



# FLOUR FACTS

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## Weekly Market Highlights

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- Wheat futures prices are higher this week, basis premiums are firm.
- Futures are forty cents per bushel higher than the lows set in September.
- The increase is due in part to weather concerns in Russia and the Ukraine, and some need for precipitation in the U.S.
- U.S. winter wheat planting is at about the half-way point, with 20% of the crop emerging at this point.
- These conditions could be expected to continue at least for the near term with producers busy with row crop harvest and not interested in selling at what they consider to be low prices.

## 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.

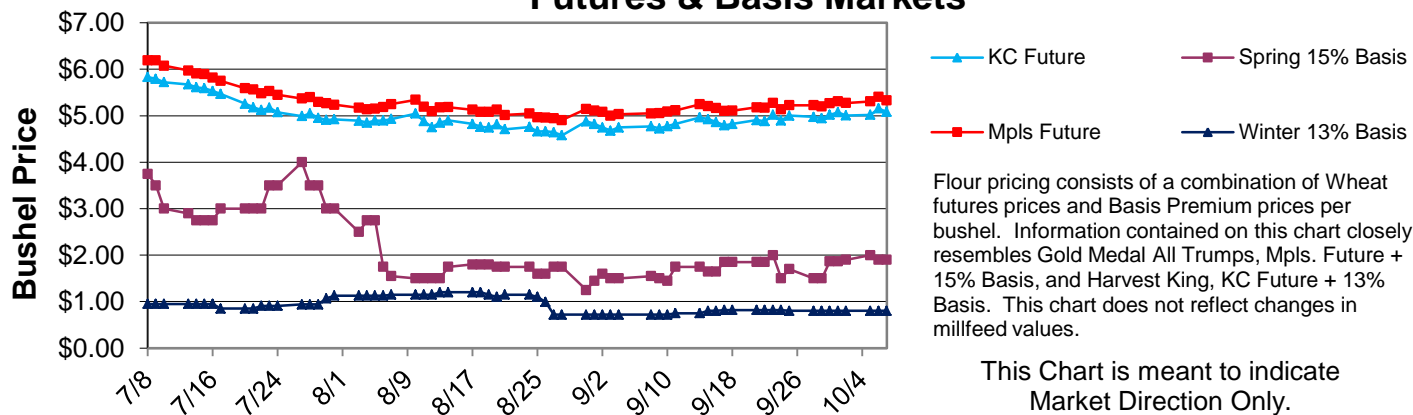
A practical way to understand the basis is to contrast it with futures. In general, futures markets measure and respond to "macro" or global inputs such as droughts, foreign demand for wheat and government subsidy programs.

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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