

## CWB FIXED PRICE CONTRACT

### What is the Fixed Price Contract?

The FPC is a Producer Payment Option (PPO) that the CWB offers to producers of wheat, durum and barley. The FPC is a combination of US futures prices and the Pool Return Outlook (PRO), giving producers the unique ability to participate in price rallies that they would not see in the Pool, nor would they see in a traditional open 'cash' market.

### How does the contract work?

In late fall/early winter, the CWB begins allowing producers to price futures against the next crop year (essentially one year ahead). This allows you to 'lock in' attractive levels, similar to what you can do with non board grains, most often with canola. In February, the CWB then releases a 'basis' level, and an actual 'fixed price'. This basis level is the difference between what the CWB feels the futures forecast will be for the life of the contracts they are pricing against (in the case of CWRS, the December and March Minneapolis wheat contracts) minus the upcoming PRO. This formulates a basis. That basis is then subtracted (or added if the basis is an 'over' basis) to the actual futures close. That produces the fixed price the CWB posts every day from the end of February, until October 31st when this contract expires.

Most importantly, when you price into this contract, you are no longer in the Pool, and will receive no other interim or final payments.

### Why should this be part of your overall pricing strategy?

This contract is an excellent part of your overall pricing strategy for several reasons.

- This contract increases cash flow. After you receive the initial payment from Viterra you will receive the rest of the value of the contract from the CWB within 10 days (faster with direct deposit).
- This contract can produce values that are significantly higher than that of the Pool or other PPOs the CWB offers.
- This contract ensures 100% acceptance of your tonnes on an A/B/C series contract, unlike grain delivered to the Pool.
- This contract allows full protection of the Pool, until you are ready to price. In other words you do not opt out of the Pool until you like the FPC on any given day. This is unique, and this protection is not offered by any other CWB PPO, and is not available on any non board grains you market.

### What are the risks of this contract?

As with any contract, there are risks. However, they are better described as lost opportunities. What can happen, due to the fact that this contract expires only 3 months into the crop year, is you can miss further rallies that will increase the value of the Pool. This is not a loss, as you were happy with the value received on the FPC...it is simply a lost opportunity. This is the reason it is never recommended to price all of your CWB in any one option (including the Pool).

Secondary risk is if this grain is priced before you know your production and quality, there is risk that you may not end up with enough tonnes or quality to fulfill this contract. The CWB does offer buyouts on these contracts, similar to how we buy out non- board contracts affected by yield and/or quality issues.

### What is your conclusion?

The PPOs offer you an ever expanding ability to price your wheat outside the Pooling contract. The FPC is a proven tool that helps accomplish that goal. Target pricing is available, so in busy times (seeding, spraying, harvest) one can set a target price with the CWB. If it is hit, those tonnes are now committed.

For more information on this and other CWB PPO's, please visit: <http://www.cwb.ca/public/en/farmers/producer/fixe/>