

# Wheat Market Outlook and Price Report: January 23, 2017

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## i) Background and Rationale for the Report

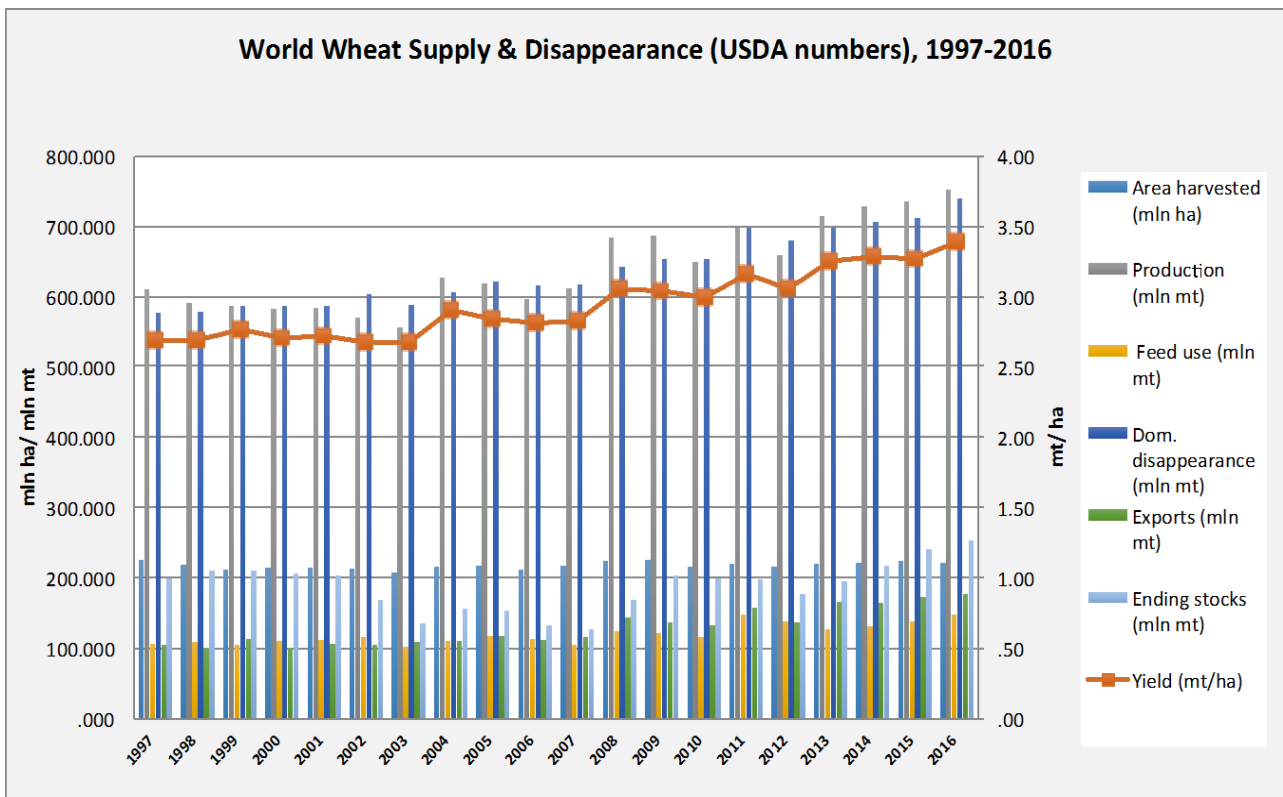
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various Saskatchewan locations (Table 1), grain spreads (Table 2), and FOB port prices and basis (as measured by subtracting the primary elevator price (Rosetown) from the relevant port location price for individual crops) (Table 3). Table 3 is preceded by a description of the various assumptions, definitions and methodology used in arriving at the FOB port prices and in the export basis calculation.

