Wheat Market Outlook and Price Report: January 30, 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.

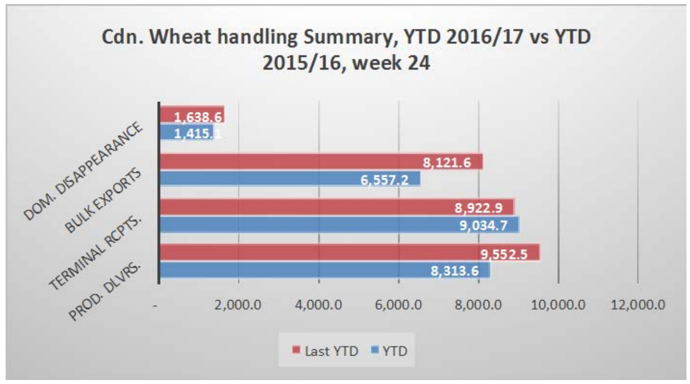
ii) Wheat Market Outlook Jan. 23, 2017

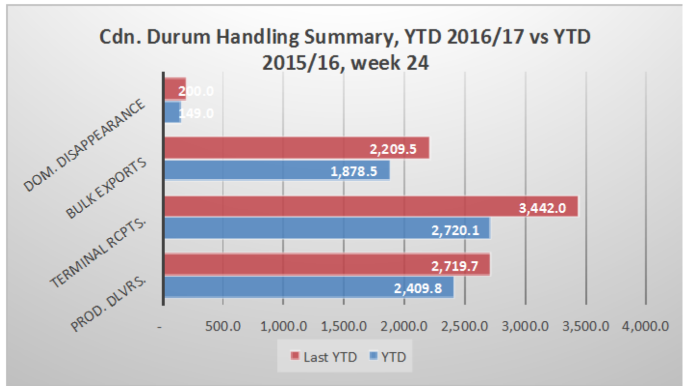
- **International Grains Council:**
  - **Latest World Wheat Production, Trade, Consumption and Carryover numbers:**

	13/14	14/15	15/16 est.	16/17 forecast	
WHEAT				24.11	19.01
Production	716	730	736	749	752
Trade	157	153	164	166	168
Consumption	698	715	720	736	738
Carryover stocks	190	205	221	235	235

Global wheat and trade:
Below is a brief synopsis on tis week's market events in the major wheat origins.

Canadian wheat:





- During week 25, Canada loaded 145,600 mt of wheat for export shipments. Wheat exports are at 81% of last year's volume to date.
- During the same week, Canada also loaded 79,400 mt of durum wheat for export. Durum exports are at 81% of last year's volume to date.
- **US wheat:** US wheat futures fell 8¢ in a week of mixed news. The US$ was choppy on:
  - conflicting commentaries from the new US administration,
  - talk of more significant HRS acreage losses in favour of beans,
  - on a mix of better economics
  - the largest North Dakota winter snow pack since 1997.
- Weekly US wheat shipments were poor, but *sales were well above trade guesses despite US wheat maintaining big premiums to comparable origins*.
- US wheat sales show a season total of 824 million bushels, *up 34% against USDA's 26% forecast*.
- **Japan's** Agriculture Ministry reported that 60,610 mt of US wheat were purchased at the weekly tender.
- **EU wheat:** EU wheat futures were mixed with Matif unchanged, but the CME was up €8, a 12-week high. This is taking the March-September inverse to €13/ mt against a €1 carry on Matif.
- **Russia:** GASC (**Egypt**) bought a big 410k mt of Russian wheat at an average price of US$204/mt C&F for 1-10 March '17 shipment.
- *The prospect of shipping seven cargoes of wheat in just a 10-day period had Russian farmers raising their price expectations*, especially in view of next week's cold shot in southern Russia.
- **Black Sea** wheat firmed by US$3/mt over the week on the firm Russian Ruble, logistics and limited farmer selling.
- **Israel** bought feed wheat at US$180.50/mt.
- **Argentina**: In Argentina, the government raised its acreage estimate by 110,000 ha to 5.34 million ha and raised production by 800k mt to 16.5 million mt, well above both Rosario and BAGE estimates at 15 million mt.
- However, the market seemed sceptical because 12 protein wheat offers actually increased by US$5/mt to US$185/mt. The discount for 11.5 protein wheat is still around a $5/mt, 10.5 protein wheat is priced another $5 less, whilst 12.5 protein wheat was $5-8/mt higher.
- The market is struggling to reconcile official Argentine figures on farmer sales, export licences and shipments: The data shows exporters bought just 7.4 million mt of the 2015/16 crop, but shipped 8.8 million mt, whilst Government data shows zero new crop shipments last week, which suggested another mix-up between new crop wheat and old crop licences.

