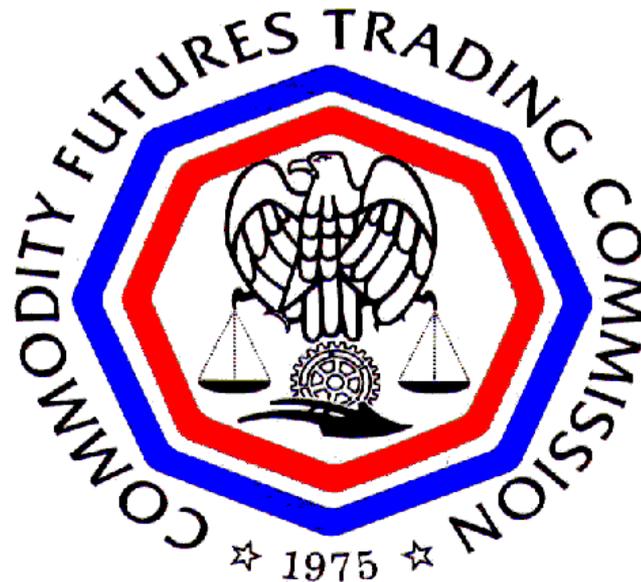


Agricultural Advisory Committee Meeting

Commissioner Michael Dunn, Chairman

October 29, 2009 Washington, DC



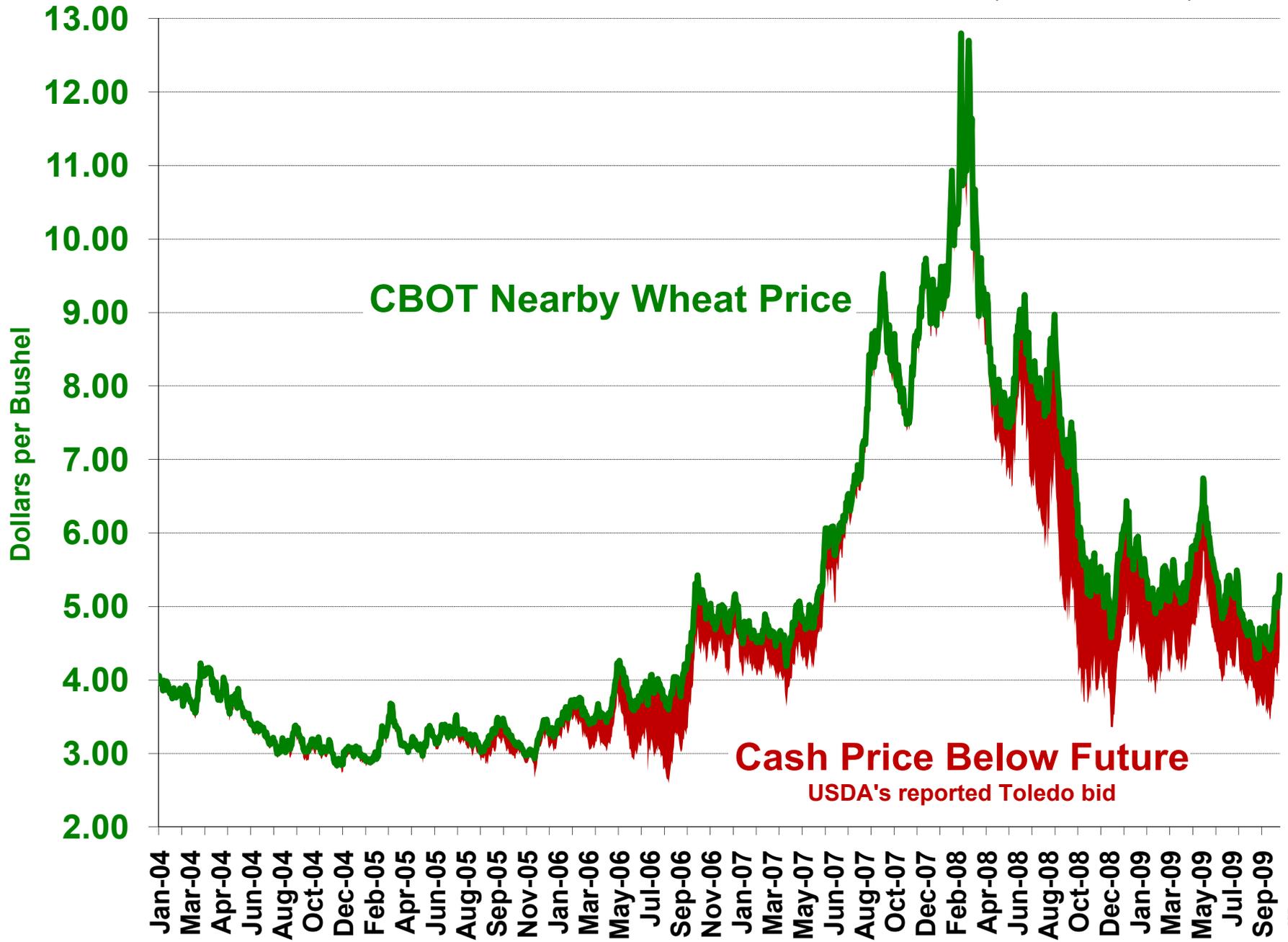
“Basis Convergence in Wheat Futures”

