WHEAT QUALITY

KNOWLEDGE IS POWER Know the required specifications for milling quality wheat. The complete Grain Grading Guide of the Canadian Grain Commission (CGC) is posted at www.grainscanada.gc.ca.

THREE DESTINATIONS, THREE SETS OF REQUIREMENTS All three destinations for milling quality wheat – domestic mills, nearby US and overseas ports – have slightly different requirements so the official CGC grade may not directly link with market value. Research the facts.

Ontario mills typically require at least a CGC Grade 2 but may have additional requirements for minimum falling number, protein levels and maximum vomitoxin levels. US mills can often take wheat with higher vomitoxin levels because their regulations monitor vomitoxin levels in the final product, not the wheat. However, be aware of discrepancies between Canadian and US grading factors – i.e. a requirement of 13.5% moisture for US mills.

OVERSEAS SHIPMENTS FOLLOW CGC STANDARDS Ontario lake terminals strictly enforce CGC standards since any wheat graded #2 on the way in has to be graded #2 on the way out to the vessel. Severe financial penalties to the terminal apply when this doesn't happen.

SAMPLE YOUR WHEAT CROP Once the requirements from various potential purchasers are known, shop a sample around to local elevators, mills and terminals.

UNHAPPY WITH THE GRADE If not satisfied with the sample results, obtain an independent test from the CGC (519-436-3190). Once there is confirmation of the wheat quality characteristics, it is possible to identify appropriate markets and maximize value.

OFF-GRADE WHEAT Wheat with quality issues should be stored if at all possible for future upgrading through blending, cleaning or running over gravity tables to reduce *Fusarium*-damaged or sprouted kernels. At the very least, storage buys time to identify higher value markets. Any reduction in yield due to cleaning will be insignificant compared with the price discount between milling and feed grades.

LOW FALLING NUMBER Wheat with a low falling number will likely not make milling quality and is virtually impossible to blend away or change with time. The best market for low falling number wheat is most likely a high-value feed market, particularly for wheat with a good test weight and low vomitoxin levels.

KNOW YOUR GRADE BEFORE YOU UNLOAD Once the crop has been unloaded it is too late to contest your grade. OWPMB regulation 2.4 states that "all disputes in respect of grade dockage, moisture or condition of any load shall be made at the time of delivery of the wheat". Furthermore, when a dispute arises between a producer and an agent, it is referred to an inspector of the CGC with the decision of the inspector being final and binding. The cost of testing in the case of a dispute is the responsibility of the producer.

THIRD-PARTY TRUCKING If a third party is trucking wheat on behalf of a producer, it is the producer's responsibility to instruct the trucker and arrange with the buyer for samples be tested by the CGC if the grade is lower than expected BEFORE it reaches the pit. Treat each truckload separately as quality can vary substantially even from the same field or bin.

In Ontario our wheat has four distinct markets – domestic, nearby US, overseas export and the US feed market. There are many different marketing scenarios that affect price including the quantity of wheat available, the proximity of the market and the market demand. This document outlines the three most common marketing scenarios in Ontario and considerations for producers in each scenario.

Regardless of the marketing situation, it is important to know your product and its quality, and then shop it around for the best possible price. Market smart.

