



FLOUR FACTS

Information Provided by General Mills Professional Baking Solutions
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Weekly Market Highlights

JANUARY 31, 2013

- Wheat futures prices have been steady to higher over the past week, gaining more than thirty cents per bushel since their lows earlier this month.
- Basis Premiums are firm with little fluctuation, wheat shipments to market have improved after the holidays.
- Preliminary reports from Canada note a higher number of acres seeded to wheat, which is good news.
- Conditions have not improved for the U.S. hard red winter wheat affected by drought.
- Corn and soybeans supported wheat prices on Wednesday due to concerns of too much rain in Brazil and dry conditions in Argentina, both for soybean crops.

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.

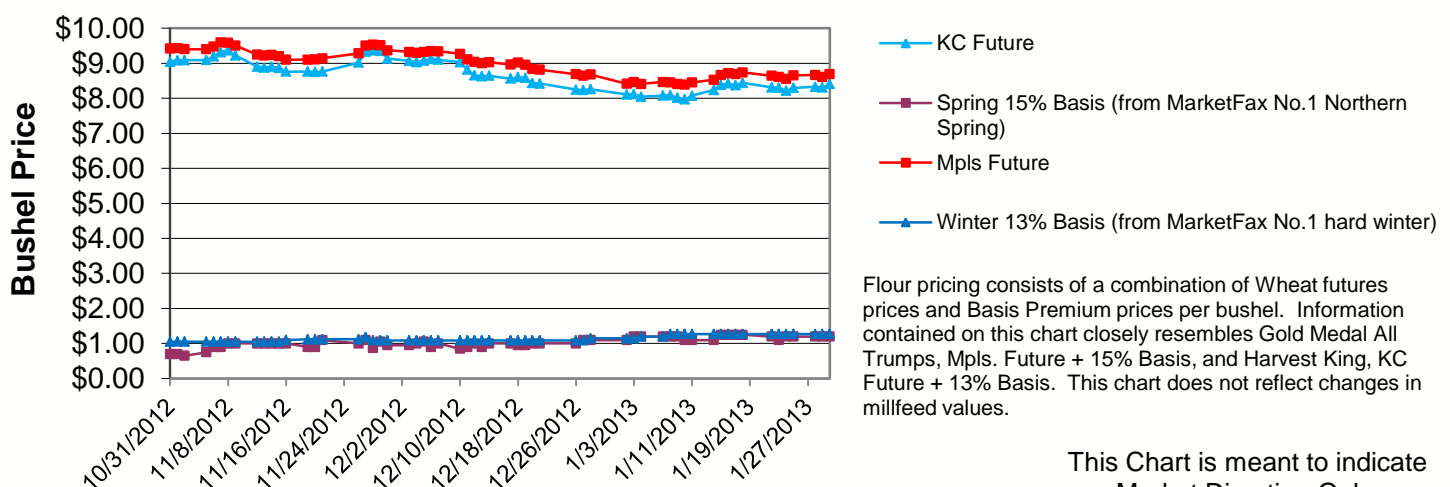
A practical way to understand the basis is to contrast it with futures. In general, futures markets measure and respond to "macro" or global inputs such as droughts, foreign demand for wheat and government subsidy programs.

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



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