

Wheat Market Outlook and Price Report: March 28, 2017

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**i) Background and Rationale for the Report**

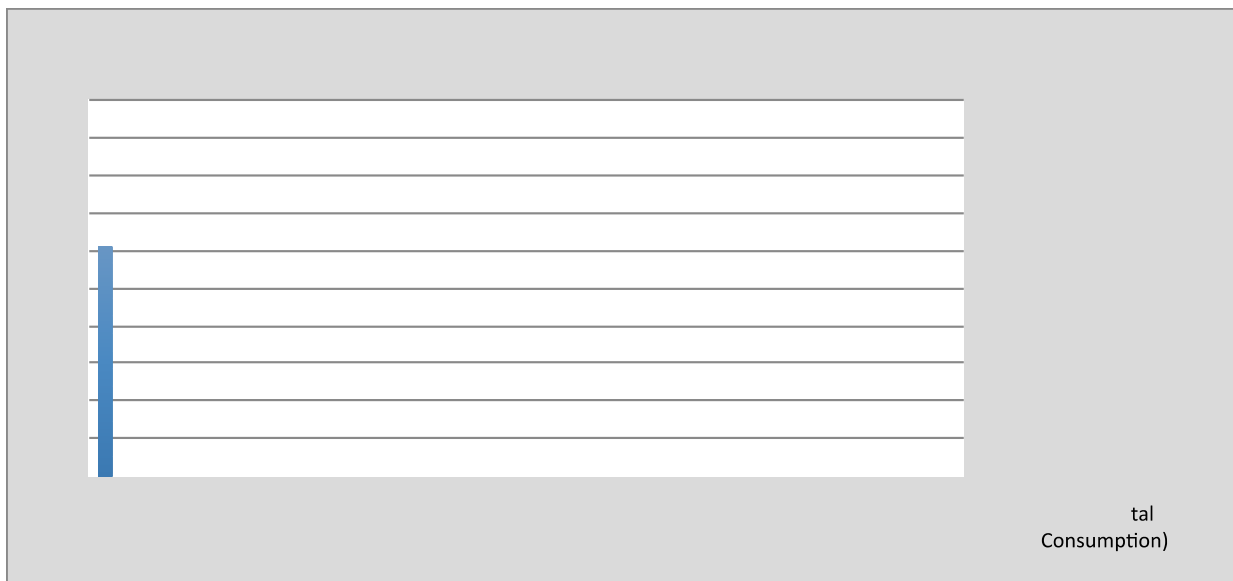
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 March 27, 2017**

**2016/'17 World Wheat Overview**

➤ **International Grains Council (ICG) world wheat numbers:**



- There are no major changes to report on for the ongoing crop year.

For the **2017/187 crop year**, ICG wheat projections are for

- World wheat **production** to drop by 15 million mt to 733 million mt
- World wheat **consumption** to drop by 2 million mt to 734 million mt
- World wheat **trade** to drop by 6 million mt to 161 million mt
- World wheat **ending stocks** to drop by 1 million mt to 232 million mt

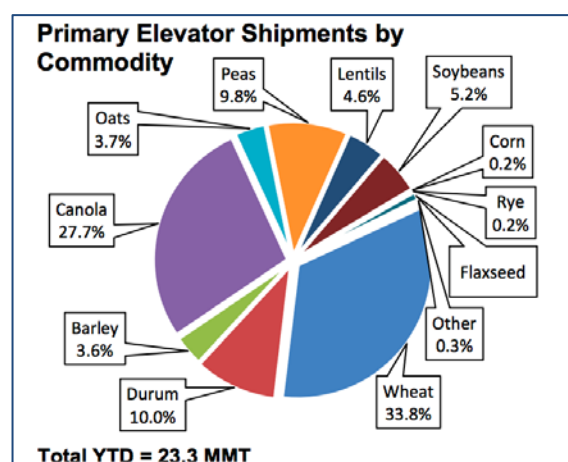
- The next important report to watch is the USDA 2017 acreage report on March 31, 2017

## Global wheat and trade:

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

### Canadian wheat:

- *Canadian wheat exports* during shipping week 33 were good again. They amounted to 238k mt for the week and to 8.4 million mt year-to-date. This is 18% or 1.9 million mt lower than last year-to-date.
- It will be very difficult to catch up on Canadian wheat exports with new crop European wheat starting to come on stream within only 3-4 months.
- *Durum exports* during week 33 amounted to 71k mt and 2.6 million mt year-to-date. This is 14% or 438k mt lower than last year-to-date.



