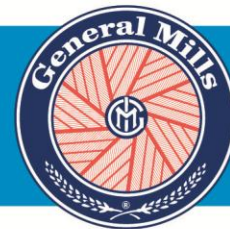




FLOUR FACTS

Information Provided by General Mills Professional Baking Solutions
ProfessionalBakingSolutions.com



Weekly Market Highlights

JUNE 26, 2014

- Spring wheat futures are slightly lower this week but basis premiums for high protein levels soared eighty cents in the past seven market sessions. Rail logistical issues due to flooding in the Midwest were in part to blame.
- Winter wheat futures and basis premiums are both slightly higher than where they were last week. Wheat futures which have moved lower to compete on the world market need to be offset with higher basis levels to entice producers to sell.
- Millfeed values continued to fall, losing as much as one-third of their value in the past month. Lower millfeed values also lead to higher prices for flour.
- The winter wheat harvest, now in Kansas, continues to face delays and quality concerns due to rain.
- Participants await harvest pressure, and accompanying price relief. Monday's USDA reports could have surprises for corn and 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.

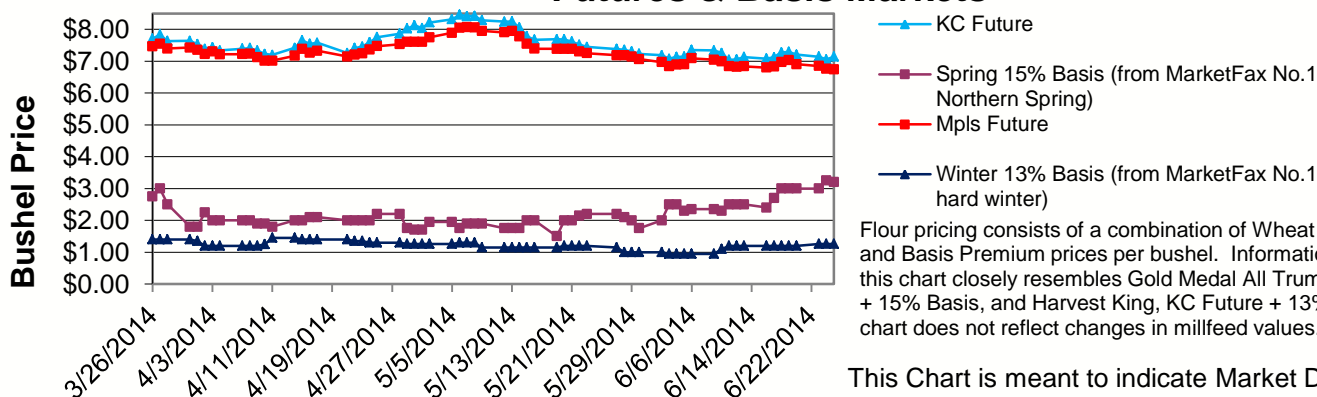
A textbook might define the basis as the numeric (cents per bushel) description of the relationship between the futures contract and the physical commodity. A practical way to understand the basis is to contrast it with futures. In general, futures markets measure and respond to "macro" or global inputs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



Flour pricing consists of a combination of Wheat futures prices and Basis Premium prices per bushel. Information contained on this chart closely resembles Gold Medal All Trumps, Mpls. Future + 15% Basis, and Harvest King, KC Future + 13% Basis. This chart does not reflect changes in millfeed values.

This Chart is meant to indicate Market Direction Only.

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