

Spotlight On Barley

March 2016



In this month's newsletter, we focus on the market opportunity for barley and some basic production tips for malt barley specifically. Once again Ryan Denis will supply the market expertise.

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THE MARKET - *By Guest Ryan Denis*

Sticking with cereals, this month I wanted to shed some light on both feed and malt barley. When it comes to world production, barley stocks have remained fairly consistent over the past 3 years; we definitely haven't seen a surge in global stocks. Some in the trade will suggest that barley supplies are even in a "shortage". Now before you go on thinking that barley prices are bound to rally in 2016, take a quick look at some of the substitute crops, wheat and corn, that have a tremendous amount of global supplies available.

Recap

2015 was a very exciting year for barley with a large upswing in price due to the lack of precipitation in May and June. In March of 2015, feed barley was trading at \$3.85/bu picked up on farm or \$4/bu delivered for April. For those of you signing up 2015 malt barley production contracts, values were \$5.00 - \$5.25 with some type of Act of God clause.

In 2015 we saw a 10% increase in barley acres and a 7% increase in production even though Alberta saw a 10.5% decrease in yields due to dry conditions. Did you know that Alberta counts for approximately 50% of Canada's total barley production?

As spring planting neared completion the rain clouds failed to appear and we saw barley prices strengthen as anyone with cattle to feed battled for supplies. We did get lucky with some late rains in August that helped provide strong bushel weights and yields were better than anticipated in many areas.

"... Alberta counts for approximately 50% of Canada's total barley production"

The malt barley quality was very questionable with high chitted kernels and low germination - the culprits of many rejected samples.

Malt barley prices peaked around \$6.30/bu, and feed barley delivered locally peaked at \$4.75/bu with November 2015 delivery.

Currently, feed barley values have dropped slightly as winter continues to be mild and barley stocks are sufficient, \$4/bu at the bin comes and goes every few weeks.

For malt I know of one Line Company looking for Metcalfe but otherwise the demand needs have been met until fall 2016.

Looking ahead to 2016

As stated in last month's article, malt barley has continued to remain in my top 5 for gross margin return in 2016, unfortunately feed barley has consistently ranked in the bottom 3 (out of 13 crops), faba beans and flax have kept it company all winter.

So barley is setting up for a boom or bust type scenario. Here is how I would compare the 2 crops for 2016. I'll use current available values and a standard overhead of \$200/acre.

As you can see from my example below malt barley provides a 15% return on investment and feed barley pencils in a -3.75%.

Many producers are doing the math this winter, and with that I expect a significant increase in malt barley acres this

| | MALT BARLEY | FEED BARLEY |
|--------------------|--------------------|---------------------|
| YIELD | 70 | 82 |
| PRICE | \$5.50 | \$3.85 |
| NET REVENUE | \$385 | \$315.7 |
| SEED | \$22 | \$15 |
| FERT | \$60 | \$70 |
| CHEMICAL | \$40 | \$35 |
| CROP INS. | \$12 | \$8 |
| TOTAL FIXED | \$134 | \$128 |
| Gross Margin | \$251 | \$187.7 |
| PROFIT/LOSS | \$51/acre | -\$12.3/acre |

spring. Last year we saw a 10% increase, will we see that again? I am hearing reports of malt barley seed in a sold out position in southern Saskatchewan. And many seed cleaning plants are reporting a rise in cleaning barley this winter.

Crop Insurance

Spring insured prices were released a few weeks ago for Alberta producers and feed barley will be insured for \$3.86/bu while malt barley (new for 2016) comes in at \$6.01/bu. That's a spread of \$2.15/bu which is wider than we typically see. To qualify for the malt insurance, you will need to forward contract at least 40/mt of new crop production and you will NOT be able to grow a feed variety on the same farm in 2016. I have yet to see the methodology but your spring price endorsement should trigger at \$5.41/bu. With new crop values currently posted at \$5.50/bu I would strongly consider electing the SPE. (Of course, we should wait to see the formula by AAFC, before making the decision.)

“barley will be insured for \$3.86/bu while malt barley (new for 2016) comes in at \$6.01/bu”

- Increase in barley acres from U.S. growers
- Large global stocks in wheat and corn
- Mild winter resulting in less feed consumed

Bullish Factors

- Weather forecast calls for a dry spring
- Worldwide barley stocks are consistent
- Sub \$0.78 Canadian dollar projected for 2016

For anyone that's growing barley in 2016, I recommend making a significant sale today using some of the different contracts available to you. With acres on the rise and very good prices available I predict more downside pressure on prices unless we see a very dry spring. Did you know that some companies offer an act of god clause on up to 80.5/bu per acre? That means you can price up to 80/bu without any production risk.

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So how do I market my barley for 2016?