David Kass

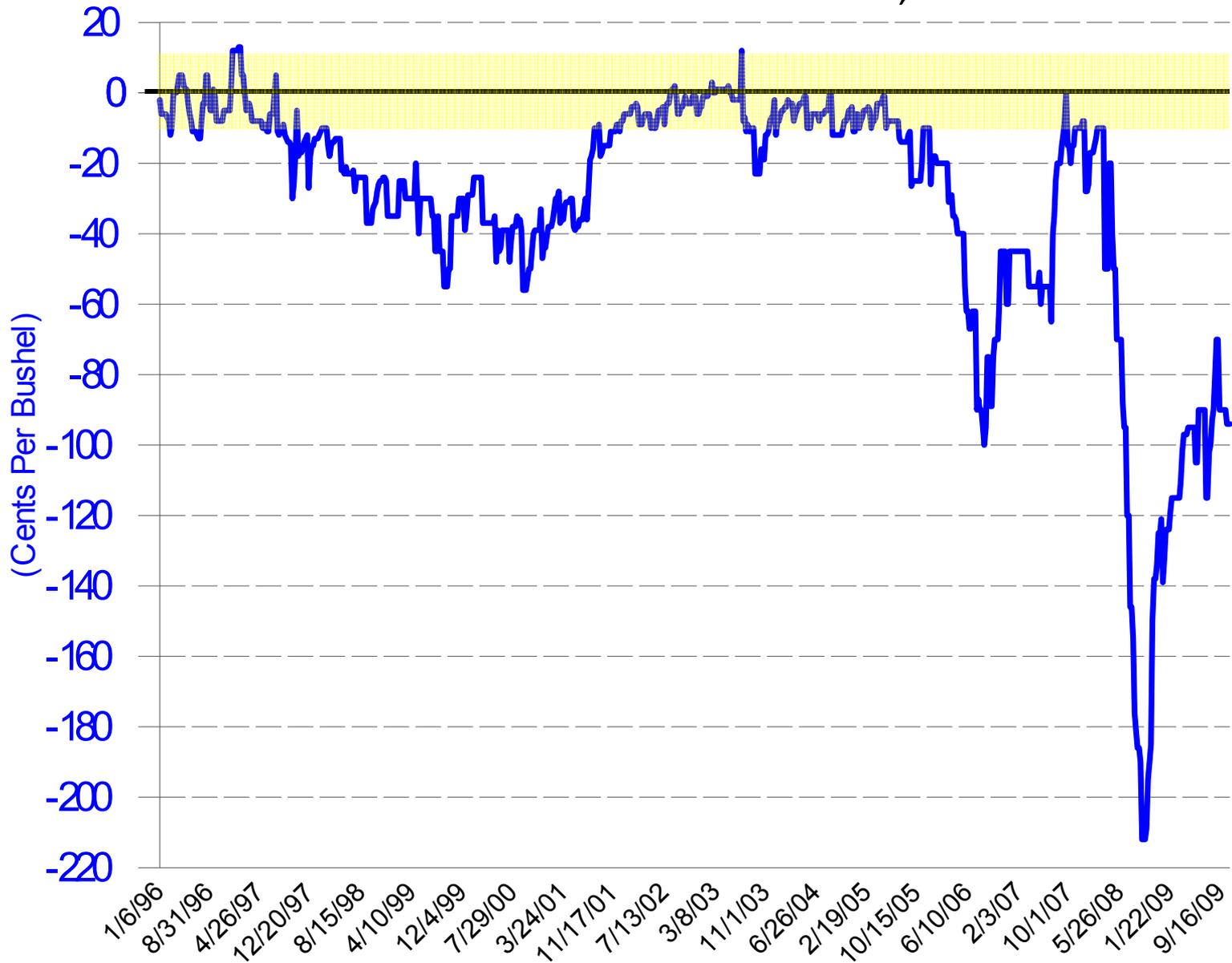
Senior Economist

Market Surveillance Section—Division of Market Oversight

