SPECIALTY CROP

Interest high in hemp, but acres stable

BY ROBERT ARNASON
BRANDON BUREAU

Demand for hemp cereal, hemp milk and hemp protein bars is booming in North America, but western Canadian hemp acreage is unlikely to expand in 2015.

Near bumper yields in 2013 and 2014 will cause a significant carryover into 2015-16.

As a result, hemp processors aren't contracting additional acres in 2015 because they need to consume the existing supply, said Clarence Shwaluk, director of farm operations for Manitoba Harvest, a hemp foods manufacturer in Winnipeg.

"We want this to be a bit of a correction year so we can match our supply to demand," said Shwaluk during Ag Days in Brandon.

He said Manitoba Harvest will contract 40,000 acres of hemp this year.

"It's down a little bit from last year," he said.

"We had a very large 2013 crop, and 2014 is shaping up to be a very good crop as well, from what growers are reporting to us."

Prairie farmers planted 90,000 acres of hemp last year, but record June rain drowned out 5,000 to 15,000 acres in eastern Saskatchewan and Manitoba.

Many in the industry assumed that Canadian acreage would easily top 100,000 this year, considering stout demand for hemp food in the United States and Canada.

Barry Tomiski, chief operating officer of Hemp Oil Canada, said those predictions may be high.

"I don't think the acres are going to increase substantially this year."

Hemp Oil Canada, a Ste. Agathe, Man., company that sells hempseed, hemp protein and oil to food manufacturers, will likely contract a similar number of acres to last year, Tomiski said.

"There's a bumper crop out there from this past year," he said.

"The Alberta crop (was) extremely good. We've had reports of one acreage that was irrigated that hit 3,000 pounds to the acre. That is an exceptional level of production. Normal on irrigation would be 1,800 to 2,200."

Dryland hemp yields were also respectable last year. Shwaluk said many farmers topped 1,000 lb. per acre, above the historical average of 800 to 1,000 lb. per acre.

"One of the (highest) I had in conventional production was 1,800 lb. per acre," he said.

Chris Dzisiak, who farms near Dauphin, Man., and chairs Parkland Industrial Hemp Growers, said yields in the region were poor last year because the wet spring drenched many fields.

Still, hemp acres in the area will likely remain stable this year. The co-operative is offering contracts to its members at 90 cents a lb., Dzisiak said.

"We're just talking to our buyers, trying to confirm acres and absolute volume."

Tomiski said most contracts for conventional hempseed were 70 to 75 cents per lb. in 2014.

Prices will likely be similar this year.

"They (prices) are steady," Tomiski said.

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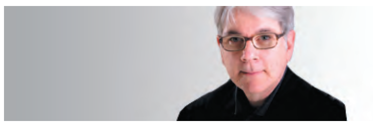
GRAIN MARKETING

Canadian wheat bids lack transparency

MARKET WATCH



D'ARCE McMILLAN

Canadian grain buyers' basis bids for wheat are confusing because they don't first convert U.S. futures prices into Canadian currency. | FILE PHOTO

Grain companies are doing little for price transparency, or their own reputations, in the way they display bids for wheat on their websites.

The textbook explanation of a cash price is the futures minus the basis.

In canola, this is displayed simply and clearly on grain company websites.

They display the ICE Futures Canada canola futures contract price and the company's basis. Through simple arithmetic — futures minus basis — a cash price is determined.

Basis is supposed to account for the cost of transportation, storage, interest, cleaning, weighing and inspection, terminal charges and the grain company profit margin.

It also has a component that reflects the buyer's demand. If the buyer has an urgent need for grain to fill an order, the basis narrows and sometimes even becomes positive.

If the buyer has no orders to fill and does not want to clutter up its elevator with grain it does not need, then the basis widens.

But where is currency exchange fluctuation reflected?

That is the problem in the Canadian wheat market.

Take hard red spring wheat. Canadian grain companies use the Minneapolis Grain Exchange hard red spring contract as their starting point.

It trades in U.S currency.

Many grain companies operating in Canada display the U.S. MGEX price in U.S. dollars, subtract a basis in Canadian dollars and display a cash price in Canadian dollars.

