MGEX WHEAT INDEX PRODUCTS:
A STABLE AND PREDICTABLE TERMINAL BASIS FOR END-USERS

Millers and other end-users who use futures markets to hedge their price risk rely on a stable and predictable basis for making hedging decisions. A stable basis is necessary for hedgers wishing to minimize risk. Because they do not include implied delivery options, MGEX's financially settled wheat index products provide stable basis relationships at terminal markets, where end-users may be pricing wheat.

As an example, the following graphs illustrate the basis volatility for the traditionally delivered hard red winter wheat (HRW) and soft red winter wheat (SRW) at two terminal markets: Denver and Toledo.

In Figure 1, the basis in Denver using MGEX's Hard Red Winter Wheat Index (HRWI) has a range of 65 cents, while the basis with the traditionally delivered HRW fluctuates over a range of almost 90 cents. In this case, HRWI futures may provide producers with a more predictable hedging outcome.

Figure 1. Hard Red Wheat Basis, Denver, 2000-2009.

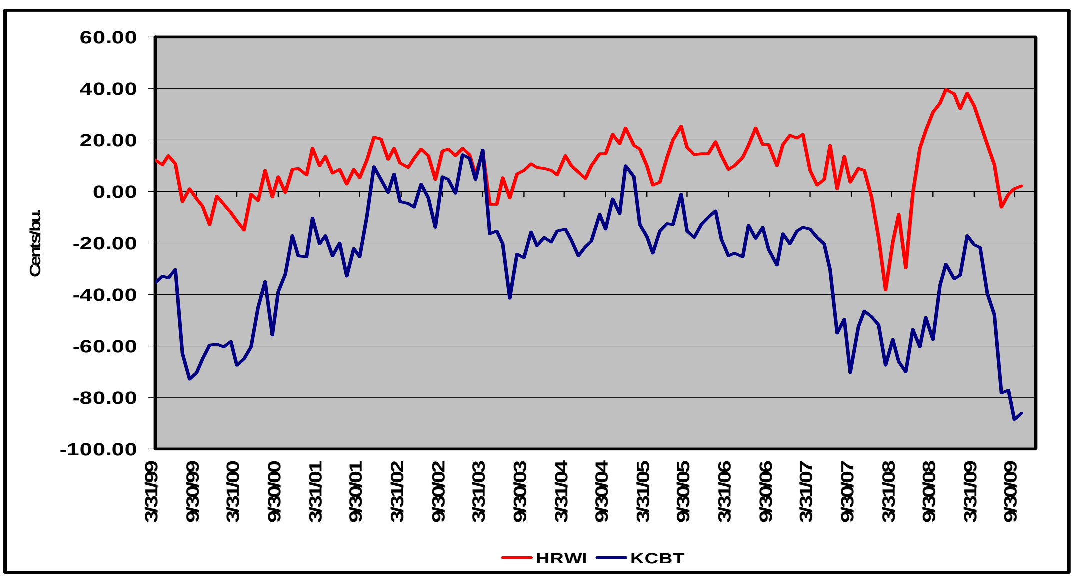
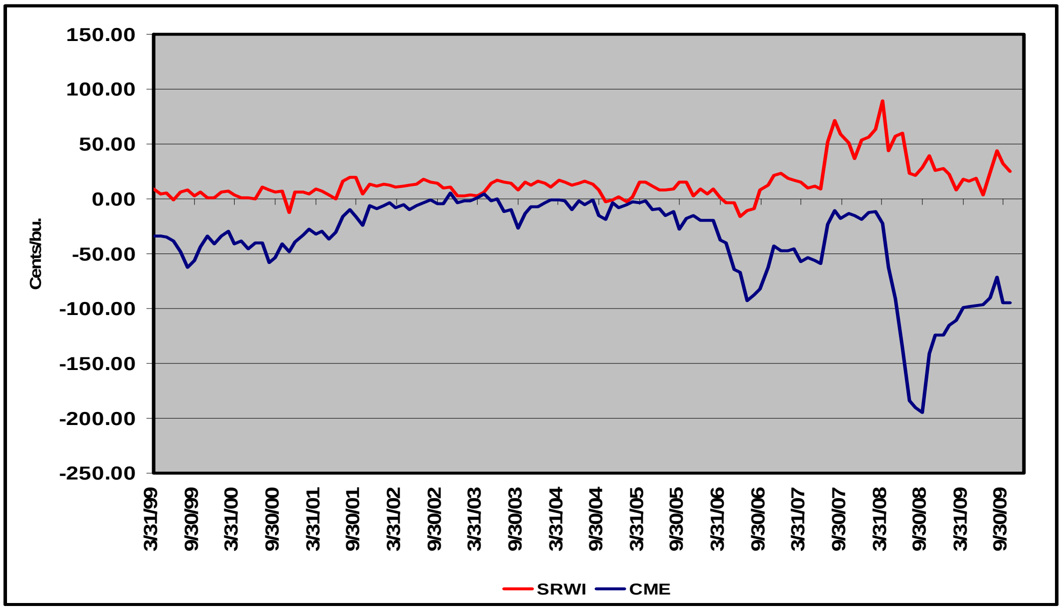


Figure 2 shows the SRW basis in Toledo using both the MGEX Soft Red Winter Wheat Index (SRWI) and the traditionally delivered CME soft wheat futures. Again, the basis is more stable for the index contracts. SRWI basis fluctuates within a range of 105 cents. The SRW basis is much more volatile, with a range exceeding 140 cents per bushel. Moreover, because of the extreme market volatility in 2008, SRWI basis strengthened and the CME basis declined. Hedgers can use their knowledge of basis movements to improve hedging performance.

Figure 2. Soft Red Wheat Basis, Toledo, 2000-2009.



End-users who are located at terminal-level markets rely on a stable and predictable basis to manage their hedges. Generally, a more stable basis is preferred. MGEX's wheat index futures can provide end-users with a stable basis without the challenges associated with delivery-based contracts.