

## Harvesting dollars - a 7-year comparison of grain marketing options for wheat and canola in Victoria

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### Introduction

Harvest time is often stressful enough without the added pressure of making the right grain marketing decisions. Deregulation of our domestic grain and export barley markets has resulted in farmers being faced with more and more options to consider. The pressure of picking the peak of the market is always at the back of farmer's minds. While we cannot predict the future, we can look back to observe trends in the grains industry over time.

The last 7 years on average have been quite tough from a production perspective but gross returns have been maintained by quite good prices, which we saw again in 2002 (unfortunately being bolstered by drought conditions). The question is, has there been a marketing option that has outperformed or at least performed consistently over the last 7 years? Has the option of forward selling grain paid off or has it been a safer option to wait to take the cash price at harvest or take one of the pool options?

### What was done!

Price comparisons were carried out for both wheat and canola over a seven-year period. The forward contract price on offer for canola the 1<sup>st</sup> of March, May and August was compared to the cash price paid on the 1<sup>st</sup> of December of the same year. Basically the value of forward pricing as opposed to doing nothing and selling for cash at harvest was analysed. For wheat, the same analysis was undertaken but in addition, it was compared to the Pool return for that year's harvest.

### Prices

Cash prices quoted for grain and oilseeds are all delivered Geelong and are GST exclusive. The forward prices that have been used for both wheat and canola are FOB (free on board) equivalent with freight and handling charges not included in price and again are delivered Geelong. Realised wheat pool prices have been discounted at 5% (convert prices to present dollars) so that the prices can be compared to the cash prices received at the time of harvest.

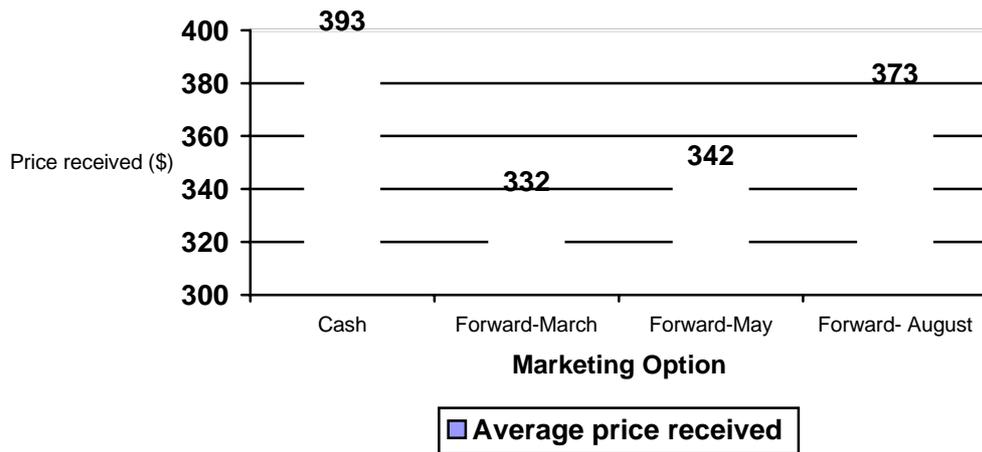
### Results

#### Canola

**Table 1.** Prices received for canola over the last seven years via various marketing options

<b>Canola</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Cash</b>	352	390	357	305	316	415	575
<b>Forward- March</b>		302	354	295	300	355	385
<b>Forward- May</b>		305	378	300	325	361	382
<b>Forward- August</b>	389	320	355	285	290	450	540

**Note:** Average includes only the last 6 years of data due to incomplete data set.



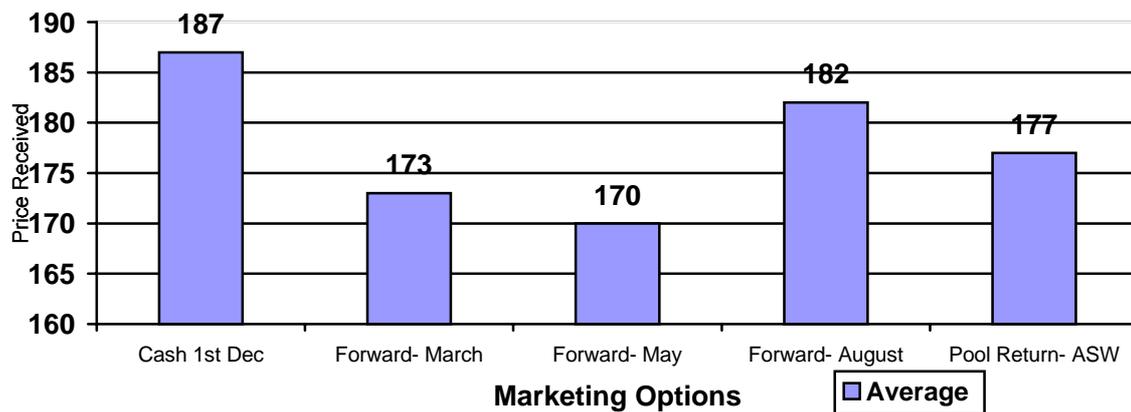
**Figure 1.** Average prices received for canola over the period of 1996-2002 using 4 selling options

