

## Wheat Market Outlook and Price Report: May 1, 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) Global Wheat Market Outlook May 1, 2017**

#### **IGC<sup>1</sup> World Wheat Estimates April '17**

<b>WORLD ESTIMATES</b>					
	14/15	15/16 est.	16/17 f'cast.	17/18 proj.	
million tons				30.03	27.04
<b>WHEAT</b>					
<b>Production</b>	730	736	<b>753</b>	<b>735</b>	<b>736</b>
<b>Trade</b>	153	166	<b>171</b>	<b>166</b>	<b>166</b>
<b>Consumption</b>	714	719	<b>737</b>	<b>740</b>	<b>738</b>
<b>Carryover stocks</b>	206	224	<b>240</b>	<b>234</b>	<b>239</b>
<b>year/year change</b>	16	18	<b>17</b>		<b>-1</b>
<b>Major exporters <sup>b)</sup></b>	65	68	<b>80</b>	<b>68</b>	<b>73</b>

- A small upward revision for wheat production by the IGC boosts the **2017/18 production projection** by 1 million mt compared to last month, but at 736 million mt output is still seen falling by 2.3% from last crop year.
- With the **consumption** forecast down slightly and also taking into account higher opening inventories, the figure for ending stocks is down by 1 million mt, to 239 million mt (-0.4% y/y).

<sup>1</sup> International Grains Council, April 27, 2017

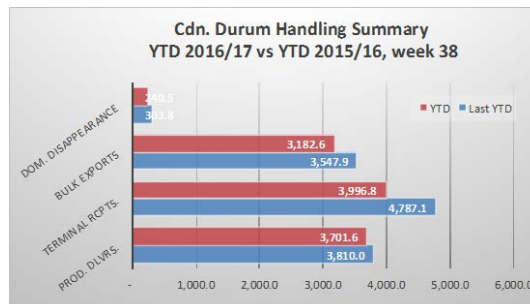
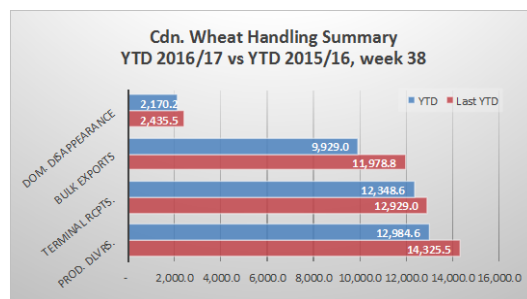
- **Global trade** is predicted to be lower by 5 million mt y/y (-3%), at 166 million mt.
- ICG assessed the **EU wheat** crop at 150.3 million mt, **Russian wheat** production at 67 million mt, and **Ukrainian wheat** at 24.5 million mt, all unchanged from last month. However, following the Statistics Canada report, ICG increased **Canadian wheat** production to 28.1 million mt (prev. 27.2 million mt). **US production** remained unchanged at 50.2 million mt, significantly smaller than last year's 62.9 million mt.

## Global wheat and trade:

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

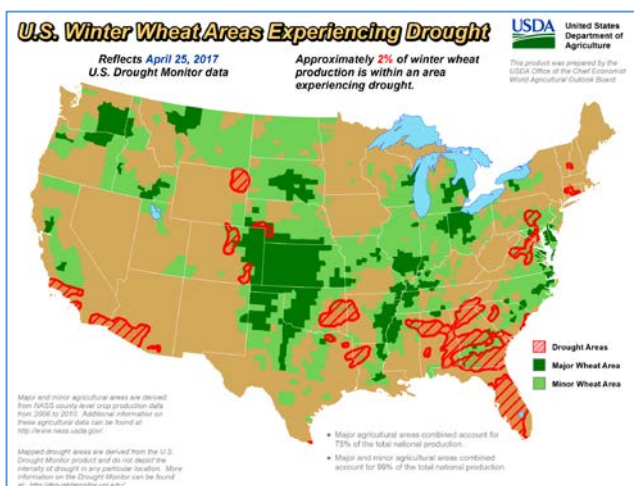
### Canadian wheat:

- During week 38, 321k mt of wheat (excl. durum) were delivered into the handling system. Canada loaded 391k mt for export; 9.9 million mt year-to-date. This is 17% or 2 million mt lower than last year-to-date.
- Following the Statistics Canada report, ICG increased the 2017 Canadian wheat production to 28.1 million mt (last month 27.2 million mt, and 31.7 million mt last year).
- News about temperatures and seeding progress will be closely watched for Canada.
- Producers delivered 121k mt of **durum** into the handling system. Durum exports during week 38 amounted to 177k mt; 3.2 million mt year-to-date. This is 10% or 365k mt lower than last year-to-date.
- Concern is growing in the trade that ongoing cold temperatures and snow could push seeding dates in Canada well beyond 'optimum' seeding dates.



