

Wheat Market Outlook and Price Report: May 8, 2017

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

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

AMIS¹ World Wheat Supply-Demand Outlook Review, May '17

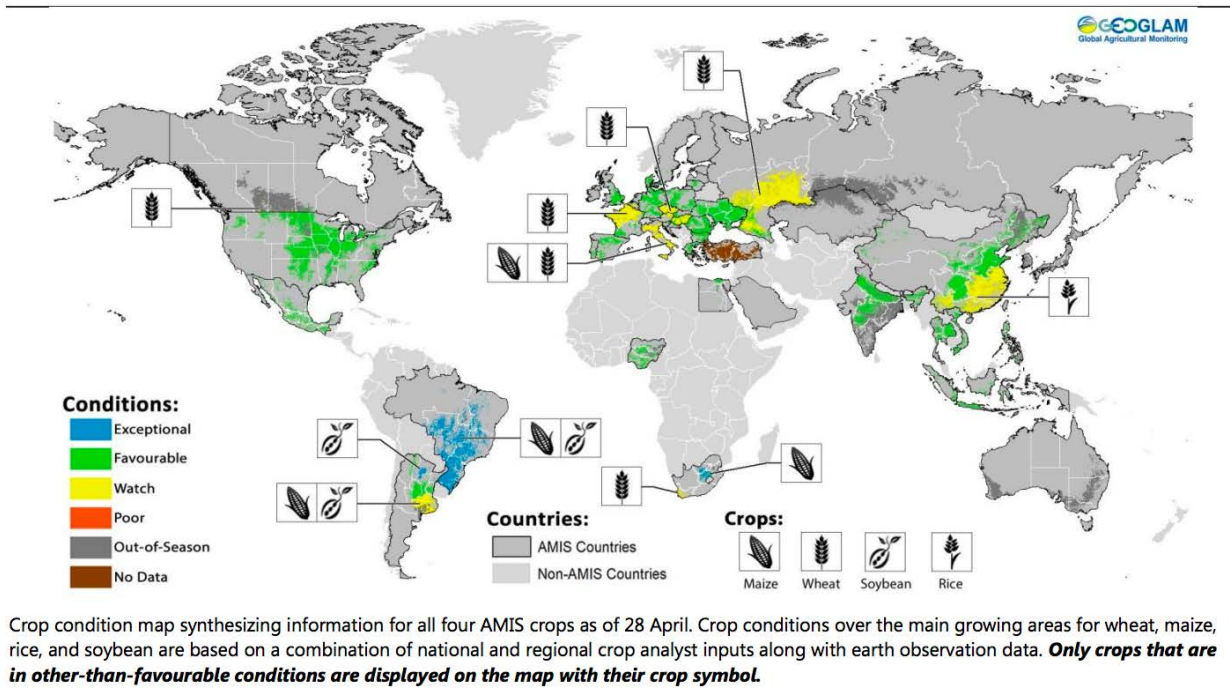
WHEAT	FAO-AMIS		USDA		IGC		<i>in million tonnes</i>	
	2016/17	2017/18	2015/16	2016/17	2016/17	2017/18	est.	f'cast
	est.	f'cast	est.	f'cast	est.	f'cast		
	6-Apr	4-May		11-Apr		27-Apr		
Production	760.3	739.9	740.4	735.2	751.4	753.4	736.3	
Supply	979.6	979.9	980.0	952.8	993.1	977.0	976.6	
Utilization	732.0	734.7	731.0	711.1	740.8	736.7	737.6	
Trade	173.8	169.0	170.0	172.8	180.7	170.6	166.3	
Stocks	239.6	246.6	247.6	241.7	252.3	240.3	239.0	

- In 2017, World wheat **production** is forecast to fall below the 2016 record on anticipation of smaller crops in Australia, Canada, Russia and the US.
- **Utilization** of wheat in 2017/18 is expected to decrease more than it was projected in April, because of a sharper dip in feed use of wheat.
- **Trade** in 2017/18 (July/June) is expected to decline by less than was anticipated earlier, due to higher import expectations in China and India.
- **2018 ending stocks** are forecast to reach the second highest level on record with the latest forecast bigger than last month, on larger end season inventories in China, Morocco and Russia.