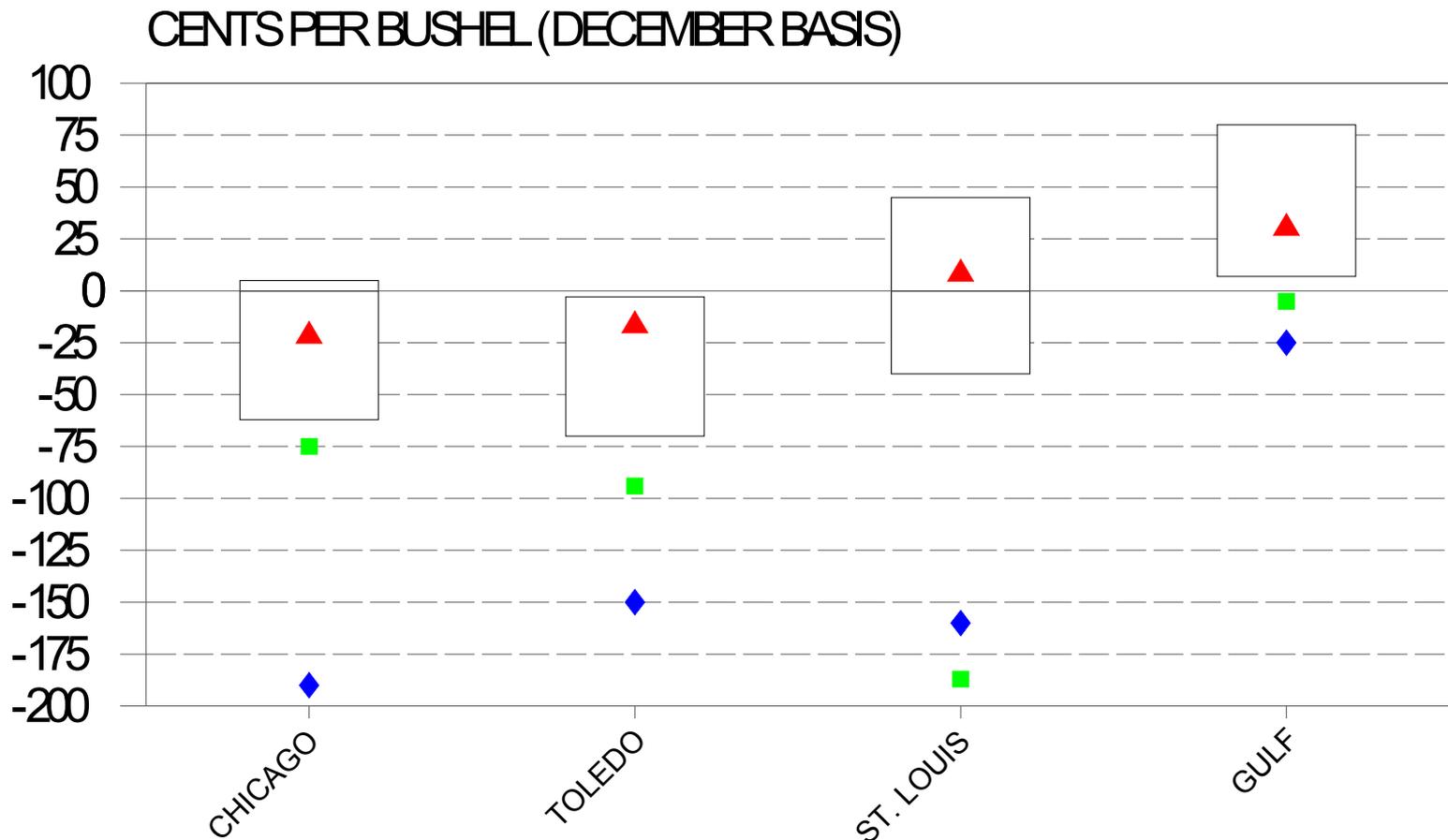
CBOT Wheat Future Price and Basis (1/2/04-10/21/09)



