

**THE ECONOMIC IMPACTS OF ELEVATED EXPORT BASIS LEVELS ON WESTERN
CANADIAN GRAIN PRODUCERS**

Update on 2014/15 Export Basis Levels to February 2015

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**A report submitted to the
Saskatchewan Wheat Development Commission**

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The methodology used to update the export basis calculations is identical to that utilized in the original study completed in November 2014.

Given the efficiency of futures markets, the current basis levels for nearby and future delivery months are the markets' best estimate of anticipated basis levels for the remainder of the crop year. The current export basis levels estimates are based on publically available producer prices and port prices. These per tonne basis levels are again compared to historical values based on maximum CGC filed tariffs to calculate the excess basis due to limited transport capacity.

One could calculate a few different export basis points that would be relevant for Saskatchewan producers. In most years, one could simply use the Minneapolis price as a benchmark. However, with the very large US crop, an ageing barge system, and a U.S. rail system taxed by high oil movement, Minneapolis wheat prices have fallen dramatically relative to U.S. export port prices. For this reason, Vancouver or West Coast port prices provide far better benchmark for the calculation of export basis. Wheat, as the largest volume crop exported, provides the most reliable estimate of grain export basis. Given the grain companies can choose which products that they will export, it is reasonable to assume that all grain being exported reflects similar basis levels. The average basis for the last two weeks of October, 2014 were assumed to be

representative of the export basis levels for the first part of the crop year. As can be seen in Table 2, this was a very stable period for both the FOB and inland wheat prices, so this estimated basis should be reasonably accurate. The updated prices for these same positions are provided in Table 2 for the period January 15 – February 6, 2015.

There are several public sources of FOB West coast wheat prices that are reported in Table 2. The USDA reports daily Portland Average FOB prices for 14% Dark Northern Spring Wheat. As shown in Table 2, the reported USDA prices for 14% DNS averaged \$336 USD /mt. Historically, 13.5% Canadian Western Red Spring (CWRS) Wheat is viewed as an equivalent product to DNS 14% and has sold at the same price levels. This year, because of wheat quality issues there is a significant protein premium spread. The other reported Portland FOB price is the one done weekly by the US Wheat Associates, which quote a 13.5% protein level for DNS. As shown in Table 2, they report an average \$356 USD/mt, which is somewhat higher than the USDA reported prices.

The only public source for Vancouver FOB prices is reported by AAFC in their weekly price summary, and they attribute the International Wheat Council as the source. The reported prices for #1 CWRS 13.5% are an average \$295 USD or \$332 CND/t for the two weekly respective reports in October 2014.

The significant discount of Vancouver versus Portland prices in the October data was somewhat unusual. While there was consensus there was spread in the FOB prices, the extent of the spread and the reasons for the spread were somewhat unclear. Some argued this is just an oddity in US reporting. Others argued that export buyers were not moving to higher volumes of Canadian purchases, even at lower Canadian prices, was due to the inherent risk of delayed delivery at Vancouver. Another plausible explanation, was that the existence of the high grain handling basis in Canada gives the grain marketing firms the ability to offer some discounts to the Portland prices to secure additional market share, whereas the American grain shippers face higher rail costs and are not in the position to offer similar discounts. If either of these last two explanations is correct, adequate capacity in the grain handling and transportation system (GHTS) would allow Vancouver prices to return to Portland price equivalency.

Public sources for the inland cash bids for CWRS wheat are also limited. While many grain companies have quotes available to producers, publication of these prices is not feasible given the requirements for confidentiality. The Saskatchewan Ministry of Agriculture provides a weekly estimate of bid prices for “CWRS” wheat, which averaged \$196 per tonne. Comparing this average to the average of the publicly posted Cash bids for #1 CWRS 13.5%, for delivery to North West Terminals Ltd. in Unity, Saskatchewan, which averaged \$197, showed they were at nearly identical quotations.

