

# Agricultural Marketing Guide >>



## Understanding the Canola Futures Contract

### Introduction

Canola is a Canadian crop, developed from rapeseed by Canadian researchers through traditional plant breeding and selection techniques. Canola has a strict internationally regulated definition that differentiates it from rapeseed. Canola must have less than 2 percent erucic acid and less than 30 micromoles of glucosinolates. The Canola Council of Canada states that, “Canada’s canola industry adds \$13.8 billion in economic activity to the Canadian economy. More than 52,000 Canadian farmers grow canola – largely as full-time farmers and in family farm businesses”. At the time of writing, there were thirteen canola processing plants in five provinces and over 2,800 people directly employed in highly skilled or technical jobs.

In 2011, 14.2 million tonnes of canola was produced within Canada’s borders. Canola is very attractive to the food industry and worldwide consumers, mainly because canola oil is low in saturated fat, has an excellent balance of polyunsaturated and monounsaturated fats, and is versatile and light in taste.

By having access to a canola futures market, buyers and sellers of canola have a better opportunity to forward price their contracts. The futures market has the ability to forward price canola well before the physical product is actually available or needed. This can, in turn, reduce price uncertainty for both the buyer and seller.

### Background

The futures contract for rapeseed began to trade on the Winnipeg Commodity Exchange (WCE) in 1963. As canola replaced rapeseed as the product of choice, the WCE replaced rapeseed with canola in the futures market. Canola futures are the most actively traded commodity on the WCE, known as ICE Futures Canada (ICEFC) since 2007.

The canola futures contract has been revised several times over the years in response to changes in industry needs and the market environment. Options became available on canola futures in 1991. In 1995, the canola futures pricing point was moved from Vancouver to multiple interior pricing points. Recent changes include increased flexibility in the futures delivery process, which was intended to improve convergence with the cash canola market, as well as stabilize basis levels. In December 2004, the ICEFC moved to electronic or computer futures trading, eliminating the physical process of operating a trading floor in Winnipeg. Over the years, the ICEFC has amended the contract months of canola futures that are traded. One of the goals of these changes was to increase volume or “liquidity” in the canola futures market. A market that is more “liquid” or “fluid” is more attractive to all traders, whether they are hedgers or speculators.

## Functions of the Canola Futures Contract

The canola futures contract is the world benchmark for canola trading. The canola futures contract is often used as a price discovery mechanism for canola, as well as for some related crops, such as specialty rapeseed. Producers and buyers monitor canola futures prices as a reference for cash canola prices.

Cash contracts, such as basis or deferred delivery contracts offered by canola buyers, reference a certain canola futures price. For example, a buyer may offer a basis contract in the spring that would provide a cash price of \$10/tonne under the November futures for physical delivery in October. In addition to providing a reference to cash contracts, the canola futures contracts are used as a price risk management tool to protect from price fluctuations. Canola crushers, exporters and foreign buyers use these contracts regularly.

A canola producer may also participate in a futures contract through using a broker, known as a Registered Futures Commission Merchant (RFCM). There are some market conditions when being able to directly use the futures market is a better alternative than cash selling or contracting. For example, when the basis level (i.e. difference between the cash and futures price) is historically wide, but the futures price is judged to be relatively high is a circumstance where undertaking a direct sell position on the futures market is likely the best alternative. The sell futures position would protect against downside risk on the futures price while the producer waits for a stronger basis level before completing a cash sale. When that cash sale is made, the futures hedge could then be removed, again by using a broker to buy the futures contract back.

## Contract Specifications for the Canola Futures Contract

Pricing Reference Point	FOB on truck at elevators, radius of approximately 150 km from the midpoint between North Saskatoon and Aberdeen, Saskatchewan
Symbol	RS
Pricing Basis	Free on Board points in the Par Region
Currency	Canadian dollars
Contract (Delivery) Months	January, March, May, July, November
Contract Size	1 contract = 20 tonnes known as a "Job Lot" 5 contracts = 100 tonnes known as a "Board Lot"
Par Contract Quality	Non-commercially clean No. 1 Canadian canola with 8% maximum dockage
Premium (\$5.00/t)	Commercially clean No. 1 Canadian canola
Discount (\$8.00/t)	Commercially clean No. 2 Canadian canola
Discount (\$13.00/t)	Non-commercially clean No. 2 Canadian canola with maximum dockage or 8%

Trading Hours, electronic	Open: 8:00 p.m. Central Time Close: 3:00 p.m. (the next day)
Minimum Price Change	10 cents per tonne (\$2.00/contract).
Daily Price Limit	\$30 per tonne above or below previous close, expandable to \$45 and \$60
First Notice Day	One trading day prior to the first delivery day
First Delivery Day	First trading day of the delivery month
Last Trading Day	Trading day preceding the 15th calendar day of the delivery month

**Note:** Most, if not all, deliveries against futures contract positions occur between licensed grain companies with grain delivery facilities. Currently, in order for a producer to deliver physical canola against a short futures position, permission must be obtained from a licensed facility to accept the canola. For this permission, the facility may charge a fee that could offset any advantage that the futures delivery process may have offered.