## ii) Wheat Market Outlook Jan. 23, 2017

### 2016/'17 World Wheat Overview:

- **Area, Production, Use (feed & domestic disappearance), Exports, Ending stocks, Yields (1997-2016)**



➤ **Ending Stocks:**

**Wheat Ending Stock Changes for 2016/17, as of January 2017**



Source: USDA, Foreign Agricultural Service, Production, Supply, and Distribution online database.

**Global wheat and trade:**

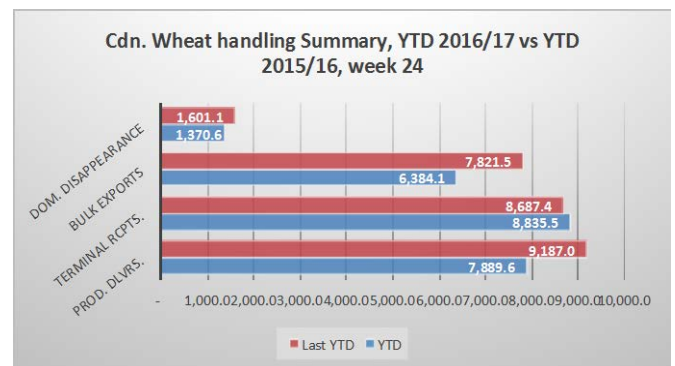
Below is a brief synopsis on this week's market events in the major wheat origins.

**Canadian wheat:**

- The week 24 CGC report shows that Canadian wheat exports lag last year's by 1.44 million mt or 18%. Durum exports as of week 24 lag last year's by 215k mt or 10%.

**US wheat:**

- **EU wheat:** Soft wheat shipments were just 174k mt (following another habitual 300k mt adjustment to the previous week's figures), leaving the season total 13.6 million mt down 3% on last year, whilst the all wheat total is down 2%.



### Russia:

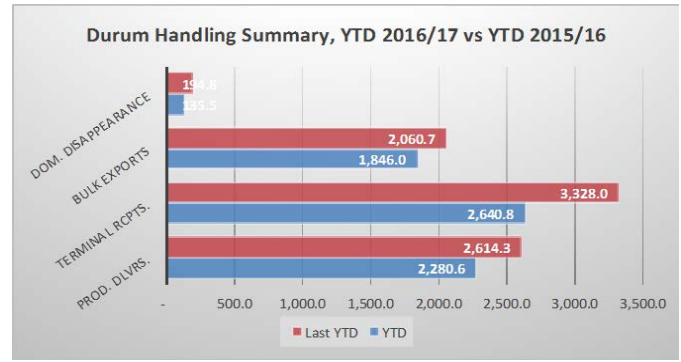
- The Black Sea market was also quiet but steady with the bid-offer on Russian 12.5 pro at US\$183-185/mt, and the inverse on the deferred positions is getting smaller as the trade realises the extent of the discount against other origins of comparable quality.
- The 11.5 pro discount was in to just \$2/mt, Russian feed in the Baltic was reported offered at US\$161/mt against Black Sea bid offer at US\$171-175/mt.

**Australia:** There is no change on FOB values.

### Argentina:

The Buenos Aires Grain Exchange (BAGE) put the Argentine harvest at 100% complete and maintained their crop estimate at 15 million mt, *up 39% on last year*. FOB prices were unchanged, and the domestic market saw a little more activity despite buyers maintaining unchanged levels of US\$165/mt for Feb-Mar and US\$170/mt for July. Argentine farmer sales of new crop stand at 6 million mt (of which 5.7 million mt are held by exporters), which is way above last year's 2 million mt.

- **Egypt** tendered twice over the past week; they bought 235k mt of Romanian and Russian wheat over the weekend at ~ US\$200/mt delivered. On Friday, they purchased another 60k mt Ukrainian wheat at around US\$201/mt delivered Egypt. - US prices have risen sharply over the past month while world prices have barely moved, and North American export competitiveness has dropped as a result, so no North American wheat was bought by Egypt.
- **Morocco:** Morocco awarded 359,998 mt of imports for US soft wheat under a preferential tariff quota, but they received no offers for 327,273 mt of US durum wheat. (No Canadian wheat offered).
- The **Philippines** bought for 165k mt of feed wheat.
- **Indonesia** is now talking of zero feed wheat imports, versus 2 million mt last year.