### US wheat:

- Weekly export sales were disappointing for old-crop supplies, but better than expected for new crop. The new crop year starts June 1.
- Net sales of 61,700 mt for delivery in marketing year 2016/2017--a marketing-year low--were down 85% from the previous week and 87% from the prior 4-week average.
- There is no problem with drought for US winter wheat [see map], but winter wheat futures closed higher Thursday and at one-week high as forecasts have freezes as far south as northern Texas during the weekend, which could hurt headed wheat.
- Next week, the 'Kansas wheat tour', which has a jaded history of estimating final wheat production, will be watched from standpoint of day to day tour yield forecasts vs. prior



year report over the same counties. The trade will try to learn about the extent of damage due frost, disease, and/or poor stands due early winter dryness.

- Last Tuesday **US spring wheat** was reported at 22% planted, well behind the average of 34% and last year at 40%. But KS, OK, CO, and NE **winter wheat** conditions were raised 1% for good/excellent from the week previous to 52%, 44%, 42%, and 54% respectively.
- The value of the **US\$ against a basket of currencies** fell to the lowest since November earlier last week and is again nearing that level. That, in turn, is bullish for agricultural commodities that are traded in dollars as it gives overseas buyers more purchasing power.

- **Futures:** Wheat futures were mostly higher on Friday. Chicago was fractionally to 5 cents higher, with a 3.33% rise on the week. Kansas City was up 2 1/4 to 4 cents in most contracts, as it was the strongest exchange on the week, 5.01% higher. Minneapolis was marginally higher in the front months, with the back months up as much as 3 1/2 cents on planting delays.

- **Funds:** On Tuesday, Spec traders held their largest recorded net short position on wheat since 2006 at 162,327 contracts in Chicago wheat futures and options. They added 20,201 contracts to their net short position over that week.

CBOT Spec Positions (futures&options)			
	Apr 25	Apr 18	Change
Corn	-196	-171	-25
Beans	-48	-46	-2
Wheat	-162	-142	-20

- **EU:** Despite the Euro's early spike to 5-month highs, Matif old crop wheat rose to 5-week highs on the ongoing dry conditions. The forecast for France and Western Europe turned slightly wetter/more favourable, but Friday's French crop update showed GD/EX dropping from 85% to 78% on the week.
- **Australia:** Australian futures were little changed, but Fob values saw a sharp bounce mostly due to farmer retention of wheat.
- **Russia:** In the Black Sea, old crop Russian wheat continued to trickle lower despite the Russian Agriculture Ministry's low 2017 crop number of 63.7 million mt (73.3 million mt in 2016), with May 12.5 protein wheat at US\$185/mt, the 11.5 pro discount at US\$5-6/mt and feed a further US\$5-6/mt less.
- The trade continued to add to its new crop shorts to Asia, but there still seems to be little chance of Russia reaching the USDA's 28 million mt export projection for this season.
- New crop was steady at US\$172-174/mt, with bids out to December at US\$180/mt, which still looked cheap against HRW which is priced above US\$200/mt for the same position.
- The Rouble eased on the 50 point drop in interest rates, and the unresolved Russian VAT problem continues to hamper liquidity.

#### Significant purchases:

- **Israel** bought about 30,000 mt of feed wheat (plus corn and barley) from optional origins. The corn may come from South America and the other grains possibly from the Black Sea region, European sources said. Shipment is expected for July/August.
- **Tunisia** bought one 25k mt milling cargo at a very low US\$173.85/mt, along with 2 other 25k mt cargoes at a more reasonable US\$186.73/mt and US\$189.58/mt C&F. (This is around US\$166/mt Fob equivalent Black Sea).
- **Algeria** bought a reported 250k mt durum for June shipment at around US\$250/mt.
- **Korea** bought 135k mt of feed wheat for Oct-Nov shipment at around US\$187/mt.
- There were reports **India** may move to a zero tolerance on ergot.
- The **Philippines** seek to buy 55k mt of optional-origin feed wheat. The tender deadline is May 2 with shipment is for July.
- **Iraq** seeks to buy 50k mt of wheat from the U.S., Canada or Australia. The tender closes May 7.