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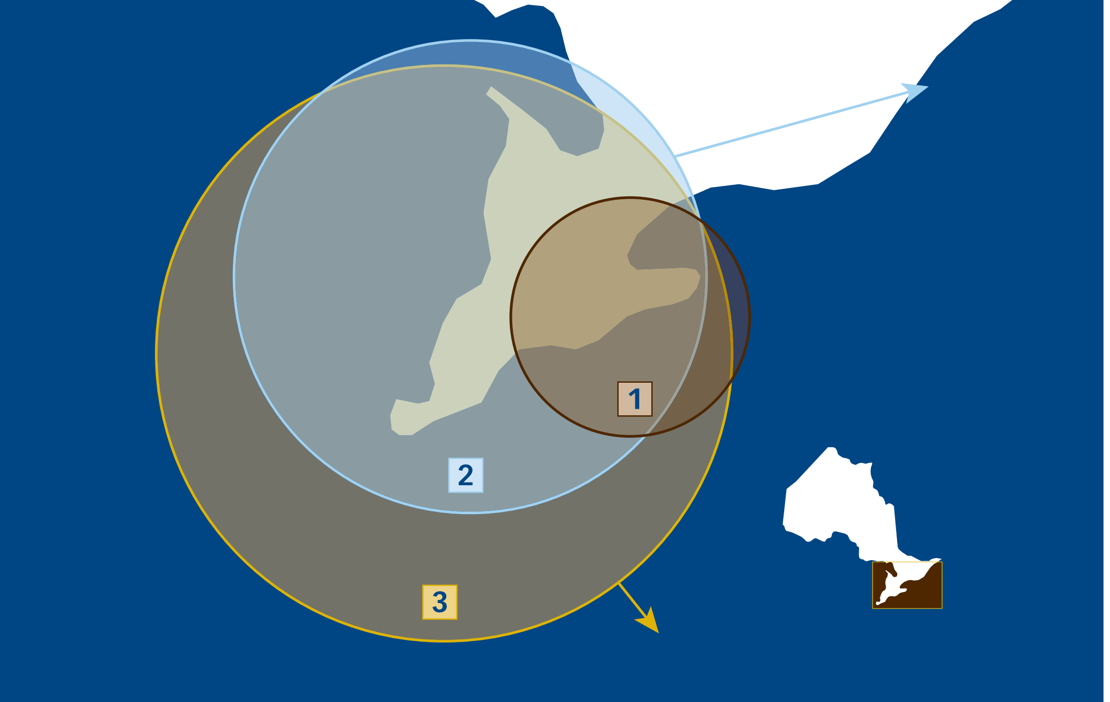
MarketSmart

Making the most of your wheat crop



THE THREE MARKET SCENARIOS IN ONTARIO

1 Just enough wheat to satisfy local markets and the nearby US – less than 1 million tonnes.

When Ontario planted acres are down, local mills and other wheat buyers act quickly to secure their needs for the upcoming crop year.

The Ontario mills establish the price (basis) until they are fulfilled enough to lower their bid. Then the soft wheat mills in the nearby US are the basis setters on the remaining wheat.

2 More wheat than required by the local market and nearby US and strong export demand – over 1 million tonnes.

When there is strong export demand, wheat buyers plan for most of Ontario's excess soft red winter wheat to travel down the Saint Lawrence river to the ocean ports in eastern Quebec.

In this market scenario, export demand sets the basis. Basis in the lower Saint Lawrence will be comparable to the basis in the Gulf of Mexico then worked back to local Ontario terminals for an Ontario value.

3 More wheat than required by the local market and nearby US with limited export opportunity – two million tonnes, plus.

Wheat export opportunities rely on market forces beyond our control in Ontario. Some factors that limit export opportunities are over supply in major wheat exporting countries, historically high world wheat ending stocks, prices out of reach for importers or limited/expensive freight available.

In this less than ideal situation, Ontario wheat that is not delivered locally or to the nearby US will have to be sold to the south and compete as feed in the eastern US. The price of wheat in this scenario will be comparable with the market price of corn.

Considerations for producers within each scenario:

MARKET INTELLIGENCE

There are many sources of information including government data for Ontario and the nearby US, the Food and Agriculture Organization of the United Nations estimations of world supply and demand, the wheat exchanges and many independent sources of market data and analysis.

Watch specifically for the indicators of which scenario we will be dealing with in Ontario for the upcoming crop year. These can include North American planted acreage estimates, world supply and demand predictions, the spread of wheat prices over corn in the US and the availability of lake freight in the St. Lawrence.