Over the last six years the average price for canola has consistently been at its highest at the 1<sup>st</sup> December as opposed to the other marketing options considered. Selling forward at the first of March and May over the last six years has proven to be quite costly. Selecting a forward contract at the first of August while not as costly, was still \$20 below the cash price at the 1<sup>st</sup> of December.

**Table 2.** Wheat returns

Wheat	1996	1997	1998	1999	2000	2001	2002
Cash 1 <sup>st</sup>	142	182	148	137	172	202	280
Forward-March		170	163	152	152	199	199
Forward-May	224	173	163	136	162	202	182
Forward-August	181	180	140	138	147	202	284
Pool ESR 12/1	147	167	138	138	166	209	242
Pool Returns-APW	161	155	147	152	151	215	242

**Note:** To average the Pool Return (to include 2002) the Estimated Silo return has been used. In all but one case over the last 7 years has the ESR been higher than realised returns.



**Figure 2.** Average prices received for wheat over the period of 1996-2002 using 5 selling options

Like canola, the wheat cash price at harvest over the last six years has been the best option in terms of greatest return. Once again the forward contract prices offered earlier in the year at 1<sup>st</sup> March and 1<sup>st</sup> May have on averaged cost farmers. Selling forward in August has performed better than the realised pool return.

### Discussion

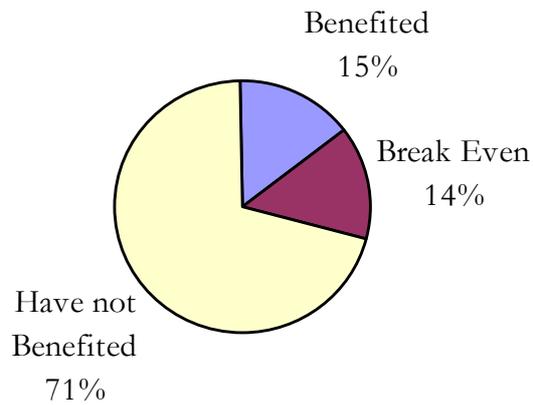
While the data set used to create these averages is only based on figures for the last seven years and prices have only been taken from a few points in time, the trends in the data provide some discussion points.

Considering the data, why would farmers sell either canola or wheat forward in March or May? For both commodities forward contract prices at these two points in time have on average fallen well below prices achieved at harvest through cash options or for wheat pool options. Given the above figures farmers should perhaps be thinking twice before taking out these options of selling forward at March or May. There are the risk management rules that suggest that once the commodity price reaches a level that covers production costs that it is perhaps prudent to forward sell some grain at this point. The danger is of course then that we have a year similar to 2002 and contracted grain tonnages can't be met. Is this then really risk management? Contracts based on area as opposed to tonnage should be considered.

The production risk does make taking out a contract later in the year when production outcomes are better known, a safer option.

While the cash price for wheat on the 1<sup>st</sup> of Dec has realised greater returns than those achieved through the Pool, cash flow management and income averaging has made the pool option very advantageous. In many cases selling all grain for cash is an unrealistic option given the tax implications that this has. Often the difference between selling for cash or putting grain into the pool is made up for by the tax advantages achieved through deferring income to following years. In likely low income years, when taxable income will not pose major headaches it would seem selling for cash is a reliable option.

The BCG-WFS members survey asked farmers to identify on average if they have benefited from selling grain forward and when they would consider selling forward in the future. The results were indicative of the results presented in Table 1 and 2 and are represented below in Figure 3.



**Figure 3.** BCG-WFS member survey results indicating performance of selling grain forward over the last 5 years.

**Take home message**

The above data provides some food for thought regarding marketing options. The same analysis needs to be carried out with a larger data set that can be averaged over a greater number of years, in order to create a better picture of the trends. If over time these trends continue we must really start questioning our marketing decisions. The above figure may indicate that farmers are already questioning the marketing decisions they make.

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