

CWB BASIS PRICE CONTRACT

What is the Basis Price Contract (BPC)?

The BPC is a Producer Payment Option (PPO) that the CWB offers to producers of wheat. The BPC is a contract that offers the most flexibility of PPOs based on the Pool Return Outlook (PRO), however, it is also the one that carries the most risk. This contract allows you to 'lock in' a basis against the Minneapolis futures market, and lock in the actual futures at a later date.

How does the contract work?

The Basis contract is officially launched in late February, for next crop year pricing. The Fixed Price Contract (FPC) becomes active at the same time, as producers who have locked in futures can lock in the basis as well. The CWB calculates the spread between the 'futures forecast' for December and March (where the CWB forecasts where the average futures value might be for the life of those contracts) and the Pool Return Outlook (PRO). That spread is now the Basis that is offered against the BPC. The final futures value can be locked in at any time going forward (whether or not deliveries have been made). Producers can choose to roll the basis over to the next pricing month. However, the CWB will charge a fee for this privilege. Producers would only roll to the next pricing month if they felt that the futures price was going to rise more than the cost of rolling in the near future.

Why should this be part of your overall pricing strategy?

This contract can be a useful part of your overall pricing strategy for several reasons.

- It can increase cash flow. When the final pricing against the BPC is made (futures price is locked in), the final payment will be mailed to you within 10 days;
- It can produce values that are significantly higher than that of the Pool or other PPOs the CWB offers; and
- It ensures 100% acceptance of your tonnes on an A/B or C series contract, unlike grain delivered to the Pool.

What are the risks of this contract?

- Unlike the FPC, the BPC does not offer the protection of the pool until you lock in a flat price. The BPC, once chosen, leaves the producer 100% open to futures and foreign exchange changes.
- The risk that the final price may end up less than the initial price received is very real. While last crop year, the opposite was true (where the FPC resulted in this, and BPC ended well), there are some years where this risk is again front and centre. Remember that initial prices increase throughout the year, while futures trade up and down. A sustained downward trend can quickly create money owing from the producer to the CWB.
- Unlimited upside potential is also matched by unlimited downside potential. This is the only Pool-based PPO that does not have any type of floor price to rely on (FlexPRO is not Pool based). FPC and EPO both have minimum or locked in final values.

What is your conclusion?

The PPOs offer you an ever expanding ability to price your wheat outside the pooling contract. The BPC is a tool that can help with that goal, however, it must be managed much closer than the other options. Target pricing for futures is available, so in busy times (seeding, spraying, harvest) one can set a target price with the CWB. Target pricing for futures is highly recommended. If the target is hit, those tonnes are now committed.

For more information on this and other CWB PPOs, please visit: www.cwb.ca/public/en/farmers/producer/