

Wheat Market Outlook and Price Report: April 17, 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 April 17, 2017

2016/17 World Wheat and US Wheat Production (FAS/ USDA)

World and U.S Supply and Use for Grains 1/ Million Metric Tons							
World		Output	Total Supply	Trade 2/	Total Use 3/	Ending Stocks	
Wheat	2014/15	728.07	922.96	164.45	705.38	217.58	
	2015/16 (Est.)	735.23	952.81	172.82	711.07	241.74	
	2016/17 (Proj.)	Mar	751.07	991.36	181.02	741.42	249.94
		Apr	751.36	993.10	180.68	740.84	252.26
United States							
Wheat	2014/15	55.15	75.33	23.52	31.33	20.48	
	2015/16 (Est.)	56.12	79.67	21.09	32.02	26.55	
	2016/17 (Proj.)	Mar	62.86	92.54	27.90	33.91	30.73
		Apr	62.86	92.40	27.90	32.96	31.55

- In their April 11th report, USDA estimated world wheat ending stocks 2.32 million mt *higher* than in March. At 252.3 million mt, the updated ending stocks were near the higher end of pre-report trade estimates.
- Most of that increase came from the US, Australia, Canada, Russia, and the Former Soviet Union.
- The world wheat balance sheet showed a picture of lower feed use (down 1.8 million mt) and higher ending stocks (up 2.3 million mt on last month and 10 million mt on

the year), with importantly 4 of the 6 major exporters seeing their stock levels increased due to slower than expected shipments.

- US ending stocks for all wheat were estimated to be 1.159 million bu. That is up 30 million bu month/month, but only 12 million bu larger than the average of pre-report guesses from the trade. If realized, that would be the largest US ending stocks figure in 30 years.

Global wheat and trade:

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

Canadian wheat:

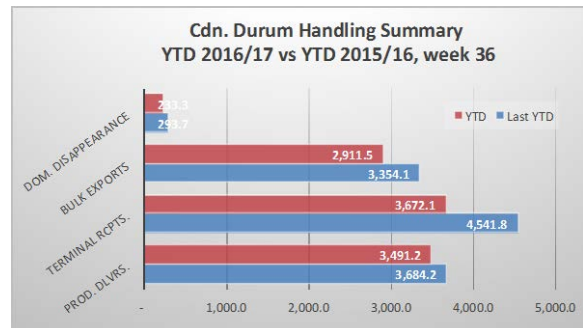
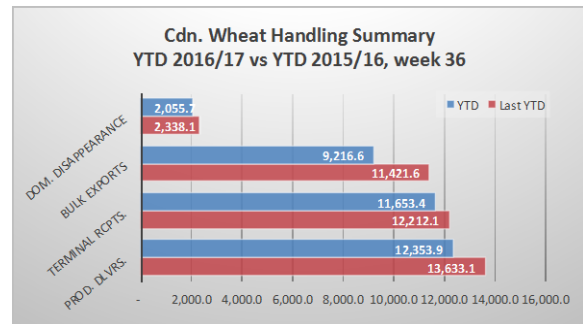
- During week 36, 333k mt of wheat (excl. durum) were delivered into the handling system. Canada loaded 183k mt for export; 9.2 million mt year-to-date. This is 19% or 2.2 million mt lower than last year-to-date.
- 111k mt of **durum** were delivered by producers. Durum exports during week 36 amounted to 105k mt; 2.9 million mt year-to-date. This is 13% or 443k mt lower than last year-to-date.