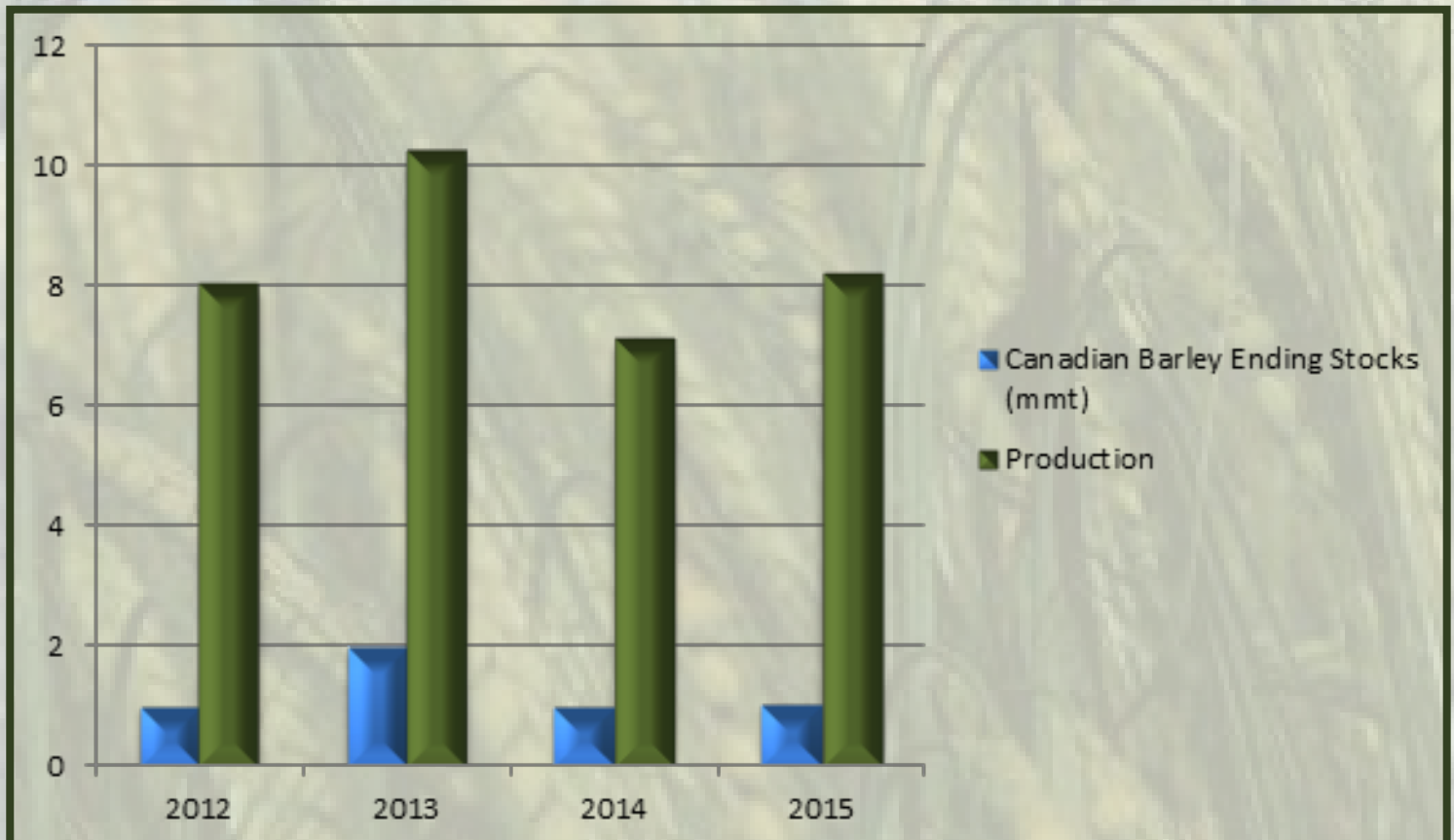
Bearish Factors

- Slightly higher ending stocks into fall 2016 for both Canada and the U.S.
- Increase in barley acres for Western Canada

New crop malt offers range from \$5.50 to \$5.75.

If you plan on dedicating some acres to feed barley for 2016, I would recommend selling 20% at \$3.95/bu picked up on farm for Sept/Oct if profitable for your farm.

This is a reaction to increased barley acres in general and historically a great starting point to make a sale.



“...the prices available to us today reflect a low Canadian dollar, below average malt quality from 2015 and the decreased yields we saw in Alberta last year”

In my opinion the prices available to us today reflect a low Canadian dollar, below average malt quality from 2015 and the decreased yields we saw in Alberta last year. If yields are average, many companies that I deal with on a day to day basis have the opinion that malt barley values could fall another \$.25/BU or \$.50/BU

by this fall. In the graph on page 2, Canadian barley ending stocks have remained consistent 3 out of the past 4 years. Last year's acre increase was offset by the decrease in yield.

Please feel free to contract me to discuss anything related to grain marketing. If you'd like to sit down over the next 6 weeks to review crop insurance strategies, my contact info is below.

Thanks

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THE AGRONOMY - By Wayne Sprurrill

Variety Selection

As with all commodities, the targeted market will have a major impact on what variety you choose to grow. While all malt houses are after the same general specs with regards to quality, different end users prefer different varieties. Knowing what products are in demand is the best place to start. Below is a chart by the Canadian Malt Barley Technical Centre outlining the market demand by variety.

