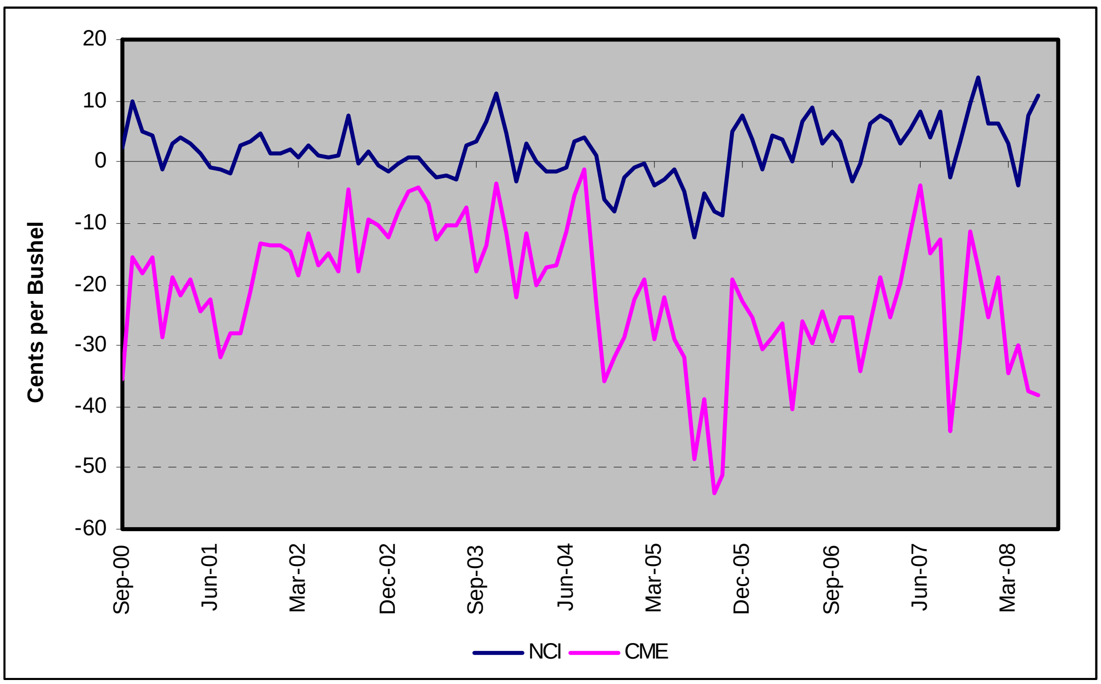
NATIONAL CORN INDEX BASIS HEDGE EFFECTIVENESS

Regardless of the strategy the hedger chooses to follow, a futures contract is only an effective hedge vehicle if its price tracks the price of the physical commodity exposure.

Generally, producers and consumers do not buy and sell CME Group (CME) corn; they buy and sell 'local' corn. The National Corn Index (NCI) tracks local prices closer than CME Corn contract, and thus can be a better hedge.

The NCI spread vs. local prices has historically traded in a significantly tighter range than the nearby CME Corn futures vs. the same local prices. For example, over the past eight years, the Omaha, Nebraska cash - NCI basis has varied 26 cents (14 to -12) while the Omaha - CME basis has varied by 53 cents (-1 to -54). The stability of the NCI basis and corresponding reduction in basis risk is clearly visible in Figure 1 below.

Figure 1: Omaha Nebraska Basis Levels with the NCI and CME Corn



The basis stability of the NCI can be demonstrated with any cash market. Against North Central Iowa Cash, the NCI basis has traded in a 19 cent range while CME corn has deviated by as much as 41 cents from North Central Iowa cash prices (Figure 2). Against Central Illinois cash, the NCI basis has varied a total of 31 cents while CBOT corn has varied as much as 43 cents (Figure 3).

Figure 2: North Central Iowa Basis Levels with the NCI and CME Corn

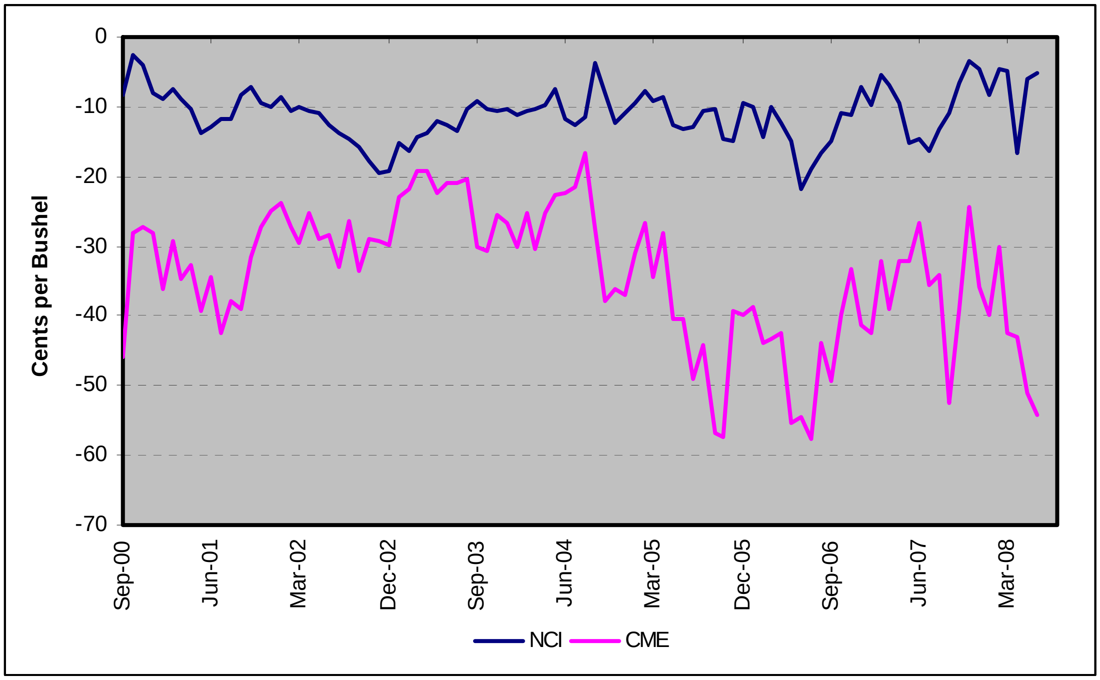


Figure 3: Central Illinois Basis Levels with the NCI and CME Corn