WEEKLY TOLEDO TRUCK BASIS JANUARY 1996 THROUGH OCTOBER 20TH, 2009



WHEAT BASIS COMPARISONS FOR THE 4TH WEEK OF OCTOBER 2009, 2008, AND A 2007-1997 HIGH/LOW RANGE



Source: Hollander & Feuerhaken



Convergence for a Physical Delivery Market

Condition: Futures Price Exceeds Cash Price—Negative Basis

CLASSIC MARKET FORCES

<u>Market Position</u>	<u>Strategy/Thinking</u>	<u>Action</u>	<u>Relative Price Impact#</u>	<u>Helps Convergence</u>
Long Futures (no need for product)	Avoid risk of getting del'y of cash that can only be resold at a loss	Liquidate(Sell) Futures	Futures ↓ Cash —	Yes
Long Futures (need product)	Acquire cheaper product in the cash market	Liquidate (Sell) Futures & Buy Cash	Futures ↓ Cash ↑	Yes
Traders with Del'y Capacity	Profit from selling “expensive” futures and making delivery	Sell Futures & Buy Cash*	Futures ↓ Cash ↑	Yes

MARKET AT FULL CARRY

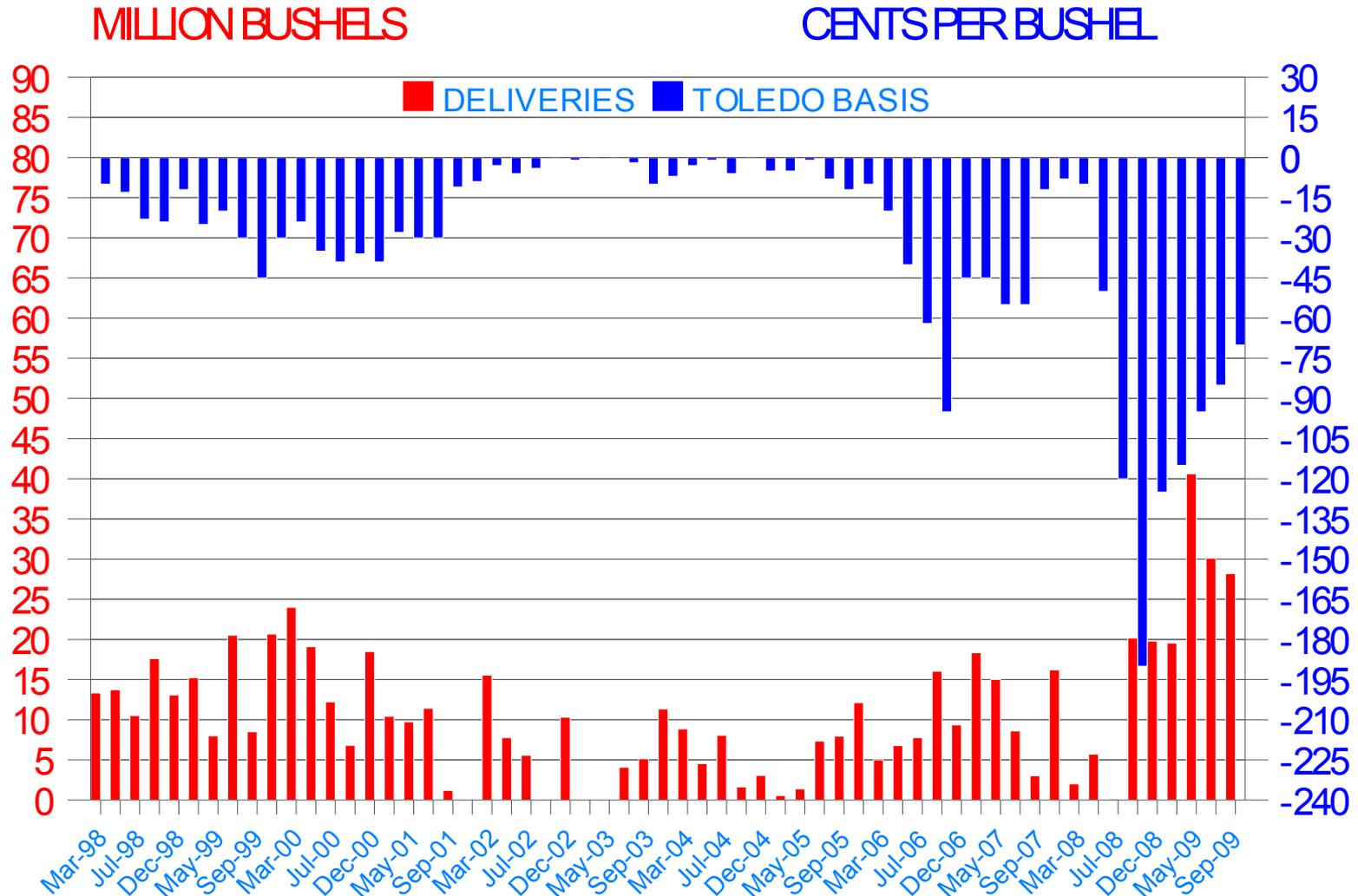
Long Futures (no need for product)	Ignore cash price and earn a positive return on invested \$\$\$ with a cash & carry	Buy nearby future Sell deferred future	Futures ↑ Cash —	No
Long Futures (need product)	Acquire cheaper product in the cash market	Liquidate (Sell) Futures & Buy Cash	Futures ↓ Cash ↑	Yes
Traders with Del'y Capacity	Reluctant to make del'y because lack of loadout may clog up their delivery facility/capacity	Sell Futures & Buy Cash*	Futures ↓? Cash ↑?	Limited

#Price of the nearby futures contract and the cash prices at or near the delivery facilities

