

Rollovers

Effective August 1, producers have the option of rolling their locked in basis to another futures month, for all or a portion of their committed tonnage, as long as the futures component of the BPC has not been priced. The basis month may be rolled either forward or backward, i.e. December to May or May to December. This provides producers with more time to price the futures component of their contract or to take advantage of market trends.

Rollovers are done on a flat price basis, which means that the original basis will be adjusted by the difference between the two futures values. So if the basis is rolled to a higher priced futures month, the basis will be adjusted downward. Alternatively, if it is rolled to a lower priced futures month, the basis will increase.

Rollover adjusted basis = original basis + (current basis month futures price – new basis month futures price)

There is a \$1 per tonne administration fee for rollovers. There is no limit to the number of times the basis month can be rolled but the administration fee is charged each time. There is a minimum of 20 tonnes per rollover transaction. Rollover fees are collected when the CWB issues additional payments for BPC settlements.

Example

A producer locks in a December CWRS basis of \$13 per tonne and a late sign-up adjustment factor of \$1 per tonne on September 2. On November 14, before the December basis expiry date, the producer decides to roll the basis to the May contract when Minneapolis Hard Red Spring futures reach \$195 per tonne for December and \$200 per tonne for May. The producer's May basis is \$8 per tonne.

Rollover adjusted basis = original basis + (current basis month futures price – new basis month futures price)

$$= \$13 + (\$195 - \$200)$$

$$= \$8 \text{ per tonne}$$

Adjusting the basis does not affect the contract value if the futures are locked in on the rollover date.

Contract value = basis + futures + late sign-up adjustment factor

Contract value of original basis on November 14

$$= \$13 + \$195 + \$1$$

$$= \$209 \text{ per tonne}$$

Contract value of adjusted rollover basis on November 14

$$= \$8 + \$200 + \$1$$

$$= \$209 \text{ per tonne}$$

The basis is adjusted to reflect the \$5 per tonne higher futures value on the date of the rollover.

Deciding when to roll a basis

Because the basis is adjusted in value by the spread between the two futures months when it is rolled, producers should watch the spread to determine the best time to roll. If you are rolling to a forward month with the expectation that prices in that month will rise by more than your current futures month, the best adjusted basis is received when the spread has narrowed. If you are rolling backward with the expectation that a nearby futures month will rise by more than your current futures month, the adjusted basis is more favorable when the spread has widened.

Example

A producer locks in a December basis of \$12.31 per tonne for CWRS on March 5. On September 15, the settlement price for the December Minneapolis futures is \$209.85 per tonne and the March settled at \$214.85 per tonne. If the producer rolled the basis on that day, the adjusted basis would be \$5 per tonne less, at \$7.31 per tonne, due to the spread between the two futures months:

Original basis + (current basis month futures price – new basis month futures price)
= rollover adjusted basis

$$\$12.31 + (\$209.85 - \$214.85) = \$7.31 \text{ per tonne}$$

If the futures market were inverted with the December at \$214.85 per tonne and the March at \$209.85 per tonne, the producer's basis would improve by \$5 per tonne.

$$\$12.31 + (\$214.85 - \$209.85) = \$17.31 \text{ per tonne}$$

BPC futures month expiry dates

Futures month	Futures expiry dates
December 2007	7:30 a.m. CT November 30, 2007
March 2008 (Pool A Feed barley only)	7:30 a.m. CT February 1, 2008
March 2008	7:30 a.m. CT February 29, 2008
May 2008	7:30 a.m. CT April 30, 2008
July 2008	7:30 a.m. CT June 30, 2008