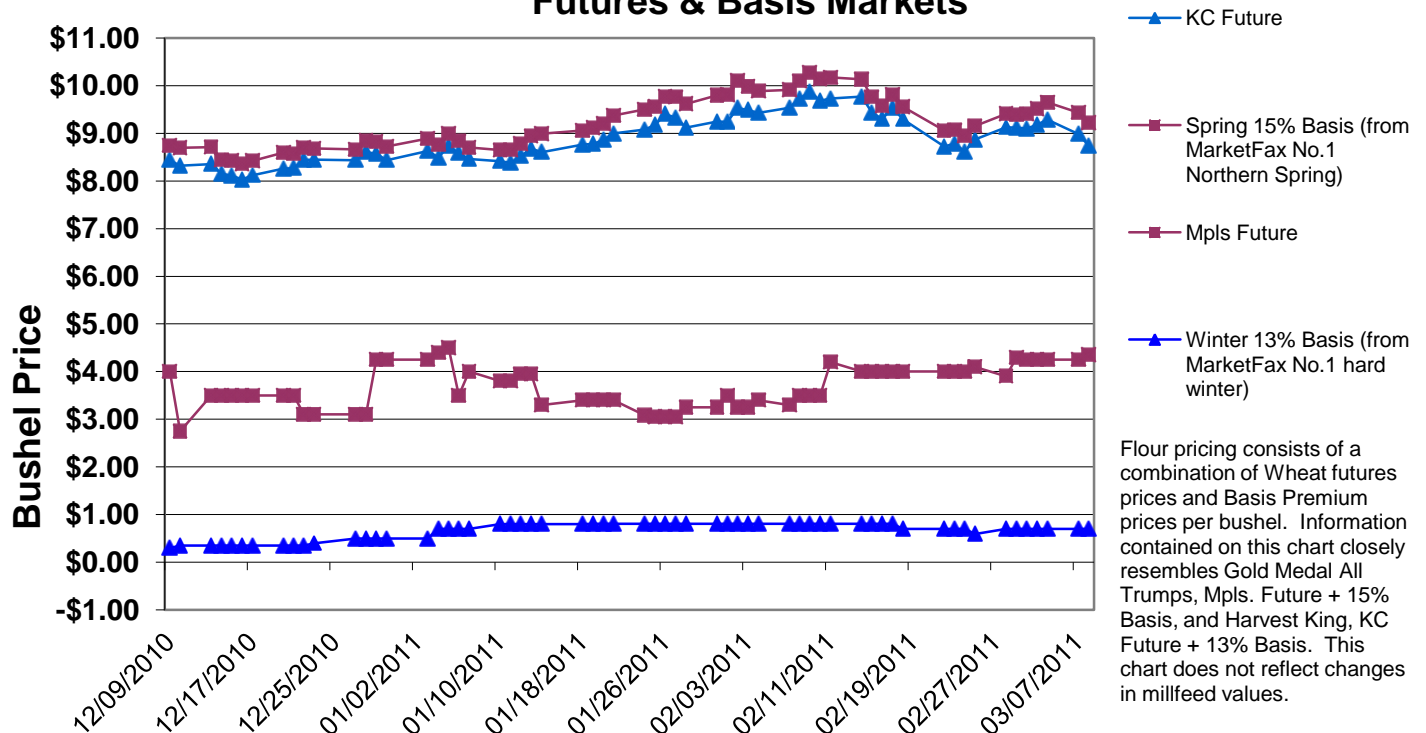
A textbook might define the basis as the numeric (cents per bushel) description of the relationship between the futures contract and the physical commodity. A practical way to understand the basis is to contrast it with futures. In general, futures markets measure and respond to "macro" or global inputs such as droughts, foreign demand for wheat and government subsidy programs.

The basis reflects the difference between the futures price and the price of "cash" or actual bushels of wheat. It serves to adjust the futures price for more localized or "micro" factors. For instance, the basis at a particular location might be influenced by delays in rail shipments, variability in wheat quality or protein needed or even the amount of storage capacity at a particular location.

It might look something like this; If the Minneapolis December futures are \$3.50 per bushel but a mill in Des Moines must pay \$4.00 to attract sellers of a particular grade of wheat, we would say that the Des Moines basis is +\$.50.

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Futures & Basis Markets



This Chart is meant to indicate Market Direction Only.

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Brenda Mengelkoch at 800-288-1624

brenda.mengelkoch@genmills.com