- **Japan** seeks to buy 117,689 mt of wheat from the U.S., Australia and Canada. Specifically, from the U.S. it seeks 28,500 mt of hard red winter wheat and 28,600 mt of dark northern spring wheat for shipment between April 21 and May 20. This leaves 61k mt open for Canada and Australia. Results are due on Thursday.

### US wheat:

- US inspections were 62k mt, for a season total 760 million bu, up 28% from last year. Sales were 419k mt (season total 947 million bu, up 36% against USDA's forecast for 32%.
- According to the average of Bloomberg's survey of analysts US all wheat acreage is estimated to be 46.1 million acres. *The satellite imagery firm, Planalytics, released forecasts for winter wheat yield at only 48.2 bu/ac vs. 55.3 bu/ac last year.*
- After Algeria's 120k mt purchase of US HRW wheat last week, we saw another 120k mt of HRW wheat sales to Saudi reported in the market. Given the current Fob spreads on wheat, more US HRW business could/should be on the way.

### EU:

- EU weekly exports were just 98k mt and the season soft wheat total of 17.3 million mt is now down 3.3 million mt (-16%) on last year.
- Cocal (European Trade Association) estimates EU 2017 soft wheat production at 144.8 million mt, which would be up a full 7% from the previous year. French winter wheat conditions are estimated at 90% good/excellent, down 2% from last week.

**Significant purchases: A much smaller week for wheat trade. Canadian wheat again did not feature in the tender business.**

- **Egypt:**
- A big story last week was reports that GASC has rejected a total of 10 wheat cargoes due 'quality concerns' since January, but *these reports have since proven to be incorrect*.
- **Jordan** bought 50k mt of wheat for September '17 shipment at US\$203/mt C&F.
- **Taiwan** seeks to buy 98,200 mt of U.S. wheat for May-June shipment. Results are due on Friday.
- **Libya** extended the deadline for offers in its *wheat, durum* and corn tender to the end of March. It seeks 100,000 mt of wheat, 50,000 mt of durum and 75,000 mt of corn for April-May shipment.
- In addition to Russia, **Turkey** put the US, Germany and Romania on the list of ineligible origins for wheat imports.
- **Foreign Exchange:** The Rouble weakened slightly as did the Egyptian Pound.

**Wheat Market Outlook:**

- Significant events this past week:
  - **Futures:** Wheat futures closed the week with losses in Minneapolis (HRS) and gains in Chicago (SRW). Since last Friday, Kansas City (HRW) dropped by 5.62%, Chicago lost 2.64% and Minneapolis was down by 2.41%. In Chicago's wheat options and futures, managed money accounts increased their net short position by 20,376 contracts, while in Kansas City wheat they reduced their net long position by 10,031 contracts.
  - **USA:** The latest USDA winter wheat report last week showed that the portion of the winter wheat crop rated in good-to-excellent (G/E) condition in Kansas and Oklahoma fell by 2 points each to 36% and 40% respectively, while Texas' G/E share dropped by 1 point week-over-week to 34%.
  - The weather forecast maintains considerable rain across the southern 2/3 of the country, notably in the Western Plains. Temperatures remain near/slightly above normal.
  - **EU:** The €uro hit its highest level since November pushing Matif to within €1.50/mt of contract lows. This market was not helped by a 120k mt US HRW wheat sale to Saudi Arabia following on from the previous week's sale of US HRW wheat to Algeria.
  - Italy's main crop regions will receive good rains this week but the rest of the continent will be predominantly dry. Temperatures will be mostly slightly above average in the EU.
  - **Australia:** Crops in both Eastern and Western Australia saw good rains. Australian Fob and futures wheat fell by A\$5-6 with futures, making a 7-week low close.
  - **Argentina:** Argentine Fob wheat values were nominally lower with April 12% protein wheat offered down to US\$195/mt plus US\$2/mt per month, with the 11.5 protein wheat discount at US\$15/mt and 11% protein wheat a further US\$5/mt less. Farmer sales of new crop wheat rose to 10.8 million mt, of which exporters own 8.6 million mt against export licences of 7.34 million mt (which rose just 100k mt on the week).
  - **Russia:** Southern Russia is expected to receive good rains this week. Temperatures will be mostly below average in the FSU.
  - SovEcon is forecasting that the Russian wheat crop could be a lot smaller this year than last year's bumper harvest. They are forecasting 62.5 million mt of production versus 73.3 million mt 2016/17
  - **Egypt:** The US attaché in Cairo, Egypt, expects 2017/18 wheat imports to increase by 500k mt to 11.5 million mt. In contrast, 2016/17 wheat imports are being revised downward to 11.0 million mt, 7.2 percent lower than USDA's official forecast of 11.8 million mt. This is due to a persistent shortage of foreign currency that affected the issuance of letters of credit during the first five months of the current marketing year from July 2016- November 2016.

