

June 29, 2007

Reduce Winter Wheat Basis Risk Through A Complimentary Strategy

Minneapolis Grain

Exchange

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Hello:

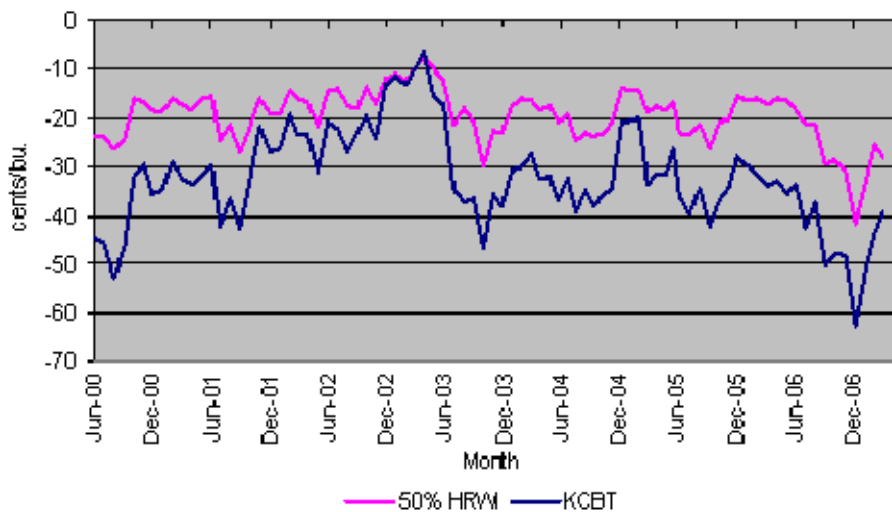
It's never easy to find the right trading strategy and volatile markets make that an even greater challenge. One strategy to consider with hard red winter wheat is a **combined use of traditional, physically delivered hard red winter wheat futures contracts and the Minneapolis Grain Exchange (MGEX) financially settled hard red winter wheat index (HRWI) futures contract.**

The HRWI wheat index futures contract reflects **country-level elevator bids**; therefore, offering a **more stable country-level basis** than traditional delivery-based wheat futures contracts.

Incorporating new components into a hedging program can be unnerving. However, hedgers **do not need to radically alter** their hedging routine to benefit from the improved basis offered by the MGEX HRWI futures contract. By **dedicating even a small portion** of the hedge to the HRWI futures contract, overall basis risk can be reduced considerably. To view results of reducing basis risk through the use of HRWI with traditional, physical delivery contracts [click here](#).

The basis behavior for a 50% HRWI hedge is illustrated in this chart.

Western Kansas, Hard Red Winter Wheat Basis, 2000-2006



Clearly, additional basis stability can be achieved by placing a portion of wheat hedges in the MGEX HRWI contract. In addition to the HRWI, the MGEX offers index futures contracts for hard red spring wheat (HRSI) and soft red winter wheat (SRWI). **These futures contracts can be used as a complimentary tool with traditional physically delivered futures contracts for hedgers.** Potential users of the MGEX wheat index futures contracts should not to take an "all or none" approach to the index contracts. Rather, they should "get their feet



wet" by using them to **enhance current hedging strategies.**

Follow these links to additional information on the [HRWI](#) and for similar examples for [SRWI](#) and [HRSI](#).

To learn more about how the MGEX products can work into your trading strategy go to www.mgex.com/products.html, reply to this message or call me at 612-321-7151.

Best Regards,

Joe Albrecht
Minneapolis Grain Exchange
Marketing & Sales Specialist
direct number 612.321.7151
e-mail jalbrecht@mgex.com
website <http://www.mgex.com>

