

Marketing Your Grain

A Series of Articles Showing the Various Stages and Steps by which the Grain Crop of Western Canada is carried from the Farm to the Foreign Market

Article VI.—The Grain Exchange and Grain Marketing

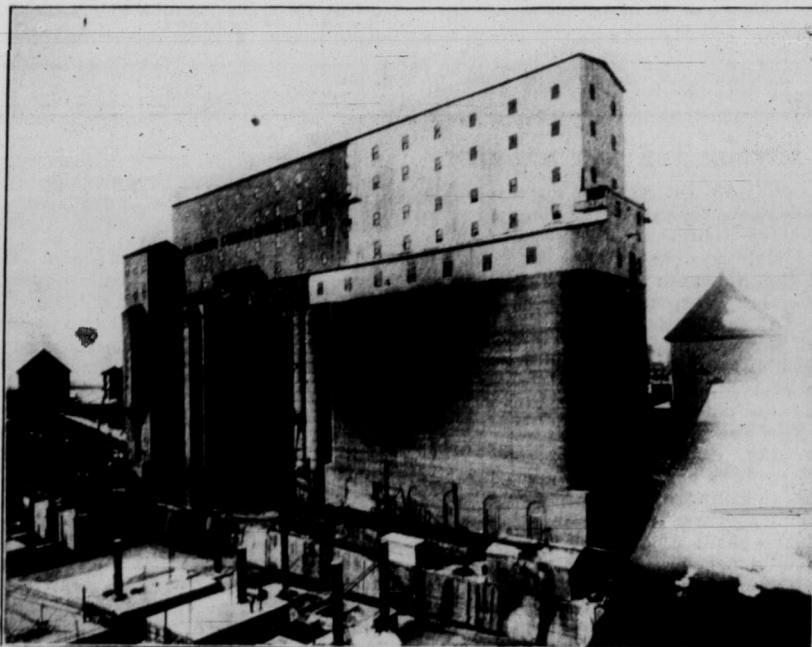
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If members were permitted to charge commission less than a fairly remunerative rate there would be a temptation to dishonestly take something more to make the business profitable. When, however, the rate is sufficient to return a fair profit for the service rendered, the temptation of dishonesty is removed. Of course where an unusually large volume of business is done the commission could undoubtedly be reduced and still show a profit. However, there are only one or two members of any exchange who handle grain in sufficient quantities to warrant such reduction. Basing the general charge upon the business of only one or two would not be fair to other members of the exchange. Any reduction would drive them out of business, which at once would introduce monopoly in that the one or two big firms would be the only ones left, and would therefore handle all the business. But this is highly obnoxious and contrary to the principles of competition upon which all exchanges are based. It is therefore necessary to make the commission rate sufficiently large so that a fair number of traders doing an average business can afford to operate. The greater the competition of both sellers and buyers the more fair and just become the prices and the more efficient becomes the service.

How Prices of Grain Vary

The present cash value of spot grain of standard grade on the ultimate consuming market is the basis of all prices. Based on this price are other spot prices for different grades. The differences in the prices for the different grades are fairly uniform in any crop year, because whenever they become greater than the differences in the intrinsic values, the lower grades at the relatively cheaper prices will be substituted for the higher grades at the higher prices. This but follows the economic law of substitution.

Based also on the cash value for spot grain of standard grade are prices for the same grade deliverable in stipulated future months. These future prices for the standard grade in turn fix prices of inferior grades for delivery in the same future months. For convenience, future prices are usually quoted for delivery at monthly intervals during the year, thus establishing four "active" trading months. The other eight months are called "inactive." As a rule, trades for inactive months are based upon the prices of the active months nearest in the future, although special contracts are sometimes made upon prices fixed for the inactive months. The designation of the particular active months may vary slightly with conditions governing the large markets, as, for instance, the period of inland navigation on this continent. Then, too, in Canada the lateness of harvest as compared with the United States has a determining influence upon the designation of the first active trading month of the new crop upon the Winnipeg Grain Exchange. Thus, in Chicago and Minneapolis we find September, December, May and July the active trading months. In Winnipeg we find them to be October, December, May and July.



The Harbor Commissioners' Elevator at Montreal, thru which passes all grain exported from the port of Montreal

The present position of grain has a vital effect upon its price. In our practice there are four different positions: (1) Actually in store in Fort William or Port Arthur and ready for spot delivery on a cash sale; (2) past Winnipeg inspection and thus near the terminal; (3) loaded into a car and standing on track at a country station, thus ready for movement and depending only upon the action of the railway to get it to the terminal; (4) in a country elevator, where there is considerable risk as to when a car can be procured for shipment. Deliveries from all these different positions are separated by an appreciable difference in time, so much so that there is a separate price for each of the different deliveries. Therefore grain in any one of these positions can only be worth the price for expected time of delivery. If there is un-

certainty as to transportation facilities, grain not yet loaded must be given generous time for arrival at terminal. Thus a car shortage will have a very disturbing effect upon prices in the country.