- **India:** According to the agribusiness division of Andani Enterprises Ltd. India is likely to import two million to three million mt of wheat during the 2017-18 cycle despite the bumper harvest. The Co. also said imports should stay elevated next year so India can build stocks back up to comfortable levels.
  
- *Outlook:*
  - *Funds added another 20,000 to their net short.*
  - US wheat futures made their 3rd straight lower weekly close, with the wetter forecast in the US plains the prime catalyst.
  - An important and potentially volatile week lies ahead: The weather outlook is negative, but the Funds had a second straight week of major selling and next Friday brings the long-awaited USDA stocks and plantings report.
  - Despite US HRW wheat being increasingly well priced to pick up any incremental demand (120k mt each to Saudi Arabia and Algeria, plus 60% of the weekly total), there is probably not enough time left in the 2016/17 season for the S&D to be materially affected. New crop European wheat is not that far away.
  
- More 2017 crop numbers are being discussed in the market. Obviously, an awful lot can still happen to the crops; it is the months of May-July that makes or break the winter crops. But based on what we see today, the EU will harvest ~10 million mt more wheat than last year, the Russian wheat crop will be ~5 million mt less but with 10 million mt bigger beginning stocks. The Southern Hemisphere has just harvested around 16 million mt more than last year, and is about to add an additional 35 million mt of corn to the market, partly to compete with feed wheat. This again contends that wheat will have a hard time to turn around without a serious weather problem in the Northern Hemisphere affecting wheat or corn. – So far, weather is looking pretty good.
  
- *Spring wheat may have a slightly different story, as the US spring wheat area is forecast to fall to its lowest level since the 1970's; potentially below 11 million acres. But given the overall supply of wheat, it is hard to say to what degree spring wheat values can separate themselves from other wheat unless a production problem develops.*

### iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT, (PDQ data)

Date: 27-Mar-17

| NW Sask        | Spot   |          | NW Sask        | Deferred      |              |
|----------------|--------|----------|----------------|---------------|--------------|
|                | (bu.)  | (mt)     |                | May '17 (bu.) | May '17 (mt) |
| 1 CWRS 13.5    | \$6.25 | \$229.65 | 1 CWRS 13.5    | \$6.38        | \$234.43     |
| 1 CWAD 13.0    | \$7.08 | \$260.15 | 1 CWAD 13.0    | \$7.16        | \$263.09     |
| 1 CPSR 11.5    | \$4.40 | \$161.67 | 1 CPSR 11.5    | \$4.57        | \$167.92     |
| <b>SW Sask</b> |        |          | <b>SW Sask</b> |               |              |
| 1 CWRS 13.5    | \$6.27 | \$230.38 | 1 CWRS 13.5    | \$6.39        | \$234.79     |
| 1 CWAD 13.0    | \$7.18 | \$263.82 | 1 CWAD 13.0    | \$7.25        | \$266.39     |
| 1 CPSR 11.5    | \$4.37 | \$160.57 | 1 CPSR 11.5    | \$4.50        | \$165.35     |
| <b>NE Sask</b> |        |          | <b>NE Sask</b> |               |              |
| 1 CWRS 13.5    | \$6.13 | \$225.24 | 1 CWRS 13.5    | \$6.24        | \$229.28     |
| 1 CWAD 13.0    | \$7.18 | \$263.82 | 1 CWAD 13.0    | \$7.20        | \$264.56     |
| 1 CPSR 11.5    | \$4.12 | \$151.39 | 1 CPSR 11.5    | \$4.30        | \$158.00     |
| <b>SE Sask</b> |        |          | <b>SE Sask</b> |               |              |
| 1 CWRS 13.5    | \$6.16 | \$226.34 | 1 CWRS 13.5    | \$6.25        | \$229.65     |
| 1 CWAD 13.0    | \$7.17 | \$263.43 | 1 CWAD 13.0    | \$7.21        | \$264.92     |
| 1 CPSR 11.5    | \$4.21 | \$154.69 | 1 CPSR 11.5    | \$4.35        | \$159.84     |

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

| Avg. Grade Spread/<br>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<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)
  - 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:

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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."

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   |  |                       |                    | Mch. 27, 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) |
| <b>DNS 14.0</b>                        | \$334.13                                 | \$304.69              |                    |  |
| <b>HRS</b>                             | \$326.77                                 |                       |                    |  |
| <b>HRW 11.5</b>                        | \$250.23                                 |                       |                    |  |
| <b>SWW 12.0</b>                        | \$242.38                                 |                       |                    |  |
| <b>1 CWRS 13.5<sup>3</sup></b>         | \$334.13                                 |                       | \$227.08           | \$107.05                               |
| <b>2 CWRS 13.0<sup>3</sup></b>         | \$326.77                                 |                       | \$218.63           | \$108.14                               |
| <b>3 CWRS<sup>3</sup></b>              | \$250.23                                 |                       | \$195.85           | \$54.38                                |
| <b>CPS<sup>3</sup></b>                 | \$235.51                                 |                       | \$140.36           | \$95.14                                |
| <b>1 CWAD<sup>4</sup></b>              |  | \$402.32              | \$263.82           | \$138.50                               |
| <b>Competing wheat:</b>                | <b>US\$/mt</b>                           |                       |                    |  |
| <b>Russia 12.5 (Black Sea, 25k mt)</b> | \$190.00                                 |                       |                    |  |
| <b>French 11.0 (Rouen)</b>             | \$188.00                                 |                       |                    |  |
| <b>ASW 10.5 (W Coast)</b>              | \$200.00                                 |                       |                    |  |
| <b>Argentine 12.0</b>                  | \$188-\$195.00                           |                       |                    |  |

<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    |                  |              |              |                    |            |
|--|------------------|--------------|--------------|--------------------|------------|
| Mch. 27, 2017                            |                  |              |              |                    |            |
| Canadian Funds                           |                  |              | Grade        |                    |            |
| <b>PNW value/Vancouver</b>               | <b>1CWRS13.5</b> | <b>2CWRS</b> | <b>3CWRS</b> | <b>Winter wht.</b> | <b>CPS</b> |
| <b>Dec./Jan. delivery</b>                | \$8.91           | \$8.71       | \$6.62       | \$6.41             | \$6.41     |
| <b>Parity Track Rosetown</b>             | \$7.41           | \$7.21       | \$5.13       | \$4.91             | \$4.91     |
| <b>Track Bid Rosetown Area</b>           | \$6.18           | \$5.95       | \$5.33       | \$3.82             | \$3.82     |
| <b>Gross Margin at Elevator (\$/bu)*</b> | \$1.23           | \$1.26       | -\$0.20      | \$1.09             | \$1.09     |
| <b>Gross Margin at Elevator (\$/mt)*</b> | \$45.19          | \$46.29      | -\$7.47      | \$40.16            | \$40.16    |

\* to cover elevation, elevator market risk, margin