



# FLOUR FACTS

Information Provided by General Mills Foodservice  
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## Weekly Market Highlights

MARCH 5, 2015

- Wheat futures prices fluctuated this week, at times reaching multi-year lows, but ending close to their levels from a week ago.
- Speculation around winter wheat crop development, pending weather and effects of winterkill are responsible in part for the “up one day down the next” pattern we saw this week, one day optimistic, erased the next day with bad news.
- Producers’ perceptions that futures are too cheap forced the basis to do the job of bringing wheat to market by moving higher. Extreme basis premium costs for high protein spring wheat could continue at least through mid-summer, a high protein crop is crucial in 2015.
- At the end of the day, or in this case the growing season, many think we will see more U.S. wheat again this year than we did last. This should ultimately keep wheat futures low.
- With the growing season begun in Texas, and expected to expand into Oklahoma and northward shortly, we will see more of this type of volatility in the futures market.

## 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.

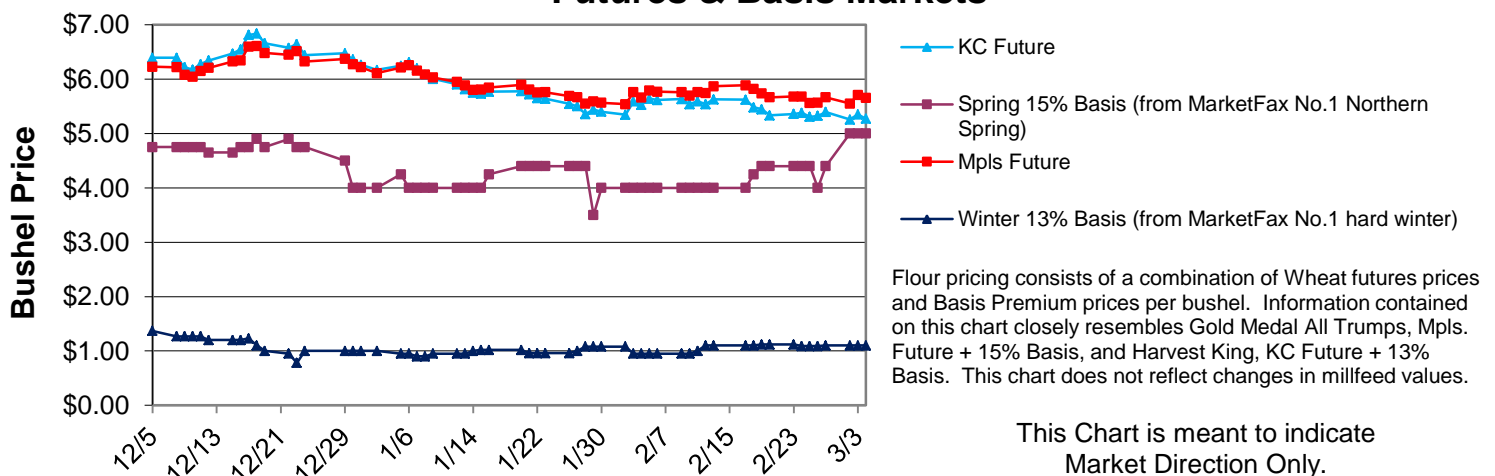
A practical way to understand the basis is to contrast it with futures. In general, futures markets measure and respond to “macro” or global inputs such as droughts, foreign demand for wheat and government subsidy programs.

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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