### Wheat Market Outlook:

- Significant events this past week:
  - **Futures:** Wheat futures are trading mixed from a couple cents lower to half a cent higher this Monday morning. Wheat futures finished mixed last Friday, with both Chicago (CBOT) and Kansas City (KC) futures higher, while Minneapolis (MPLS) March wheat contracts were 8 cents lower. Both KC and MPLS fell 6 and 14 1/4 cents on the week respectively, as CBOT rose slightly higher by 2 cents.
  - **US wheat:** The spring wheat market of Minneapolis showed the most volatility last week as elevators switched their basis from the March contract to the May contract, about a month ahead of normal. The large inverse in March quickly faded with a large outside day lower on the futures. Minneapolis has been strong against the winter wheat markets because of the restricted supply of high-quality milling wheat, and that situation will only get tighter as we move into spring. Weather during the next growing season is going to determine the direction for new crop wheat.
  - At the same time, US prices have risen sharply over the past month while world prices have barely moved, so North American export competitiveness has dropped as a result. [See Egypt/ PASC tender results above]. US HRW now is the *world's most expensive wheat*; this pushed the market lower late week because poor export sales again showed the extent to which the US needs to keep demand.

- **US Weekly Export Sales Report:** USDA reported 242,517 mt for 16/17 US weekly export sales last week, with 60,500 mt for the 17/18 marketing year (MY). Those were on the low side of expectations. *Sales for the current MY to date are up 32% vs. last year.*
- **Argentine** wheat is *the world's cheapest wheat* at US\$180/mt FOB for 12% protein. Premiums for Argentine 12.5% protein wheat are US\$6-7/mt, while discounts for 11.5% protein wheat amount to US\$3-4/mt. Argentine will essentially trade to Mercosur destinations in South America.
- Outside South America, **Russian** wheat remains the cheapest quality wheat at US\$183/mt for 12.5% protein. Fortunately Russian farmers are firm holders of wheat at the moment, so the market should not break lower.
- **Canada:** There is discussion that Canada's farmers are planning to increase canola acres at the expense of spring wheat; this is becoming a concern for the quality wheat market.
- **Funds:** We had a big week of buying again by Index Funds, they bought 5.5 million mt of commodities, of which 2.2 million mt was wheat. Index Funds now own 23.2 million mt of wheat. Spec Funds bought 11 million mt of commodities and are now net long 5.4 million mt. What was surprising is that the Specs did not cover in more of their wheat short but actually sold ~1 over the past 10 days.

➤ **Outlook:**

- Wheat fundamentals are still overall bearish to neutral at best. However, the restricted supply of high quality wheat will still represent opportunities for that class of wheat.
  - There is plenty of wheat
  - But US new crop S&D is smaller by low winter plantings
  - Less than exceptional demand for now
  - No serious crop concerns
  - At the same time, spring wheat values have gained a lot of ground since mid-November '16. Dark Northern Spring wheat values in the Pacific Northwest in the US (PNW) are showing very good values, which eventually should generate decent values at the Canadian farm level as well.

Forward cash markets will be driven by:

- The question if the Spec Funds cover in more of their wheat shorts.
- Possibility of continued weather events in Argentina.
- Potential seasonal weakness towards the spring as Europe gears up for the next crop: We hear similar acreage numbers in Europe and the Black Sea as last year for the next crop and the conditions are fairly decent right now.
- U.S. wheat inventories by the end of the 2016/17 crop year are still poised to sit at 1.19B bushels, the most in nearly 30 years.
- US prices have risen sharply over the past month while world prices have barely moved, so North American export competitiveness has dropped as a result.
- Overall wheat still has inventory levels that are almost double the 590 million bushels that were available when we had the best prices in years in 2013/14, and the global carryout is also significantly higher.