US wheat:

- U.S. wheat sales continue to impress with the 422k mt sold last week. This is at the top end of market expectations of 250-450k mt and was exactly in line with average sales over the last 6 weeks of 15.5 million bushels. The recent pace of sales has been very impressive in context of last year's same-period average sales of just 7.9 million bushels/week.
- Sales continue to run above USDA projections, and it is likely that 2016/17 wheat exports will beat the USDA's current 1.025 billion bushel projection by 20-30 million bushels. However, with wheat stocks at decades-high levels, this would be of little fundamental implication for the market.
- Total commitments of 1 billion bushels are now up 41% from last year after having been up 32% on the year in early January. New crop sales of 125k tonnes were in line with expectations of 50-250k mt, with 2017/18 total commitments now at 53 million bu vs. new crop sales at this time last year of 60 million.
- US HRS planting progress was put at 5% (as of April 9th) versus 12% last year and an 11% average with delays noted in wet PNW states.
- The US saw good rains, and US winter wheat conditions were put at 53% good to excellent as of April 9th, versus 51% last week and 56% last year.
- The marketing year for US wheat begins on June 1. (It begins on Sept. 1 for corn and soybeans and on Oct. 1 for soybean oil).

EU:

- Weekly shipments were 231k mt for a soft wheat season total 18.8 million mt, down 18% from last year.



- France and the Iberian Peninsula remained dry, while central and eastern Europe was near normal precipitation with temperatures slightly below normal.
- According to the countries farm co-ops, German wheat production is estimated to rise 2.7% to 25.26 million mt.

Significant purchases: This was a short holiday week with very few trades to record.

- **Japan** bought 126,405 mt of wheat from Australia, *Canada* and the United States. From the U.S. it bought 13,910 mt of western white wheat, 19,190 mt of hard red winter wheat and 34,995 mt of dark northern spring all of loading from May 21 to June 20. The exact volume and quality of Canadian wheat was not reported.
- **Korea** bought a total 180k mt feed wheat for Aug-Sept. shipment at around US\$187.50 /mt, well below corn values.
- The Baltic Panamax ocean freight index hit its highest level since January 2014.

Wheat Market Outlook:

➤ Significant events this past week:

- **Futures: US wheat futures** closed 5-12¢/bu higher on the week despite a bearish USDA report. After an early contract low in May, **Matif** wheat in Europe ended higher on both old and new crop. The early low was based on FAM's 400k mt cut in French ending stocks, while later in the week traders increasingly focused on the ongoing dryness across western Europe.
- **Funds:** The near record spec fund short at -23.6 million mt is clearly vulnerable should any real weather incident occur. (Record wheat short was -28 million mt and a large short is say -22 million mt wheat short, so more of a risk of short covering here.)
- **US:** US weather continued to improve although this was partially offset by ongoing dryness in Europe.
- US crop ratings were slightly better than expected although spring plantings were very slow.
- **EU:** Strategie Grain (French analyst company) raised its forecast for EU soft wheat exports this season as it factored in Turkish demand after Turkey halted imports of Russian wheat.
- **Australia:** According to Reuters, Australian farmers will maintain wheat acreage during the 2017/18 season at a near three-year high, rejecting incentives to plant alternative crops amid low prices and unfavorable weather forecasts. Australia (the world's fourth-largest wheat exporter) will begin planting wheat crops in the next few weeks.
- But while wheat acreage is set to remain consistent, production is expected to fall sharply. Australia's chief commodity forecaster last month pegged production of wheat at 23.98 million mt, down 32% from the record crop produced last year as dry weather crimps yields.
- **Argentina:** Argentine Fob wheat values were unchanged with just 30k mt export licences taken last week for a season total 7.74 million mt. USDA left the 16/17 Argentine S&D unchanged with a crop of 16 million mt against the Government's 18.3 million mt. Wheat markets in Argentina were quiet as farmers continued to give priority to working on their corn and bean harvests.
- **Australia:** Australia was also quiet. But in spite of Australian wheat clearly losing demand, farmers prefer to keep their crop in silo bags, rather than sell to the market. USDA did lower Aussie exports by 500k mt which increased ending stocks. Given current

price structure and demand, it seems even the revised 25 million mt export number will be hard to achieve.

