



# FLOUR FACTS

Information Provided by General Mills Professional Baking Solutions  
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## Weekly Market Highlights

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- Wheat futures prices are higher this week. Basis premium prices are mostly at the same levels we saw one week ago.
- U.S. hard red winter wheat is in high demand. The market is attempting to ration demand of tight stocks with high Kansas City futures and basis levels.
- Very large corn and soybean crops have snarled rail logistics. Rail costs have increased this fall as well.
- Harvest and planting progress are difficult to track in absence of government reporting. October 11th reports have already been postponed.
- Again this week we anticipate price support for winter wheat and high protein spring wheat to continue indefinitely.

## 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.

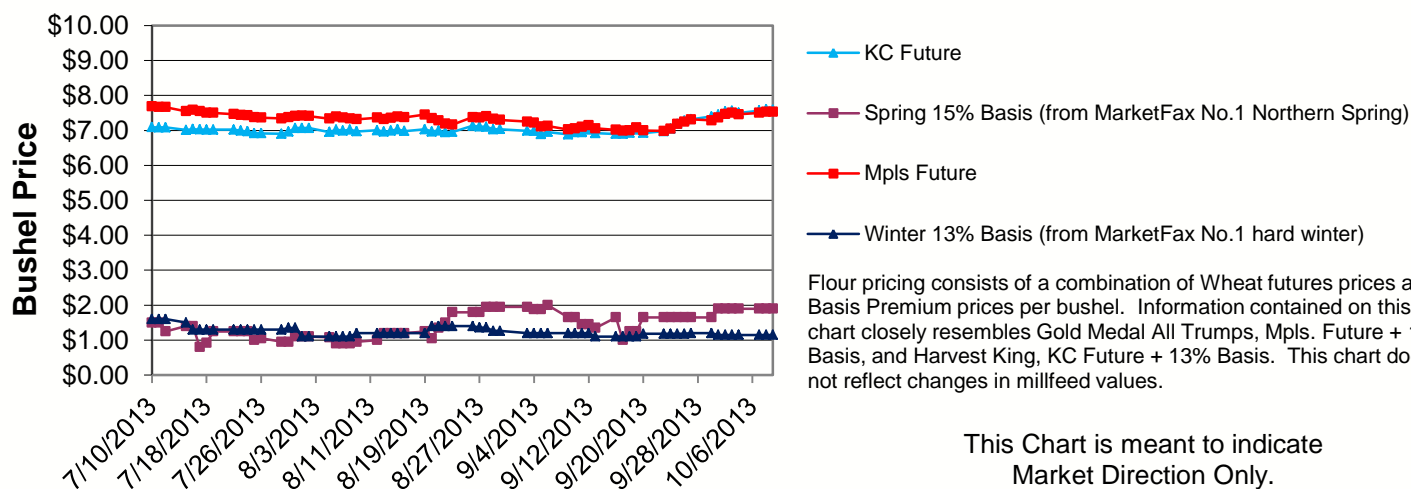
A practical way to understand the basis is to contrast it with futures. In general, futures markets measure and respond to "macro" or global inputs such as droughts, foreign demand for wheat and government subsidy programs.

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.

For example; If the Minneapolis December futures are \$6.50 per bushel but a mill in Des Moines must pay \$7.00 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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