Table 2: Reported West Coast and Saskatchewan Wheat Prices

Source	Date/ Week	Location	Grade	Price	Price
				US\$/t	CDN\$/t
USWA	OctM31	Portland	13.5% DNS	356	400
USWA	OctM24	Portland	13.5% DNS	355	399
USWA	OctM17	Portland	13.5% DNS	357	402
USDA	OctM24	Portland	#2 14 DNS	335	376
USDA	OctM28	Portland	#2 14 DNS	338	377
		Portland	Average 13.5% DNS	356	400
		Portland	Average USDA 14%DN	336	377
AAFC/IWC	OctM24	W. Coast	#1 13.5 CWRS	295	331
AAFC/IWC	OctM17	W. Coast	#1 13.5% CWRS	296	333
		Vancouver	average	296	332
SMA	OctM22	Sask Ave Sask	#1 CWRS	194	218
SMA	OctM29	Average	#1 CWRS	198	220
NWTL	OctM17	Unity Sask	#1 13.5% CWRS	192	216
NWTL	OctM20	Unity Sask	#1 13.5% CWRS	190	215
NWTL	OctM22	Unity Sask	#1 13.5% CWRS	196	220
NWTL	OctM24	Unity Sask	#1 13.5% CWRS	192	215
NWTL	OctM27	Unity Sask	#1 13.5% CWRS	198	223
NWTL	OctM28	Unity Sask	#1 13.5% CWRS	200	223
NWTL	OctM30	Unity Sask	#1 13.5% CWRS	201	225
NWTL	OctM31	Unity Sask	#1 13.5% CWRS	203	229
		Unity Sask	Average all	196	220
		All Sask	SMA	196	219
		Unity-Sask	Ave NWTL	197	221

USWA - US Wheat Associates-Weekly Price Report, USDA- United States Department of Agriculture, AAFC - Agriculture and Agri-Food Canada - weekly price summary, Saskatchewan Ministry of Agriculture, NWTL - North West Terminal Limited (Unity, Sask)

The calculations of current export basis levels from the FOB port and inland cash bids reported in Table are reported in Table 3. To be conservative, the lower USDA reported FOB prices are used for Portland. In Canadian dollars, the October 2014 basis to **Portland** from Saskatchewan is **\$158/t** and the basis to **Vancouver** from Saskatchewan was **\$113/ t**. These basis levels are far

higher than the ten-year 2002/03-2012/13 crop year average of \$72.50 per tonne. The Portland basis was 217% of normal and the Vancouver prices were 145% of normal. The *excess* over the historical average basis levels is \$85/t (Portland) and \$40/t (Vancouver). These high basis levels reflect an expectation that some grain will be involuntarily carried over beyond the end of the crop year into the next shipping season.

Table 3: Average Reported Prices and Export Basis CWRS Wheat October 17 -31, 2014

	US\$/t	CDN\$/t
Location	Price	Price
Portland (USDA)	\$336.00	\$377.22
Vancouver	\$295.50	\$331.98
SMA Saskatchewan	\$195.94	\$219.00
	Basis	Basis
Portland- Sask.	\$140.06	\$158.22
Vancouver –Sask.	\$99.56	\$112.98
2002-2012 Average	\$64.86	\$72.50
	Excess Basis	Excess Basis
Portland- Sask.	\$75.20	\$85.72
Vancouver –Sask.	\$34.70	\$40.48

Source : Calculated from Table 2.

The Jan/Feb 2015 data in Table 4 illustrate that the U.S. PNW price has declined significantly since October, 2014, going from \$336 US/mt to \$279 US/mt.¹ Despite this significant decline in the US PNW price, the price for 1 CWRS 13.5% protein FOB Vancouver in Canadian dollars has remained relatively constant, and is in fact \$2/mt higher than in October, going from approximately \$332/mt to \$334.46/mt. This likely reflects the return to a more historic relationship of relative parity of prices between the Portland and Vancouver prices and the significant devaluation in the Canadian dollar since October. Of interest, however, is that while the export price for Canadian wheat FOB Vancouver has remained relatively constant to slightly

¹ These somewhat lower FOB prices are reflected in the cash bids for #1 14% DNS at Walla Walla Washington which are \$8.24 or \$301.66 US/mt (<http://nwgrgr.com/>)

higher between Oct., 2014 and Feb., 2015, the primary elevator price to producers in Saskatchewan has declined from \$219/mt to 199.70/mt – a decline of \$19.30/mt.