MARKET CARRY (STORAGE AND INTEREST COSTS)

In all three scenarios there are times when there is carry built into the market (higher prices paid for delayed delivery) and times when there is not. When the wheat supply is tight, millers or other end users may pay a premium for wheat stored on farm and delivered at a later date when harvest delivered wheat stocks are depleted. In a scenario where wheat is exported there may be no carry in the market since buyers are encouraging producers to deliver wheat to fill boats before soybean harvest.

Even if wheat must be stored in a commercial elevator for a monthly charge, there may still be an economic reason to sell wheat for a delayed delivery.

LOGISTICS FOR DELIVERY OF BOARD WHEAT

With Board wheat there are two delivery options – terminals and Board agents. It is important to communicate with more than one delivery location at harvest to determine the best option both from the perspective of timing and cost. Agents set their own handling fee that is negotiable. Terminal deliveries of board wheat receive full value but may mean a greater delivery distance or can be inconvenient to deliver to. Terminals may close temporarily to deliveries due to a lack of storage capacity so a producer must be prepared for delays or find alternatives. Farm pickup or delivery to a processor may be available on a case by case basis, but must be prearranged. When selling wheat to the direct market or through a Board forward contract, it is important to understand the final destination of that wheat. If the eventual destination of that wheat is Toledo, it may help save costs all around if that producer can time their delivery to a receiving point close to the border or when a shipment is outbound for Toledo. This will also avoid inefficiencies of wheat delivering from southwestern Ontario through the terminals and eventually backtracking to Toledo.

TERMINALS

Terminals have a specific purpose – to gather and move Ontario wheat into an export position. In short crop years, moving wheat through a terminal will in many ways add an extra and unnecessary logistical layer and cost. In a short year, wheat should be moved in the most efficient manner either through elevators handling wheat for end users or directly to the end user.

In export years, it is important to realize that terminals work on a first come, first serve basis. When planning to sell wheat to a terminal, it is important to phone ahead and ensure the terminal is taking wheat before delivering. Terminals will plug quickly if boats are not moving expediently down the river but can open up just as quickly when boats are available. It is important to remain in contact with terminals throughout harvest to find the optimal time to deliver wheat.

STORAGE

Whether wheat is stored in on farm storage or in commercial storage there are two important considerations – price and condition. If there is carry in the market (see above) there will be a monetary incentive to store wheat for a later delivery. Calculating the gain versus the cost of storage will indicate the best option.

It is important if using an on farm storage option to ensure bins are properly maintained for the grain to remain in condition. Regular testing throughout the winter will help detect any quality degradation.

THE ADVANTAGES AND DISADVANTAGES OF DIFFERENT PRICING OPTIONS

	Available from OWPMB?	Industry	How Paid	Opportunities	Disadvantages	Delivery Points	Commitment
Cash Contracts	■	■	On delivery.	Cash at delivery. Convenient.	Cash price at delivery may be lowest of the season.	OWPMB – All locations. Industry – Limited to location specified on contract.	Must deliver wheat.
Forward Contracts	■	■	On delivery.	Cash at delivery. Can capture attractive future prices on deferred deliveries.	May not produce the required amount and would have to buy wheat to replace it.	OWPMB – All locations. Industry – Limited to location specified on contract.	Must deliver wheat.
Pool	■		Incrementally through the year.	Can capture price or basis inceases after harvest.	Don't get all of the cash up front. Prices could go down.	OWPMB – All locations.	Must declare to Pool at delivery. Must deliver by September 30.
Basis Contracts		■	75% at delivery. Balance when flat priced.	Can capture any increases in Futures price, without having to store the wheat. Get some cash up front.	Futures could fall and decrease returns.	Limited to location specified on contract.	Must deliver wheat.
Minimum Price Contracts		■	75% at delivery. Balance when flat priced.	Can capture any increases in Futures price, without having to store the wheat. Get some cash up front. Less cost if do not produce the wheat.	The cost of the Option is subtracted from the price.	Limited to location specified on contract.	Must deliver wheat.
Store and Price Later	■	■	On delivery.	Can capture any increase in Futures or Basis.	Price may be lower when wheat is finally sold/priced.	Any locations accepting wheat.	No committment.