- **Russia:** Holidays and the USDA report kept the Black Sea quiet. Old crop Russian 12.5 protein wheat was offered at US\$190/mt for April less US\$2-3/mt per month. New crop wheat offers remained around US\$173/mt for July-August plus US\$2-3/mt per month through December '17.
- USDA lowered Ukraine wheat feeding and Russian exports by 500k mt each, while raising Ukraine exports 800k mt.
- **Ukraine:** Ukraine's Agriculture Ministry put winterkill at virtually 'zero' (0.1%), while Black Sea farmers are still sitting on their stocks into a 3- month \$18/mt inverse.
- **China:** Wheat acreage across the People's Republic of China is expected to increase to 60.5 million acres, a 15-year high.
- **Foreign Exchange:** The Rouble and Turkish Lira were firmer, the Egyptian Pound fell to 2-week lows. The markets were shaken late in the week by President Trump's seeming U-turn on the dollar - which he called 'too strong'.
- **Weather: North African/ Spanish** dryness persists, stressing wheat heading; very light showers over the next 10 days offer little relief. Rains across **Eastern Ukraine/ Southern Russia** will be substantial, rebuilding soil moisture supplies over the next 10 days. **Europe** turns colder this week; frost across the north-east burns back wheat growth, but permanent damage minimal.

➤ **Outlook:**

- Record world wheat stocks afford the world a significant supply cushion, a massive corn crop will buy feed demand from wheat (although corn currently is more expensive than wheat), and India's 6 million mt of imports this year could well be missing from the export market next year.
- On the other hand, the near record speculative fund short is clearly vulnerable should any real weather incident occur, particularly with US acres at 100-year lows.
- And farmers have sold nothing, much of Europe and the Black Sea is dry, the Vegetation Index is a concern with no rain in the forecast, and until that changes, new lows are unlikely.

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: April 17, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '17 (bu.)	June '17 (mt)
1 CWRS 13.5	\$6.21	\$228.18	1 CWRS 13.5	\$6.26	\$230.02
1 CWAD 13.0	\$6.80	\$249.86	1 CWAD 13.0	\$6.84	\$251.33
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$6.27	\$230.38	1 CWRS 13.5	\$6.29	\$231.12
1 CWAD 13.0	\$6.93	\$254.64	1 CWAD 13.0	\$6.96	\$255.74
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
NE Sask			NE Sask		
1 CWRS 13.5	\$6.14	\$225.61	1 CWRS 13.5	\$6.16	\$226.34
1 CWAD 13.0	\$6.90	\$253.53	1 CWAD 13.0	\$6.93	\$254.64
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$6.13	\$225.24	1 CWRS 13.5	\$6.18	\$227.08
1 CWAD 13.0	\$6.90	\$253.53	1 CWAD 13.0	\$6.93	\$254.64
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	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
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 Basis¹ (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

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."

- 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:
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				April 17, 2017
Type of Wheat	FOB Prices CDA ¹ (calculated)		Street Prices	Export Basis ²
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$329.89	\$297.25		
HRS	\$322.59			
HRW 11.5	\$248.03			
SWW 12.0	\$240.72			
1 CWRS 13.5 ³	\$329.89		\$228.18	\$101.71
2 CWRS 13.0 ³	\$322.59		\$211.65	\$110.94
3 CWRS ³	\$248.03		\$196.21	\$51.82
CPS ³	\$233.90		\$141.46	\$92.43
1 CWAD ⁴		\$375.21	\$256.47	\$118.74
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$187.00			
French 11.0 (Rouen)	\$183.29			
ASW 10.5 (W Coast)	\$193.00			
Argentine 12.0	\$185-\$193.00			

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

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					April 17, 2017
Canadian Funds				Grade	
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$8.79	\$8.59	\$6.56	\$6.37	\$6.37
Parity Track Rosetown	\$7.30	\$7.10	\$5.07	\$4.87	\$4.87
Track Bid Rosetown Area	\$6.21	\$5.76	\$5.34	\$3.85	\$3.85
Gross Margin at Elevator (\$/bu)*	\$1.09	\$1.34	-\$0.27	\$1.02	\$1.02
Gross Margin at Elevator (\$/mt)*	\$39.91	\$49.13	-\$9.99	\$37.45	\$37.45

* to cover elevation, elevator market risk, margin