If you don't want to be tied to a production contract, growing a variety with established demand makes the most sense. If gives the producer a larger market to sell into and the specs tend to be less stringent as the purchaser may be willing to blend production to make spec. If you want to try some of the other varieties on the list, it is likely best to use production contracts to maximize the chances of selling the barley as malt. As the vast majority of western Canadian malt production consists of 2 Row barley varieties, I didn't include the chart on 6 Row recommended varieties. It is available on the CMBTC website if you are looking for more information on those varieties.

Field Selection

Particular attention should be given to previous crops when choosing which fields are appropriate for malt. Cereal stubble can lead to issues with diseases, off-types of barley or volunteer cereals such as wheat, all of which can be grading factors. Pulse stubble is also not recommended, as it is harder to control protein in the malt barley as the nitrogen release the year following peas or faba beans is unpredictable. Many malt buyers make it known that the preferred rotation is barley following canola as it avoids diseases and grading issues from foreign material such as other cereals.

“...the preferred rotation is barley following canola”

Seeding

The target population for malt barley ranges from 20 to 24 plants/ft². The actual pounds per acre this converts to will depend on the thousand kernel weight, the row spacing of the equipment and the germination and anticipated seedling mortality of the seed being planted. When sourcing seed, it's usually a good idea to budget for at least 2 bushels per acre. Earlier seeded barley tends to produce higher yields and better quality. So does good seed. While research has shown that malt varieties maintain good quality for the first generation after certified, it quickly drops off in consistency after that.

| Two-Row Varieties | |
|-------------------|--|
| VARIETY | MARKET COMMENTS |
| CDC Copeland | Established Demand |
| AC Metcalfe | Established Demand |
| Bentley | Limited Demand |
| CDC Meredith | Limited Demand |
| CDC PolarStar | Limited Demand |
| Newdale | Limited Demand |
| Merit 57 | Limited Demand |
| CDC Kindersley | Under Commercial Market Development - Growing Demand |
| AAC Synergy | Under Commercial Market Development - Growing Demand |

Fertility

The key to successful malt production is controlling the protein. If protein gets out of the 11% to 12% range, it starts to impact the quality of the barley for beer making. In years where there is a lack of high quality barley being offered, maltsters can work with the higher protein barley, but if there is a good supply of low protein stocks, higher protein samples will not be selected. If malt is the primary focus of the barley production, it is suggested cutting nitrogen by about 20% and adding potash to the blend to maximize quality over quantity.

“The key to successful malt production is controlling the protein.”

Weeds

While there are many post emergent options available for both broadleaf and wild oat control, it is essential that your choices for weed control account for the growing issue of herbicide resistance. Ensure you are using herbicides of as many groups as possible in your rotation and that whenever possible you are tank mixing products that use different modes of action to kill the same weed. As pre-harvest spraying is not an option for malt barley, it is also important to have dealt with perennial weed issues in previous years and with winter annuals and other early emerging weeds with a pre-seed burn off.

“Seed treatments and fungicides can significantly enhance the yield and quality”

Diseases

Seed treatments and fungicides can significantly enhance the yield and quality in malt barley. Fields where the diseases are controlled tend to have more uniform, plump kernels and a higher selection rate. Because malt barley tends to be seeded early into cold soils, seed treatments are often used to control common root rot and take all. Leaf diseases such as scald and net blotch are best controlled by a fungicide application at the flag leaf stage. While there is research that shows later applications can still produce positive results, the best return on your dollar is to spray once the flag leaf has unfurled. In barley, the majority of the yield is determined by the health of the flag and penultimate leaves. Protecting those leaves ensures you the best possible yield. There have been efforts to market fungicide applications at herbicide timing over the past several years. While this is convenient, it is also almost never cost effective and this use is based more on marketing than on science.

Insects

You can expect the usual array of cereal insect pests to be a problem in barley. Wireworms and cutworms can often be a problem and grasshoppers, aphids and barley thrips can be an issue as the crop emerges and matures.

Harvest

Remember that there is absolutely no tolerance for glyphosate residue in malt barley, so pre-harvest is not an option in this crop. Malt is considered dry at 13.5% moisture, but if conditions warrant it, the crop is sometimes taken off when tougher to preserve quality. Straight cutting is the preferred harvest method, as standing crops are less prone to staining, bleaching, and chitting. It is also critical take good samples at harvest to ensure the sample you submit for malt selection matches what is actually in your bin.

Storage

When storing malt barley, cool it off as quickly as possible through effective aeration. Turning the bin throughout the winter can help to keep the temperature low, maintain germination levels and prevent insect damage. Proper storage is essential, as malt buyers need supply of product 12 months of the year and your contract may not be called until months after harvest.

I hope this article has provided food for thought for the upcoming crop season. If you are considering malt barley this year, consult with your local buyers to find out which varieties are favoured and what pricing and terms can be locked in. As always, if you have any questions or comments, please do not hesitate to contact either myself or Ryan.

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