THE CWB MONITOR

THE CANADIAN WHEAT & BARLEY MONITOR DECEMBER 17, 2011

GETTING ON WITH BUSINESS

With the passage of events this week, we can now focus with confidence on the markets as we transition to a full and complete open market. Bill C-18 is now law. Although the new CWB dropped its case, the deposed farmer-elected directors continued unassisted by the CWB; however, their request for an injunction to stop the implementation of the bill was denied by the judge. All that remains on the legal front is a Jan 17th court date, set by Judge Shane Perlmutter, to decide whether to suspend the law while he decides on the broader question of whether to strike the law down. There's not much he can do though as he is a Manitoba provincial court judge (not Federal); apparently he has already indicated that the most he could do is stop the bill from taking effect in Manitoba. Most opinions I am hearing now is that this doesn't have much of a chance for success.

As it stands right now, everyone is able to trade whatever they want – to whoever they want – for delivery after Aug 1, 2012. However, any wheat, durum or malt barley sold for delivery before Aug 1st still must go through the CWB – and that creates a dynamic that the new CWB needs to address.

First let's look at wheat

Although Aug 1, 2012 has often been seen as some sort of discreet "starting line" as the beginning of a new era in grain marketing, there is no getting around the fact that new crop market mechanisms will reach into the old crop as well. This creates a problem for the new CWB; that's probably why they have yet to offer Series B and C contracts.

The Pool Return Outlook (PRO) for #1CWRS 13.5 is $6.63/bu in SK. The CWB's Fixed Price Contract (FPC) is $6.19/bu as of Friday. But on Friday, the first business day following Royal Assent, I'm told that Viterra was bidding $7.40/bu for new crop delivery in SK. I didn't hear of any other bids, by other grain companies or by the new CWB.

Farmers now have a choice – even for old crop. Any wheat they don't have contracted to the CWB can either be sold to the CWB using whatever mechanism is available (Series contract, FPC, or GDC, etc) or sold to whomever they like for delivery after Aug 1st. On Friday, Dec 16th, the price that Viterra offered gives a large incentive to sell old crop wheat into a new crop position; instead of selling into the 2011-12 pool, farmers can pick up an estimated $0.77/bu by selling for delivery in the new crop. (I say "estimated" because the PRO is just an estimate and the final pool return could end up higher or lower than where the PRO is right now.) Comparing the 2011-12 FPC and the 2012 new crop bid, it's a "no-brainer" – sell your 2011 crop on an FPC and you'll give up an additional $1.21/bu that you'd get by selling it for delivery in fall of 2012. Now that's what I call a carrying charge!

With many farmers angry about the legal costs piled up in the 2011-12 pool, you can be certain that they'll be looking at selling what's not yet committed of their 2011 crop into the 2012 crop year. If enough of them do, this could create difficulty meeting the demand in the latter part of this crop year as well as creating a burdensome demand on the grain handling system early in the next crop year. Both these will have an impact on price as well and the new CWB would do well to prepare for this by being as effective as it possibly can.

The new CWB needs to start acting like a voluntary organization – and the sooner the better. It can start by doing a number of things:

1. **Open up the feed barley market immediately**. According to the CWB, "Weaker values in the export market will make further international feed barley sales unlikely". And since the CWB has been selling feed barley only on the basis of GDCs, it can be assumed it has no open sales and no inventory of feed barley. Therefore, there is no risk to the CWB to open up feed barley completely and immediately. It can do this via a number of different mechanisms – all of them simple.

2. **Open up the malt barley market immediately**. The CWB could ensure it has coverage for all its malt barley sales and then open the market. But in its most recent PRO release, the CWB said; "Prices will remain under pressure as Australia and Argentina ramp up their export programs and the world moves towards a larger world barley crop in 2012-13." If the CWB is short (i.e. it has sold malt barley but haven't ensured 100% coverage), it will be able to remain very competitive in an open market for the balance of the crop year. Also, with new crop 2-row prices rumoured to be around $7.00/bu, the old crop PRO at $5.28/bu in SK will not be able to compete, creating the same scenario in malt barley as described for wheat above. The CWB will be forced to use CashPlus and there will be limited value seen in that.

3. **Close the wheat and durum pools early.** Once the pools are closed, the CWB can either offer a short second pool until the end of the year or offer cash prices. Either way, its prices would be more relevant to the current market and therefore more competitive. They don't necessarily need to open the market completely (although that would help too) but they will need to be showing the true value of the wheat and durum crops in the second half of 2011-12.

Not only do farmers now have a choice – even on old crop – so does the new CWB. It can choose to operate for the balance of this crop year on the basis of the status quo, which will almost certainly creates problems for itself and perpetuate market distortions that will affect everyone, or it can choose to start immediately to reflect open market dynamics, which will likely create more marketing opportunities for itself and those that choose to support it, as well as make the transition to the real open market much smoother than would occur otherwise.

Let's hope they make the right choice.

"Every man has the power to choose, but no power to escape the necessity of choice."

Ayn Rand

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