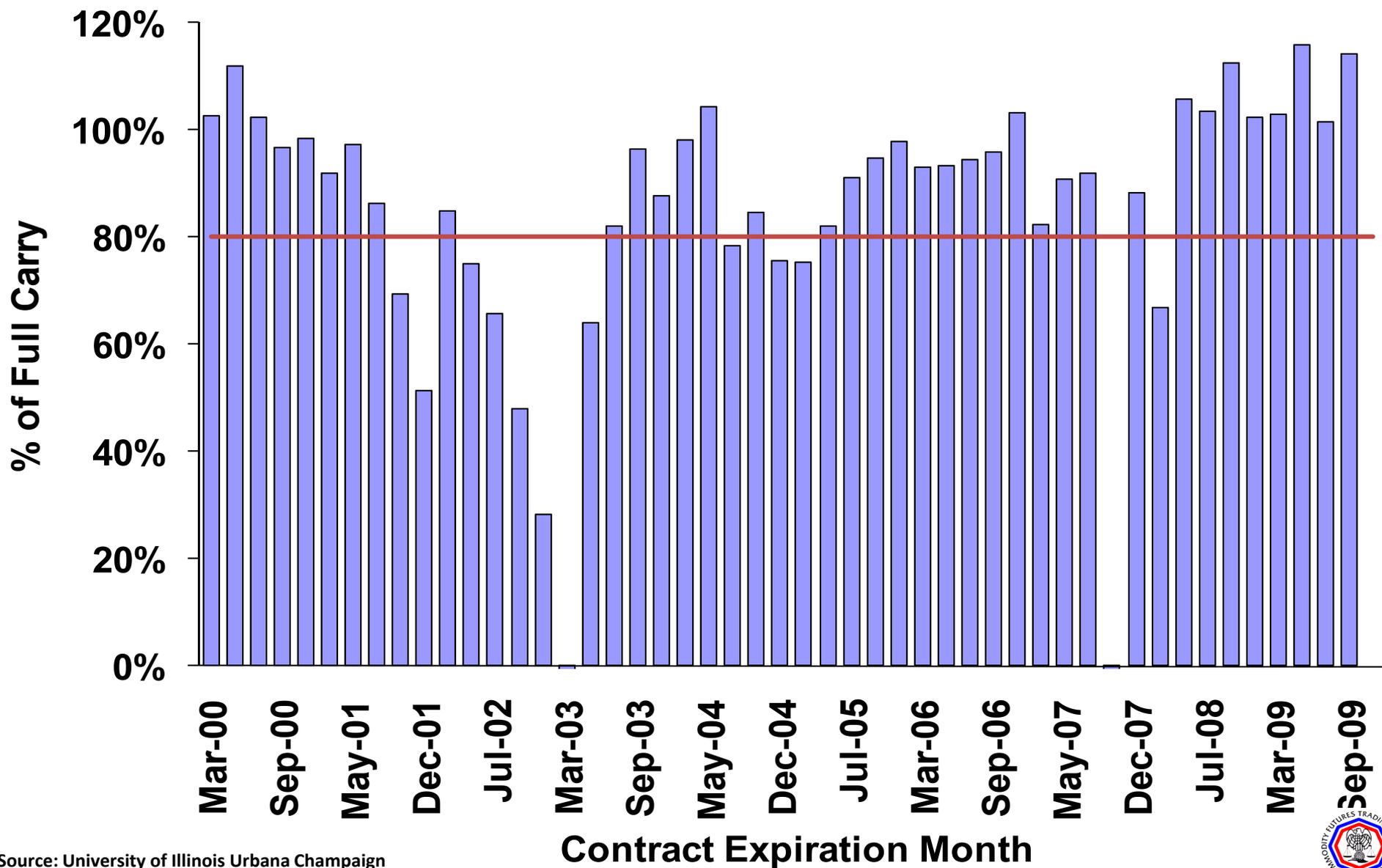
*A short with delivery capacity, where inventory (e.g., a warehouse receipt) is delivered, must either own or buy cash immediately; where a deferred delivery instrument is tendered (e.g., a shipping certificate), the short does not need to own or buy cash immediately, but must be prepared to acquire the cash when the certificate is tendered for loadout. In a full carry market, loadout is unlikely.