- US exports have been strong in the first months of the season. But the still-strong US dollar and ample wheat supplies in all major wheat-exporting countries are expected to slow down the US pace of exports. A special challenge is coming from Argentina, which has become the most competitive wheat supplier and is gaining market share.
- **Hard wheat values have improved significantly over the past 2 months. This should generate decent values at the farm level as well. We do not expect the markets to rally much further on old crop wheat and corn, and this suggests producers should look at pricing out some protein wheat over the next while. Feed grains in Canada are too cheap at present.**

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT

Date: January 23, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr. '17 (bu.)	Apr.'17 (mt)
<b>1 CWRS 13.5</b>	\$6.46	\$237.37	<b>1 CWRS 13.5</b>	\$6.71	\$246.55
<b>1 CWAD 13.0</b>	\$7.85	\$288.44	<b>1 CWAD 13.0</b>	\$8.07	\$296.52
<b>1 CPSR 11.5</b>	n/s	n/a	<b>1 CPSR 11.5</b>	n/a	n/a
SW Sask			SW Sask		
<b>1 CWRS 13.5</b>	\$6.54	\$240.31	<b>1 CWRS 13.5</b>	\$6.70	\$246.18
<b>1 CWAD 13.0</b>	\$7.87	\$289.18	<b>1 CWAD 13.0</b>	\$8.04	\$295.42
<b>1 CPSR 11.5</b>	n/a	n/a	<b>1 CPSR 11.5</b>	n/a	n/a
NE Sask			NE Sask		
<b>1 CWRS 13.5</b>	\$6.33	\$232.59	<b>1 CWRS 13.5</b>	\$6.56	\$241.04
<b>1 CWAD 13.0</b>	\$7.61	\$279.62	<b>1 CWAD 13.0</b>	\$7.76	\$285.13
<b>1 CPSR 11.5</b>	n/a	n/a	<b>1 CPSR 11.5</b>	n/a	n/a
SE Sask			SE Sask		
<b>1 CWRS 13.5</b>	\$6.36	\$233.69	<b>1 CWRS 13.5</b>	\$6.57	\$241.41
<b>1 CWAD 13.0</b>	\$7.76	\$285.13	<b>1 CWAD 13.0</b>	\$7.82	\$287.34
<b>1 CPSR 11.5</b>	n/a	n/a	<b>1 CPSR 11.5</b>	n/a	n/a

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.20)	(7.35)
<b>1 CWRS 12.5</b>	(0.37)	(13.60)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.03	1.10
<b>2 CWAD 13.0</b>	(0.79)	(29.03)
<b>2 CWAD 12.5</b>	(0.97)	(35.64)

#### **iv) FOB Wheat Prices and Export Basis Calculation**

##### Background and Rationale:

Reporting FOB prices at port position and primary elevator prices allows the reader to gain an understanding of both local and international wheat prices and to understand the relationship between the two, as measured by the export basis. Export basis can be defined as FOB port position prices minus the primary elevator prices at any given prairie delivery location, and is therefore reflective of transportation costs plus any premiums being captured by terminal grain elevator companies or the railway companies, at any given time.

In general, a widening basis is indicative of decreasing system performance in terms of either reduced port capacity or rail service, or both. A narrowing basis is indicative of increased available port capacity and/or better ability of the railways to provide ample service to grain shippers. In this regard, tracking these prices over time has value both in terms of producers being able to time the selling of their grain but also in terms of evaluating and setting policy related to various transportation and capacity issues.

Gray (2015) has calculated a normal basis to be in the range of C\$72/tonne. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/tonne, which indicated an inability of the grain handling and transportation system to adequately handle the record crop produced that year. This occurrence has highlighted the need to improve the level of rail service and take measures to expand port capacity where possible. It has also underscored the need for better price transparency and market information within the grain sector.

