Marketing Strategies

Marketing wheat to the CWB with a DPC

Producers can price a DPC anytime during the 2007-08 crop year, either before, after, or at the same time as delivery. To determine the best time for pricing and delivery, producers should watch the daily price and the cash spreads. Keep in mind that the cash spreads are locked in on the settlement date whether the DPC is priced or unpriced.

It's also important to remember that DPCs can be priced in whole or in part. However, there is a minimum of 20 tonnes per transaction.

Simultaneous pricing and delivery

If a producer thinks the daily price and cash spreads are favorable on the day of delivery, the DPC can be priced on the delivery date.

In this case, the producer will be paid the initial payment of the grade delivered at the elevator. The CWB will issue the additional payment within 10 business days of receiving the cash purchase ticket information from the elevator.

Example

On July 15, a producer commits 100 tonnes to a DPC for CWRS wheat. On September 1, the producer delivers 100 tonnes of No. 1 CWRS 14.5 per cent protein against the contract, locking in the cash spread of $2 per tonne posted on the daily pricing schedule for that date. The producer phones the CWB to lock in the DPC price for $220 per tonne, based on the reference grade No. 1 CWRS 13.5 per cent protein, posted on that date.

Total DPC value = DPC price + DPC cash spread
= $220 + $2
= $222 per tonne

The producer receives the initial payment of $160 per tonne for No 1 CWRS 14.5 per cent protein at the elevator. The CWB issues an additional payment of $62 per tonne within 10 business days.

Additional payment = Total DPC value – initial payment of actual grade delivered
= $222 - $160
= $62 per tonne

Pricing before delivery

This may be considered if a producer wants to lock in a daily price but is either unable to deliver or believes the cash spread is going to improve. The cash spread will be locked in on the settlement date.

The producer will be paid the initial payment at the elevator. The CWB will issue the additional payment within 10 business days of receiving the cash purchase ticket information from the elevator.

Example

On July 15, a producer commits 100 tonnes to a DPC for CWRS. On September 1, the producer locks in a DPC price of $220 per tonne, based on the reference grade No. 1 CWRS 13.5 per cent protein. On November 1, the DPC cash spread for No. 1 CWRS 14.5 per cent protein, which the producer plans to deliver, rises to $2.50 per tonne. The producer delivers 100 tonnes against the contract, locking in the cash spread.

Total DPC value = DPC price + DPC cash spread
= $220 + $2.50
= $222.50 per tonne

The producer receives the initial payment of $160 per tonne for No.1 CWRS 14.5 per cent protein at the elevator. The CWB issues an additional payment of $62.50 per tonne within 10 business days.

Additional payment= Total DPC value – initial payment of actual grade delivered
= $222.50 - $160
= $62.50 per tonne

Pricing after delivery

If a producer thinks the daily price is going to rise further but has the opportunity to deliver and finds the cash spreads favorable, the wheat can be priced at a later date.

The producer will be paid the initial payment of the actual grade delivered to the elevator. The cash spread is locked in on the settlement date. When the producer prices the DPC, the CWB will issue the additional payment within 10 business days.

Example

On July 15, a producer commits 100 tonnes to a DPC for CWRS. On September 1, the producer delivers 100 tonnes of No. 1 CWRS 14.5 per cent protein against the contract, locking in the DPC cash spread of $2 per tonne posted on the daily pricing schedule for that date. The producer receives the initial payment of $160 per tonne for No. 1 CWRS 14.5 per cent protein at the elevator. Since the DPC is not priced, the CWB does not issue an additional payment.

On November 1, the producer prices all 100 tonnes at a DPC price of $230 per tonne, based on the reference grade No. 1 CWRS 13.5 per cent protein.

Total DPC value = DPC price + DPC cash spread
= $230 + $2
= $232 per tonne

The CWB issues an additional payment of $72 per tonne within 10 business days of the contract being priced.

Additional payment = Total DPC value – initial payment of actual grade delivered
= $232 - $160
= $72 per tonne

Marketing wheat to the U.S. with a DPC

The DPC can be a useful tool for producers who plan to market their wheat to the U.S. via a Producer Direct Sale (PDS). Because DPC and PDS prices are both based on the U.S. market, there is a close correlation between the prices.

Simultaneous pricing of DPC and PDS

By pricing a DPC and PDS simultaneously, producers can lock in the cost of doing a PDS transaction, eliminating uncertainty about the final spread.

Example

On July 15, a producer commits 100 tonnes to a DPC for CWRS. On November 1, the producer enters a PDS for U.S. delivery of No. 1 CWRS 14.5 per cent protein at a value of $260 per tonne and receives the initial payment at the elevator, locking in a cash spread of $3 per tonne.

Also on November 1, the producer locks in a DPC price of $252 per tonne for No. 1 CWRS 13.5 per cent protein, for a total DPC value of $255 per tonne ($252 + $3).

Locked-in PDS cost = PDS value – total DPC value
= $260 - $255
= $5 per tonne

By pricing the DPC and PDS simultaneously, the producer has locked in a $5 per tonne cost of doing the PDS transaction.

Pricing of DPC and PDS separately

Producers may also lock in DPC and PDS prices separately, if they want to speculate that the spread will narrow in their favor. However, they also run the risk that the spread will widen instead, increasing the cost of doing a PDS.

Example

On July 15, a producer commits 100 tonnes to a DPC for CWRS. On November 1, the producer enters a PDS for U.S. delivery of No. 1 CWRS 14.5 per cent protein at a value of $260 per tonne and receives the initial payment at the elevator, locking in a cash spread of $3 per tonne. The DPC price on this day is $252 per tonne for the reference grade No. 1 CWRS 13.5 per cent protein, but the producer does not lock in the price.

On November 25, the producer locks in his DPC, but the U.S. futures market has dropped and the DPC price has fallen to $247 per tonne for a total DPC value of $250 per tonne.

Locked-in PDS cost = PDS value – total DPC value
= $260 - $250
= $10 per tonne

Had the producer locked in the DPC on November 1, the cost of doing the PDS transaction would have been $5 per tonne less. On the other hand, the cost could have been lower if the futures market rallied.