## Broker Responsibilities

People who place buy and sell orders for canola users and producers are registered futures commission merchants (RFCM), although most people call them brokers. To comply with regulations of the Exchange, RFCMs require margin from their client. Although the commodity exchange sets minimum margins, the margin requirements can vary from firm to firm, so producers need to discuss this aspect with their broker. (See [Choosing a Commodity Broker](#)).

## Margins

The initial margin is the amount required in an account deposited with the RFCM to open a futures position. It is important to understand that margin is just security money to hold a position, and that upon closing a position, the margin money is returned, plus or minus any funds that result from the profit or loss on the trade. The standard initial margin for canola is determined by the ICEFC. The initial margin varies from time to time depending on price volatility.

For example, on January 9, 2015, the initial margin for one 20-tonne canola contract was \$500.00. The standard maintenance margin, or the amount required to continue to hold one open canola futures contract, on January 9, 2015, was \$500.00 for each 20 tonne contract. In times of market volatility, the ICEFC will increase margin requirements. For example, in a volatile market, margin requirements could be doubled overnight to provide more security from adverse price movement. Also, note that a brokerage firm may set its margin requirements at a higher level than the ICEFC minimums.

If a producer is short a futures contract (i.e. has sold a futures contract) and futures prices rise far enough to potentially deplete the money on deposit in the account, a margin call is sent to the client to ask that more money be added to the account. A brokerage firm will have a policy on the time required to shore up the margin account. The time available to shore up an account

depends on the brokerage firm and may only be a few hours. The normal process to deposit funds is through a bank transfer. If no money is deposited within the specified time, the broker will automatically make an offsetting trade to exit that position for the client. The client will be responsible for any shortfall in that account that there may be. If it happened that the client did not cover a trade loss, then the responsibility for that loss falls to the broker, then the brokerage firm, and ultimately to the Exchange. This chain of responsibility protects the integrity of the futures trading system. For more details on margins see [Commodity Futures Markets: How They Work](#).

## Using the Canola Futures Contract

A producer who has sold canola futures, in other words, has a “short” futures position, has made a legal commitment. In other words, he has a right and an obligation which at some point must be honored. These are the ways that a farmer who holds a short canola futures position can satisfy that obligation:

1. A short futures position can be eliminated at any time by simply entering into an offsetting “buy” futures position through a RFCM for the same month of canola futures. This is the most common alternative for dealing with the obligation of the futures position. “Reversing” out of the short canola futures position could coincide with a physical sale of canola to complete a “textbook” futures hedge (See [Using Hedging to Protect Farm Product Prices](#));
2. The farmer could deliver physical canola against his “sell” futures position. However, there would be no advantage to doing so unless the total costs of delivering against the futures position are less than the basis level available in the regular cash market.

## Common Questions

1. **What is the smallest amount of volume required for a futures contract?**  
One canola futures contract is equal to 20 tonnes of canola. However, futures contracts trade often occurs in multiples of 100 tonnes. With the introduction of electronic trading, it should be easier to trade smaller lots of futures, such as 20 or 40 tonnes at a time. Some brokers dislike trading small volumes, but those who now directly enter the futures markets electronically should find it easier to handle a small volume order. Small lots, such as one to five contracts at a time, work well in a scale-up hedging program.
2. **Can canola futures be used to speculate on price?**  
Yes, speculators buy or sell canola futures in an attempt to take advantage of a price move. These speculators could be individual non-farm investors, representatives of trading companies, or producers. Speculators help to increase volume of trade, which is critical to the function of the futures market. The more trading there is, the easier it is for all participants to enter or exit a futures position.
3. **Is trading in the canola futures market risky?**  
Trading futures as a hedger, with an understanding of how a hedge works and how to interpret market signals such as the basis level, can be a valuable tool to use in crop marketing. When used in a hedging point of view, the futures market may be less risky than cash marketing. Having an understanding of this aspect of marketing, and having

access to the futures market, can provide more flexibility and potential in your marketing plan.

**4. What is the initial margin to hold a 20-tonne futures contract?**

On January 9, 2015 the initial margin for one 20-tonne canola contract was \$500.00. The standard maintenance margin, or amount required to continue to hold one open canola futures contract, on January 9, 2015 was \$500.00 for each 20 tonne contract.

## **Additional Information**

[Alberta Grain Council](#), Edmonton

Phone: 780-427-7329

[http://www1.agric.gov.ab.ca/\\$department/deptdocs.nsf/all/agc2620](http://www1.agric.gov.ab.ca/$department/deptdocs.nsf/all/agc2620)

[ICE Futures Canada](#)

850A Pembina Highway

Winnipeg, Manitoba, Canada

R3M 2M7

Phone: 204-925-5000

<https://www.theice.com/homepage.ihtml>

Business Hours: 08:00 a.m. to 04:00 p.m. CT, Monday through Friday (except Exchange designated holidays)

For more information about the content of this document, contact [Charlie Pearson](#).

This document is maintained by [Magda Beranek](#).

This information published to the web on September 8, 2004.

Last Reviewed/Revised on January 8, 2015.