

CWB FLEXPRO CONTRACT

What is FlexPRO?

The newest of the Producer Payment Options (PPO) is the FlexPRO. This contract replaces the Daily Price Contract (DPC). It is more of a cross between the Fixed Price Contract (FPC) and the regular pooling contract. CWRS, CWHWS, CWES, CPSR, CPSW, CWRW and CWSWS are all eligible for sign up on FlexPRO.

What is the contract?

The FlexPRO contract allows you to price any amount of wheat you want outside the regular pooling contract. Producers commit tonnes prior to harvest, between June 23rd and July 28th of each year. Pricing is available from August 1st right through to July 31st of the following year. The reference grade, which for example is 1CWRS 13.5% for the CWRS class, will be the price that is posted daily. The spreads for different grades and proteins that are delivered will be the initial prices that are in place at the time of delivery. The reference grade price is derived from all of the futures months that are active during the life of the contract (September to July wheat contracts) and the Pool.

Why should this be used as part of your overall pricing strategy?

The name FlexPRO essentially means Flexible Pool Return Outlook. This is important because the world may see a wheat rally or heavy decline in between PRO announcements, which are monthly. This contract, while still using the whole year instead of just spot or certain delivery periods like the DPC and FPC use, will still give active pricing moves daily between PRO releases from the CWB. This contract gives you access to those rallies, and can be used to protect you from declines, depending if you are bullish or bearish the market. This is also an excellent tool for increasing cash flow, without having to pay any extra discounts as you must pay with the Early Payment Option (EPO). One must keep in mind that this contract will most likely not trade at significant premiums at any given time to where the PRO is heading, unless the rally starts and ends in between PRO announcements, which does happen often.

What should you know?

The risks of this contract are the same as with the DPC, where you must lock in before your actual production is known. However, as with all Producer Payment Options (PPOs), you should avoid pricing all of your wheat with any one contract (including the Pooling contract), in order to help your overall average price return. This can help minimize that risk. Secondly, the basis and futures used will not be published, which may be outside your comfort zone. With that said, this contract will most likely not trade at significant discounts to where the PRO is heading, as they are tied very closely together; the exception being when the decline and rebound happen between PRO announcements. This can happen often.

What is your conclusion?

The PPOs offers you an ever expanding ability to price your wheat outside the Pooling contract. The FlexPRO is just another tool the CWB is adding to accomplish that goal. With target pricing available from the CWB, one can 'set it and forget it' quite similar to Viterra's Target Price Agreements (TPA) on non-boards.