##### Assumptions, Definitions, and Methodology

The following background information should assist in understanding and interpreting international market signals and to relate them to the 'local' Saskatchewan wheat market:

- The price information generated for the weekly report is designed to show farmers at what price levels several wheat classes are trading at local primary elevators (Table 1) and in nearby international markets (Table 3). To express the Export Basis<sup>1</sup> (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, Saskatchewan (see *Street Prices* in Table 3). Rosetown is used as a proxy for all primary elevators in the basis calculation. The actual handling and transportation costs from the West Coast to delivered elevator (Rosetown area) range from ~C\$58.00-C\$74.72/mt, depending on number of cars moved and elevator used.
  
- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
  - DNS 14% in the Pacific North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
  - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver
  - HRW in the Pacific North West (PNW) ≈ 3 CWRS in Vancouver
  - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)

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<sup>1</sup> Gray, R.S. (2015). The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers 2012/13, 2013/14 and 2014/15.

"The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to producers is referred to as export basis: Basis can refer to the difference between any two prices. As the largest volume port, Vancouver FOB, minus the elevator bid prices representative measure of the "export" basis for grains in Western Canada."

- HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)
  - Abbreviations: DNS (Dark Northern Spring Wheat); HRS (Hard Red Spring Wheat); HRW (Hard Red Winter Wheat); SW (Soft Wheat); HAD (Hard Amber Durum Wheat); CWRS (Canadian Western Red Spring Wheat); CPS (Canada Prairie Spring Wheat); CWAD (Canadian Western Amber Durum Wheat)
  
- Hard wheat price calculations:  
 Exporters in Western Canada generally derive their primary elevator wheat prices from HRS values at the West Coast (Pacific Northwest - PNW). Similarly, HRW values are used for lower grade (3) CWRS.
  - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.
  - If premiums are paid for 1 CWRS 13.5, elevator companies are often able to retain the premium
  
- Durum wheat price calculations:  
 The primary export route for Canadian durum wheat is still through Thunder Bay, not the West Coast of Canada.
  - Nevertheless, the Pacific Coast has increased in importance for durum over time with 38% of total export volume crop year to date.
  - Italy is the single biggest buyer of Canadian durum wheat with 27% of total Canadian durum exports YTD (East Coast shipments).
  
- Optional origin grain sales:  
 Most major international grain companies sell 'optional origin' wheat to their customers and often cover their sales 'at best' closer to the shipment position. The Canadian grain system is not conducive to servicing optional origin sales because the volume of wheat kept in storage in port today is much smaller than prior to deregulation of the Canadian wheat market.

**Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT**

Relevant FOB Prices and Export Basis				Jan. 23, 2017
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$346.52	\$314.26		
HRS	\$339.19			
HRW 11.5	\$265.39			
SWW 12.0	\$231.67			
1 CWRS 13.5 <sup>3</sup>	\$346.52		\$230.02	\$116.50
2 CWRS 13.0 <sup>3</sup>	\$339.19		\$209.44	\$129.75
3 CWRS <sup>3</sup>	\$265.39		\$204.66	\$60.73
CPS <sup>3</sup>	\$224.82		\$164.98	\$59.84
1 CWAD <sup>4</sup>		\$408.10	\$286.97	\$121.13
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)		\$184.00		
French 11.0 (Rouen)		\$190.89		
ASW 10.5 (W Coast) Jan.		\$190.00		
Argentine 12.0		\$175-\$180.00		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB



## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					Jan. 23, 2017
<b>Canadian Funds</b>					
<b>PNW value/Vancouver</b>	<b>1CWRS13.5</b>	<b>2CWRS</b>	<b>Grade 3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>Dec./Jan. delivery</b>	\$9.24	\$9.04	\$7.04	\$6.12	\$6.12
<b>Parity Track Rosetown</b>	\$7.75	\$7.55	\$5.54	\$4.62	\$4.62
<b>Track Bid Rosetown Area</b>	\$6.26	\$5.70	\$5.57	\$4.49	\$4.49
<b>Gross Margin at Elevator (\$/bu)*</b>	\$1.49	\$1.85	-\$0.03	\$0.13	\$0.13
<b>Gross Margin at Elevator (\$/mt)*</b>	\$54.68	\$67.92	-\$1.10	\$4.86	\$4.86

\* to cover elevation, elevator market risk, margin