So for an elevator in Moose Jaw, this is the bid for January delivery of No. 2 Canadian Western Red Spring wheat, 13 percent protein in bushels: MGEX March US$5.69. Basis -30 cents Canadian. Cash price C$5.39.

The math looks correct at first blush, but then you remember that the MGEX is in U.S. dollars.

That US$5.69 is worth about C$7.06.

So if the cash price is C$5.39, then the difference is more like $1.66, not 30 cents.

At the website of another grain company, the bid for No. 1 CWRS 13.5 percent protein at an elevator in central Saskatchewan leaves out the MGEX price and simply states its basis is -C$13 a tonne, or -35 cents a bushel for a net price of $196.07, or $5.34 a bu.

Again, the basis bears no resemblance to the actual difference between the futures and cash, adjusted for currency.

Just south of the border at Berthold Farmers Elevator in Berthold, North Dakota, the website paints a much clearer picture, relying on simple arithmetic. It posts a basis of -US50 cents from the futures of $5.69 to arrive at a cash price of $5.19.

Converted to Canadian dollars, that's a basis of -62 cents and a cash price of $6.43 per bu., or more than $1 more than the Canadian elevators.

A suspicious mind would say the Canadian grain companies are trying to hide something, such as an outrageous profit margin and failure of the arbitrage that was supposed to balance Canadian and American grain prices following the end of the CWB monopoly.

It is a similar situation in Canadian Prairie Spring wheat, which uses the Chicago wheat contract as its starting point, and winter wheat, which uses the Kansas City contract.

There must be more clarity on how Canadian wheat buyers factor foreign exchange into their pricing so that their real basis becomes clear.

This would not be an issue if the ICE Futures Canada milling wheat contract, which is priced in Canadian dollars per tonne, had gained traction. The contract exists, but there is no trade.

Making a new contract work isn't easy. Those pioneering it would face a lot of risk as long as volume is small and liquidity is inadequate.

However, grain companies didn't even try to make it work.

They stayed with the relative safe bet. MGEX spring wheat is established and has volume, but even it sometimes lacks adequate liquidity.

For now, MGEX remains the de facto North American hard spring wheat price setter.

And so grain companies operating in Canada must come up with a way to present honestly and transparently how their cash bids in Canadian currency relate to the MGEX futures.

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CROP CHOICE

Futures improve canola profitability over wheat

BY ED WHITE
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BRANDON — Farmers might take a friendlier look at seeding canola this spring after recent price action made the crop look relatively more profitable than wheat, says Informa Economics' Chris Ferris.

Canola priced for 2015 had a significant per acre advantage over spring wheat last summer.

That was not unusual because canola often is more profitable than wheat.

Canola's advantage disappeared after August, raising ideas that wheat acres would increase.

But since Jan. 1, canola has held firm while spring wheat futures have fallen.

"We've been getting a bit of a bounce here," Ferris told the Manitoba Canola Growers meeting during Manitoba Ag Days Jan. 20.

"Canola has been strengthening against spring wheat."

Farmers keenly watch crop-versus-crop revenue comparisons as seeding approaches, with many throwing undedicated acreage into crops that appear to offer the best profit potential.

That looked bad for canola acreage recently.

Some profitability projections, including one from Manitoba Agriculture, showed canola as one of the worst crops to grow this year.

The department projected at the beginning of January that farmers would lose almost $20 per acre growing canola (including all costs), while they would make almost $11 on spring wheat.

However, wheat has now given up all the gains it had made in the October to December rally, while new crop canola futures are the strongest they have been since August.

Now canola again appears to offer farmers better returns.

"That's because wheat has been falling," said Ferris.

"That may encourage a bit more acres here for canola."

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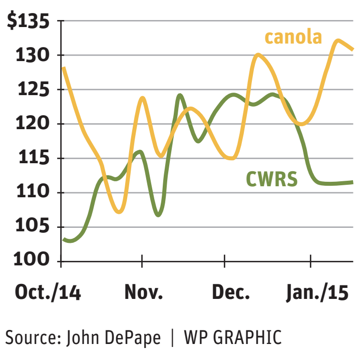
CANOLA TRIUMPHS

In recent months canola had lost much of its revenue advantage compared to spring wheat, but since the beginning of January canola has handily regained the lead.

Comparative revenues after expenses, 2015 crop ($/acre)



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