Wheat Market Outlook:

- Significant events this past week:
  - **Futures:** Wheat futures closed the week lower at all three exchanges. Minneapolis futures were lower by 6 3/4 cents in the March '17contract. Kansas City futures were 6 cents lower in most contracts, and Chicago futures were mostly 6 cents lower. All three contracts were down 7 3/4 to 8 3/4 cents from Friday to Friday.
  - **US wheat**: Aside from some snow in the far northern Plains, the US looks totally dry this week with temps generally near/above normal.
  - US wheat is maintaining big premiums to comparable origins.
  - The US traders had a big week of sales. In fact, it was a weekly record for the crop year. It was the largest single sales week since July 2013.
  - *The market will watch sales levels next week to see if sales stay high. Exports are on pace with USDA forecasts. Buyers are still looking for HRW & HRS wheat, and to a lesser extent for SRW*.
  - **EU:** With little new business on the horizon, EU cash premiums were largely unchanged.
  - **Argentina**: Argentina was warm and dry over the weekend whilst rain continued over center-north Brazil, leaving the south and NE dry. The week ahead shows little model agreement over Argentina with the GFS model considerably wetter than the European model, and it also maintains above normal precipitation across much of Brazil which will continue to cause bean harvest delays and knock-on problems for Safrinha plantings.
  - **Europe & Russia**: The cold, sub-zero readings will be pushed completely out of the EU this week and major warming will continue into the middle of February. The one potential trouble spot lies in southern Russia, where mean temperatures are set to drop to -10/-20°C with only patchy snow cover.
  - **Russia**: Customs data put Russian wheat exports for July through December '16 at 15.7 million mt against 14.9 million mt last year. But the pace is slowing and USDA's 29 million mt annual forecast number looks too high. For now, Russian farmers seem untroubled about the idea of carrying around 15 million mt of wheat stocks into new crop (versus 5 million mt last year).
  - **Ukraine**: Reports about alternate thaw/freeze cycles the wheat areas of Ukraine caused no market reaction, although this could potentially become a significant threat to crops. Ostensibly this cycle harms the roots and when the plant starts developing it is very weak.
  - **Iraq** returns Feb 5th for US, Canadian and/or Aussie wheat.
  - **Funds**: Index Funds sold 400k mt of wheat; their net wheat position is long 22.8 million mt. Spec Funds bought 300k mt of wheat; their net wheat position currently is short 10.9 million mt. Interestingly, Spec Funds bought almost 8 million mt of corn last week. Spec Funds have gone from a roughly 20 million mt short four weeks ago to an 11 million mt short this week.

- *Outlook:*
  - Several main points determine the markets:
    - There is plenty of wheat, so there are no supply issues in the market
    - North America has buffer stocks
    - South America needs to find additional markets for their bigger crop
    - Russian farmers seem more willing to carry wheat than anticipated

Forward cash markets will be driven by:

- Possibility of continued waether events in Argentina
- Both Soft Red Winter wheat and MATIF wheat have broken their upward trends
- According to wire service stories, a cold spell over the next week in Russia could put 700,000 to 900,000 hectares (1.73-2.22 million acres) in jeopardy of winterkill, because there is little snow cover.