## Wheat Market Outlook:

### ➤ Significant events this past week:

- **EU:** The European Commission warned that European wheat yields are threatened by dry weather in many key growing regions, with only a few weeks left to salvage crop prospects. FranceAgrimer, the government crop agency, lowered its wheat rating to 85% good-or-excellent, down four points week-on-week.
- **Argentina:** According to a USDA report, Argentine wheat production for crop 2017/18 is forecast at 16.65 million mt, which is higher than the previous season. The harvested area is forecast at 5.2 million hectares, the highest since 2008/09, but still far from the 7.1 million hectares of 1996/97. Despite an increase of 500,000 hectares, yields are expected to be lower than the previous year which benefited from very good weather for wheat production in a vast area of the country
- This would be the second year in a row in which wheat area increases as result of the policies put in place by President Macri's administration in mid-December 2015. The government decided to eliminate the 23% export tax on wheat, eliminate distortions in the domestic market through export limitations and allow a strong devaluation of the local currency.
- Wheat production for 2016/17 is estimated at 16.0 million tons. The Ministry of Agriculture recently bumped up their production volume at 18.4 million tons. The private sector's estimate ranges between 15.0-17.0 million tons.
- Exports for crop 2017/18 are forecast at 10.5 million tons, the highest since 2011/12. This is a result of a projected increase in production with relatively a stable domestic consumption. *After the change in policies in December 2015, Argentina is recovering its importance as one of the world's major wheat producers and exporters.*
- **Russia:** Russian Agriculture Minister Alexander Tkachev said on Wednesday that Moscow hoped to reach a compromise with Turkey over grain exports within two weeks. Turkey, traditionally the second largest buyer of Russian wheat after Egypt and the top buyer of its sunflower oil, has effectively put on hold purchases of these products from Moscow by imposing high import tariffs in March.
- **Egypt:** the Egyptian Minister of Supply reminded the market that they have about 2.6 months-worth of wheat in reserves as they plan to buy 3.8M tonnes from local farmers over the next 6 months (European ships likely will start arriving in August).
- **UAE:** In marketing year (MY) 2017/18, USDA estimates total consumption slightly below 1.3 million mt, a moderate increase over MY2016/17 figures. Approximately 70% of wheat imports are consumed locally with the remaining 30% sent for re-export to neighbouring GCC countries. 70% of wheat imported to the UAE is white medium hard and 30% is blend of white hard and soft. White wheat is more desirable because of its high milling extraction, high water absorption, good flour color, and end product quality. *Red wheat is not desired in this region because of it is very low baking options, non-absorption and low extraction only 7-8%.*
- **Middle East:** Good showers continue across North Africa; Turkey turned drier, but much of the Middle East saw additional rain.

### ➤ Outlook:

- Several of the crop concerns we alluded to last week have not gone away:
  - Dryness across Western Europe: Though the forecast for Western Europe and for France turned slightly wetter, Fridays/ French crop update dropped their 'Good to Excellent' rating of the wheat crop from 85% last week to 78% this week.
  - Continued weather issues in North America: Late US/Canadian spring planting and a potentially high abandonment rate on US winter wheat, and
  - A record Fund short.

- There are various weather issues around the world, values are relatively low already, and Funds have a big net short. This market needs to be watched as it may well develop arguments for a more bullish market.

### 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: May 1, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
<b>1 CWRS 13.5</b>	\$6.63	\$243.61	<b>1 CWRS 13.5</b>	\$6.61	\$242.88
<b>1 CWAD 13.0</b>	\$6.93	\$254.64	<b>1 CWAD 13.0</b>	\$6.73	\$247.29
<b>1 CPSR 11.5</b>	\$4.61	\$169.39	<b>1 CPSR 11.5</b>	\$4.86	\$178.58
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$6.67	\$245.08	<b>1 CWRS 13.5</b>	\$6.64	\$243.98
<b>1 CWAD 13.0</b>	\$7.04	\$258.68	<b>1 CWAD 13.0</b>	\$6.79	\$249.49
<b>1 CPSR 11.5</b>	\$4.57	\$167.92	<b>1 CPSR 11.5</b>	\$4.79	\$176.00
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.51	\$239.20	<b>1 CWRS 13.5</b>	\$6.47	\$237.73
<b>1 CWAD 13.0</b>	\$6.93	\$254.64	<b>1 CWAD 13.0</b>	\$6.76	\$248.39
<b>1 CPSR 11.5</b>	\$4.34	\$159.47	<b>1 CPSR 11.5</b>	\$4.60	\$169.02
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.52	\$239.57	<b>1 CWRS 13.5</b>	\$6.52	\$239.57
<b>1 CWAD 13.0</b>	\$6.96	\$255.74	<b>1 CWAD 13.0</b>	\$6.75	\$248.02
<b>1 CPSR 11.5</b>	\$4.37	\$160.57	<b>1 CPSR 11.5</b>	\$4.56	\$167.55

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>2</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

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<sup>2</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."

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				May 1, 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	\$354.77	\$311.62		
HRS	\$347.24			
HRW 11.5	\$275.99			
SWW 12.0	\$250.40			
1 CWRS 13.5 <sup>3</sup>	\$354.77		\$253.90	\$100.87
2 CWRS 13.0 <sup>3</sup>	\$347.24		\$237.73	\$109.51
3 CWRS <sup>3</sup>	\$275.99		\$222.30	\$53.69
CPS <sup>3</sup>	\$243.37		\$172.33	\$71.04
1 CWAD <sup>4</sup>		\$386.38	\$258.31	\$128.07
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)		\$185.00		
French 11.0 (Rouen)		\$190.93		
ASW 10.5 (W Coast)		\$200.00		
Argentine 12.0		\$185-\$190.00		

<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					May 1, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.46	\$9.26	\$7.32	\$6.62	\$6.62
Parity Track Rosetown	\$7.97	\$7.76	\$5.82	\$5.13	\$5.13
Track Bid Rosetown Area	\$6.91	\$6.47	\$6.05	\$4.69	\$4.69
Gross Margin at Elevator (\$/bu)*	\$1.06	\$1.29	-\$0.23	\$0.44	\$0.44
Gross Margin at Elevator (\$/mt)*	\$38.86	\$47.50	-\$8.32	\$16.06	\$16.06

\* to cover elevation, elevator market risk, margin