The export basis between the FOB Vancouver export price and the Saskatchewan elevator price has increased from \$112.98/mt to \$134.76/mt since Oct. 2014. When evaluated against the \$72.50/mt 2002/03 -2012/13 average basis, this export basis in Feb., 2015 represents an excess export basis of \$62.26/mt which is an increase of \$21.78/mt since Oct. 2014.

This widened export basis demonstrates the within crop year impact of the constrained handling and transportation capacity on producer returns relative to the export market. The situations reflects a deterioration of producers expectations to market their grain in this crop year.

Calculations of the aggregate losses for producers over the course of the 2014/15 crop year will have to be re-evaluated as the year progresses, as the previous November, 2014 estimate of \$2.0 billion could prove to be a very significant underestimate.

Table 4: Reported West Coast and Saskatchewan Wheat Prices for Jan 15 – Feb 6 2015

Source	Date/ Week	Location	Grade	Price US\$/t	Price CDN\$/t
USWA	Feb-06	Portland	13.5% DNS	269.00	336.87
USWA	Jan-31	Portland	13.5% DNS	262.00	328.16
USWA	Jan-23	Portland	13.5% DNS	289.00	353.74
USWA	Jan-16	Portland	#2 14 DNS	296.00	353.75
		Portland	Average 13.5% DNS	279.00	343.13
AAFC/IWC	Jan-30	W. Coast	#1 13.5 CWRS	267.31	334.80
AAFC/IWC	Jan-23	W. Coast	#1 13.5% CWRS	276.72	338.70
AAFC/IWC	Jan-16	W. Coast	#1 13.5% CWRS	276.02	329.87
		Vancouver	average	273.35	334.46
SMA	Feb-04	Sask Ave	#1 CWRS	163.46	204.70
SMA	Jan-31	Sask Average	#1 CWRS	154.52	193.54
SMA	Jan-24	Sask Ave.	#1 CWRS	164.10	200.86
NWTL	Feb-06	Unity Sask	#1 13.5% CWRS	172.82	216.42
NWTL	Jan-30	Unity Sask	#1 13.5% CWRS	169.21	211.94
NWTL	Jan-23	Unity Sask	#1 13.5% CWRS	174.41	213.48
NWTL	Jan-16	Unity Sask	#1 13.5% CWRS	169.56	202.64

Unity Sask	NWTL Ave	171.50	211.12
All Sask	SMA	160.69	199.70
Unity-Sask	Average all	166.87	206.23

Table 5: Average Reported Price Estimates Jan 15-Feb 6 2015

	US\$/t	CDN\$/t
Location	Price	Price
Portland (USWA)	\$279.00	\$343.13
Vancouver	\$273.35	\$334.46
SMA Saskatchewan	\$160.69	\$199.70
	Basis	Basis
Portland- Sask.	\$118.31	\$143.43
Vancouver –Sask.	\$112.65	\$134.76
2002-2012 Average	\$ 64.86	\$72.50
	Excess Basis	Excess Basis
Portland- Sask.	\$53.45	\$70.93
Vancouver –Sask.	\$47.79	\$62.26

Additional Price Information:

It is very important that farmers continue to monitor the export basis situation. Some of the pertinent prices, which are updated on a regular basis can be found via the following links.

US Associate’s Weekly Price Reports of average FOB Portland Grain Prices <http://www.uswheat.org/prices>

The United States Department of Agriculture (USDA) daily FOB Portland Grain Prices: http://www.ams.usda.gov/mnreports/jo_gr111.txt

The Agriculture and Agri-Food Canada (AAFC) Weekly Price Summary FOB Vancouver Grain Prices: <http://www.agr.gc.ca/eng/industry-markets-and-trade/statistics-and-market-information/by-product-sector/crops/crops-market-information-canadian-industry/weekly-price-summary/?id=1378745200250>

The Saskatchewan Minister of Agriculture Market Trends Cash bids for grain: <http://agriculture.gov.sk.ca/MarketTrends>

North West Terminal Limited NWT Cash Bids #1 13.5% CWRS, Unity Sask: <http://www.northwestterminal.com>