- **Demand growth does not seem to be matching supply growth, and the wheat market needs to continue to price out additional acreage.**
- **Nevertheless, *wheat buyers are still looking to purchase HRW & HRS wheat, and to a lesser extent for SRW*.**

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 30, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr. '17 (bu.)	Apr.'17 (mt)
1 CWRS 13.5	$6.33	$232.59	1 CWRS 13.5	$6.58	$241.78
1 CWAD 13.0	$7.70	$282.93	1 CWAD 13.0	$7.61	$279.62
1 CPSR 11.5	$4.46	$163.88	1 CPSR 11.5	$4.76	$174.90
SW Sask			SW Sask		
1 CWRS 13.5	$6.34	$232.96	1 CWRS 13.5	$6.52	$239.57
1 CWAD 13.0	$7.68	$282.19	1 CWAD 13.0	$7.84	$288.07
1 CPSR 11.5	$4.35	$159.84	1 CPSR 11.5	$4.66	$171.23
NE Sask			NE Sask		
1 CWRS 13.5	$6.18	$227.08	1 CWRS 13.5	$6.42	$235.90
1 CWAD 13.0	$7.36	$270.44	1 CWAD 13.0	$7.51	$275.95
1 CPSR 11.5	$4.20	$154.32	1 CPSR 11.5	$4.54	$166.82
SE Sask			SE Sask		
1 CWRS 13.5	$6.20	$227.81	1 CWRS 13.5	$6.40	$235.16
1 CWAD 13.0	$7.42	$272.64	1 CWAD 13.0	$7.58	$278.52
1 CPSR 11.5	$4.51	$165.72	1 CPSR 11.5	$4.51	$165.72

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

Avg. Grade Spread/ Pro Discounts	Cdn$/bu.	Cdn.$/mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.20)	(7.35)
1 CWRS 12.5	(0.37)	(13.60)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.03	1.10
2 CWAD 13.0	(0.79)	(29.03)
2 CWAD 12.5	(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[1] (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)

[1] 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)

➢ <u>Hard wheat price calculations:</u>
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).

➢ <u>Optional origin grain sales</u>:
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

Releveant FOB Prices and Export Basis				Jan. 30, 2017
	FOB Prices CDA[1] (calculated)		Street Prices	Export Basis[2]
Type of Wheat	West Coast (Cdn./mt$)	Great Lakes (Cdn.$/mt)	Rosetown (Cdn.$/mt)	Basis: West Coast-Centr. SK (Cdn$/mt)
DNS 14.0	$336.75	$305.48		
HRS	$333.38			
HRW 11.5	$254.49			
SWW 12.0	$229.47			
1 CWRS 13.5[3]	$336.75		$225.24	$111.51
2 CWRS 13.0[3]	$333.38		$204.66	$128.72
3 CWRS[3]	$254.49		$199.52	$54.97
CPS[3]	$222.73		$156.90	$65.84
1 CWAD[4]		$401.69	$277.78	$123.91
Competing wheat:	US$/mt			
Russia 12.5 (Black Sea, 25k mt)	$187.00			
French 11.0 (Rouen)	$190.36			
ASW 10.5 (W Coast) Jan.	$190.00			
Argentine 12.0	$178-$185.00			

[1] FOB Prices CDA = FOB US$ converted into Canadian Currency

[2] Export Basis = FOB Prices CDA minus Cdn. Street Price

[3] DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

[4] Values derived to Lakehead FOB

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ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					Jan. 30, 2017
Canadian Funds			**Grade**		
PNW value/Vancouver	**1CWRS13.5**	**2CWRS**	**3CWRS**	**Winter wht.**	**CPS**
Dec./Jan. delivery	$8.98	$8.89	$6.74	$6.06	$6.06
Parity Track Rosetown	$7.48	$7.39	$5.25	$4.57	$4.57
Track Bid Rosetown Area	$6.13	$5.57	$5.43	$4.27	$4.27
Gross Margin at Elevator ($/bu)*	**$1.35**	**$1.82**	**-$0.18**	**$0.30**	**$0.30**
Gross Margin at Elevator ($/mt)*	**$49.79**	**$67.00**	**-$6.75**	**$10.85**	**$10.85**

* to cover elevation, elevator market risk, margin