

Canola Marketing Wrap-Up

This series of marketing lessons has explained the various canola selling options available in western Canada, and pointed out certain situations where they may be used to a farmers advantage.

The cash contract for spot delivery and the Deferred Delivery Contract are the simplest canola contracting mechanisms. The Basis Contract is similar to these, but because it allows a seller to fix the futures portion of the price at a later date it will net the farmer a higher price than a spot or deferred delivery contract in a rising market.

Grain buyers on the Prairies also offer more complex marketing options, like the Minimum Price Contract. For a fee, farmers can lock in a cash price and stay open to profit from further upside in canola futures. The Minimum Price Contract is can be a very good deal when prices are well-above breakeven levels and the market continues to rise.

Grain Pricing Orders are also commonly used to market canola. Growers focused on achieving a specific target price for their crop are well-served by companies offering Grain Pricing Orders because they ensure the canola is priced even if the grower is unaware that the market has hit his or her target.

The canola futures market plays an important role in cash contracting, and the price environment overall. It is important to understand how it works, and how to use the futures to the farm's advantage in canola marketing. Options are also very useful. The added flexibility that comes with incorporating futures and options trading into a canola marketing plan can add to net returns.

Depending on a farm's individual situation, trading futures and options might work better than selling canola under a particular cash contract under certain market conditions. But it's not necessary – grain buyers' contracts come very close to replicating the risk management profile of different paper-trading strategies.

The first step in marketing canola successfully is to understand all the selling options available. The mechanics behind each one illustrates important insights into managing price risk exposure under different market conditions. Farmers who know how to use all the different contracting options have equipped themselves to make disciplined well thought-out selling decisions throughout the marketing year, according to the plan.

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