Almost every year the following situation arises about the end of September: Prices at any one time are in a descending scale according to futurity of delivery until the close of navigation, the highest being present cash value and the lowest that for delivery in December. Grain in store at the terminals of course commands the highest cash price. October is the next calendar month and also the next active trading month, therefore quotation for October delivery is a little lower than cash value. Grain already past inspection which would reach Fort William in two or three days may command a premium

over the October price, because of the probability of early delivery, but grain on track at a country point or not yet past inspection could not be expected to reach Fort William before the end of the month and would only command October price. If there is a serious car shortage, shipments of grain in store in country elevators could not be counted upon with any certainty, and commercial prudence would dictate that ample time allowance for transit would have to be made. Since grain on track could not be counted upon for delivery before the end of October, grain not yet loaded could not be counted safely to arrive at Fort William much before the close of navigation, the first week in December. Therefore at those places which are badly congested and where there is no prospect of relief, the street price would at once go out to a December basis, which is the value for closed navigation and is low enough to allow all-rail transportation east of Fort William. This explains why there may sometimes be such wide spreads between the street prices offered by elevators at that time of the year for grain in wagon load and prices sometimes realized by farmers who are fortunate enough to secure cars for immediate shipment. There have been occasions at the end of September when the differences in street prices and cash prices in Fort William have been ten to fifteen cents for medium or lower grades of wheat. It is clear after examining the factors relating thereto that the elevator companies cannot help themselves, as to pay any higher prices would mean that they would lose money.

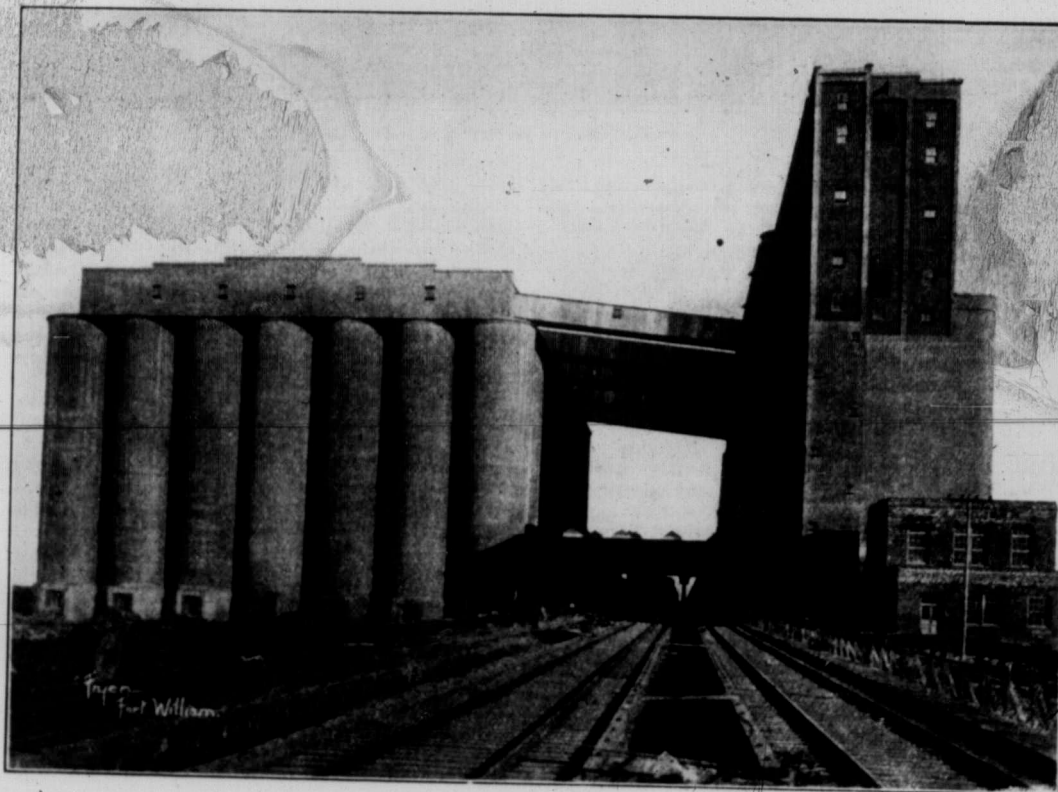
Three Prices Quoted

Grain past inspection seldom has any higher value than grain loaded on track and hence separate price for it is seldom sent into the country. As a rule, therefore, there are three prices to the country: (1) The cash price sent out by commission men indicating the net value less commission for spot grain in store Fort William or Port Arthur; (2) the track price sent out by track buyers and elevator companies, which is the net price less commission for grain actually loaded into cars and all ready to be hauled to Fort William; and (3) the street price, which is the highest net price payable for grain delivered to elevators by the wagon load and which must take its chance for shipment, depending upon cars available. Each price represents the fair value as fixed by the factors of the trade prevailing for estimated time of arrival at market and determined by actual transactions for such delivery. That the prices are uniform all over the country is but an indication of the sharp competition, and that every man is paying just as much as he possibly can under the conditions of the market at that time.

Trading in Futures

The principle underlying trading for delivery in future months is as follows:

Bakers or large consumers who use flour in quantity like to buy for requirements some time ahead, but they want to take delivery of and pay for only a little at a time to take care of immediate needs. This method econom-



Dominion Government terminal elevator at Port Arthur

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