CBOT WHEAT FIRST NOTICE DAY DELIVERIES MARCH 1998 THROUGH SEPTEMBER 2009

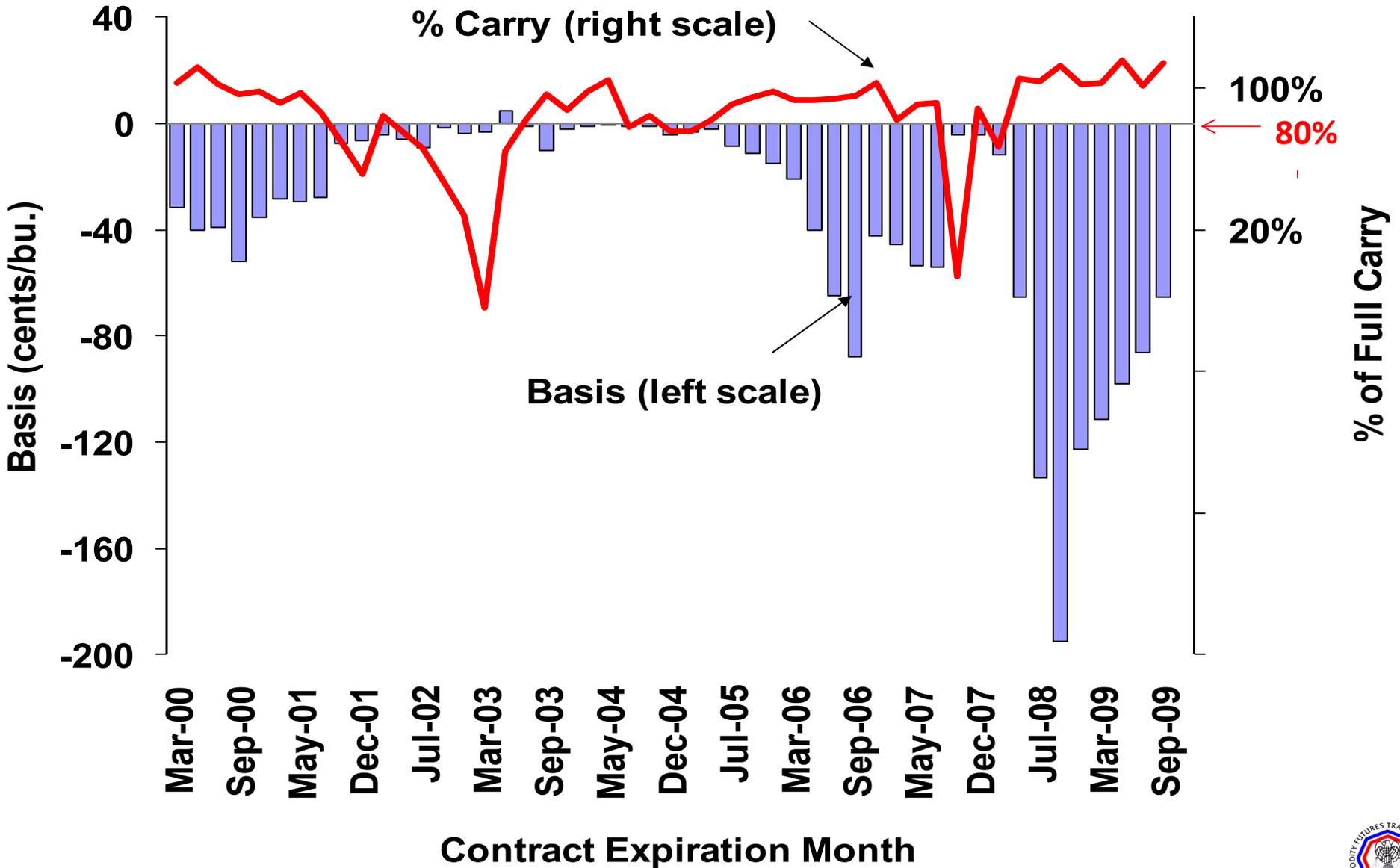


Spread on the First Day of Delivery Between Prices of the Expiring and Next-to-Expire Contracts CBOT Wheat Futures, March 2000- September 2009



Source: University of Illinois Urbana Champaign

Basis and Percent of Full Carry on First Day of Delivery CBOT Wheat Futures, Toledo, March 2000 – September 2009



Source: University of Illinois Urbana Champaign



