



## CURRENT CWB MONITOR ISSUE #46: Barley PROs – Farmers not getting the right signals yet January 28, 2011

The January PROs were released this week, along with the usual market commentaries on each.

I agree with the CWB's comments about the global feed barley scenario. There are ample market factors leading to higher global prices. We need to be watching to see if the CWB can transmit these prices transparently to the domestic market more effectively than in the past; we shouldn't have to rely on strong imported corn prices to underpin the domestic barley market.

On malt barley I disagree with the CWB. They say "Maltsters who still have outstanding barley requirements will reduce quality specs to use any barley that can feasibly be made into malt, which has worked to soften the price response to the tight supplies of higher quality."

OK – I agree with the first part – the part where maltsters are lowering their specs. I've seen it first-hand. But the second part – about the price "softening". Really? Softening?

It appears that this is meant to explain why the malt PRO rose only 4 cents a bu even though the feed barley PRO (B pool) climbed 22 cents and domestic feed barley prices in SK rose about 15 cents.

Let's look at malt pricing in terms of a premium over feed. Back in October, the "CWB malt premium" over domestic feed barley in SK was about 93 cents. Now it sits at about 25 cents – a "softening" of 68 cents.

In southern Alberta, the malt premium – about 65 cents in Oct – has all but disappeared. Now that's soft.

Even over the CWB's own feed PRO, the "CWB malt premium" is "softening" – it was 72 cents over the feed PRO in early October – now its 41 cents, for a loss of 31 cents.

In contrast, the malt premium in the US has risen from 48 cents in Oct to where it sits right now at 72 cents over feed. While Canadian malt barley premiums have "softened" by all comparisons, in the US they have gained 24 cents per bushel. And well they should, given the tight supply of quality barley.

If the feed barley market is hot and moving higher and the "CWB malt premium" is small already (no matter what market you compare it to), why would maltsters reducing their quality specs, effectively digging into traditional feed barley, "soften the price response to the tight supplies of higher quality"? The way I see it, the malt price should be climbing right along with everything else – but it's not. At least the CWB PRO price isn't. Even while they say that malt barley prices are "softening" because of acceptance of lower quality, the CWB offering price for domestic brewing has moved higher from about \$288/tonne in Oct to \$329/tonne last week. That works out to about 89 cents a bu higher – not softer – while the PRO dropped 13 cents.

The PRO is "soft" because it reflects the proportion of low priced sales made early in the year (before the rally) which were proportionally larger this year due to the reduced size of the pool.

There is no doubt about it; the PRO cannot be relied upon to effectively maintain the malt premium as a price signal.

### **New Crop**

Next month the CWB will issue the new crop PROs. These are critically important in terms of giving farmers price signals – and this year, competition for acres will be extreme. The challenge for the CWB will be to provide a meaningful and competitive PRO. And if they do, they are likely going to signal farmers to carry their 2010 malt barley (what's left of it) into 2011, keeping it away from the maltsters when they need it. Stuck between the old rock and a hard place. The CWB will need to rely on CashPlus – warts and all – to give the price signals the malting industry needs.

So why pool barley at all?

[www.cwbmonitor.blogspot.com](http://www.cwbmonitor.blogspot.com)

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This is part of a series of emails aimed at providing a different perspective on the CWB and its impacts on net farm returns. You have been selected to receive these simply because I thought you would appreciate getting the information. Please forward this to anybody that you think would also appreciate it or you think should see it.

If you want the details behind the ideas in these emails, more information on these topics or you have ideas or questions on other topics, please drop me a line to [cwb@depape.ca](mailto:cwb@depape.ca) and just ask. If I can, I will dig and provide.