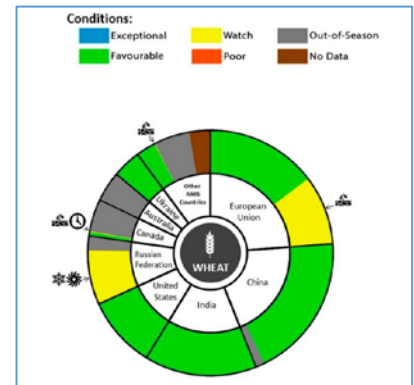
¹ Agricultural Market Information System (AMIS)

Wheat Condition Update:

Crop conditions in AMIS countries (as of 28 April)



- **Overall**, winter wheat crop conditions in the northern hemisphere are mixed as dry or cold weather is observed in areas within Europe, Canada, and the Russian Federation. Spring wheat sowing has begun.
- In the **EU**, winter wheat conditions are generally favourable; however, additional rain is needed in important crop production areas and a cold spell has raised concerns and delayed crop growth.
- In the **US**, conditions are favourable as the South Great Plains has received rainfall, abating the earlier dryness. Both winter wheat and spring wheat areas are expected to be down to multi-decade lows.
- In **China**, conditions are favourable for winter wheat as the crop is in vegetative stage.
- In **India**, winter wheat is under favourable conditions as harvesting is finishing.
- In the **Russian Federation**, conditions are under watch as an April snowfall and frost may have damaged the crop in places.
- In **Ukraine**, conditions remain favourable while recent cool weather has slowed crop growth and development.



Global wheat and trade:

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

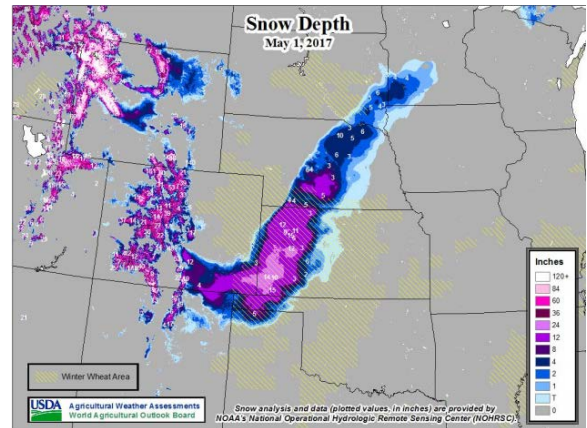
Canadian wheat:

- The Canadian Grain Commission (CGC) did not update the weekly handling data for week 40.

- As per Statistics Canada on Friday, **total wheat stocks** in Canada were at 16.6 million mt as of March 31, 2017, up 15.5% from the same day a year earlier. This increase resulted from higher stock levels being held on farms, up 17.5% to 12.2 million mt, and a 10.2% rise in commercial stocks to 4.4 million mt. Farm stock levels in Saskatchewan increased by 11.1% to 5.9 million mt, while farm stocks in Alberta increased 26.9% to 4.2 million mt. *The average pre-report estimate by the trade was at a significantly higher 18.3 million mt.* This means Canadian wheat stocks lower than expected, but up 15.45% from 2016.
- Wheat excluding durum stocks at 12.5 million mt were pegged up 7.3% from last year's 11.7 million mt.
- Seeding in Western Canada is progressing slowly. As of May 3rd Alberta is 21% seeded which is above the long term average of 15% but a bit behind last year's 27%. In Saskatchewan farmers were delayed by by adverse weather. As of May 1st Saskatchewan farmers were 1% seeded, which is behind that 10 year average of 4%.
- The declining value of the Canadian dollar has supported the price of Canadian wheat over the past month. However, a strong jobs report from Stats Canada on Friday indicated lower than expected Canadian unemployment, which pushed the Canadian dollar significantly higher in value at Friday's close.
- **Durum wheat stocks** at 4.1 million mt were pegged up 50.8% from last year's 2.7 million mt. The average pre-report estimate by the trade for durum was at an even higher 5.2 million mt.

US wheat:

- After floods, freezing temps, high winds and huge snowstorms, the US Plains turned drier and warmer whilst heavy rain and cold temps persisted all week across much of the Midwest and Delta.
- US wheat futures initially soared on last weekend's appalling weather coupled with the record net short fund position amidst widespread reports of wheat damaged/killed by a mix of freezing temps on an advanced crop (42% headed against 34% average), and huge falls of heavy snow breaking stems and flattening fields. Prices fell back midweek on a higher than expected yield from the Kansas crop tour, before ending up 13¢ in KC and 9¢ at the CBOT.
- The Kansas wheat tour estimates for the 2017 wheat crop: The Kansas yield was assessed at 46.1 bu/acre (57 bu/ac last year) but there were cautions: A projected crop of 282 million bu implied abandonment of 20%, the highest since 1996! Such a crop would be 40% below last year's 467 million bu, and crop scouts did not calculate yields on many fields in West Kansas due to snow; assessing just 200 fields there against 300 the previous two days. Disease could also be a significant issue following last week's event, so reality will not be known until harvest starts brining in actual yield results.
- *US HRS wheat is just 31% planted (52% last year) and 9% emerged (20% last year).*
- Weekly US export old crop wheat sales came in at 258,389 mt, picking back up off of the previous week's marketing year lows. This is 44.4% larger than last year for the same week. US new crop sales were a strong 563,350 mt, nearly 3 times larger than this time last year and 84.5% ahead of last week. Weekly wheat exports came in at 622,854 mt, slightly ahead of last week and 61.7% above the same week last year.



- **Futures:** Wheat futures saw gains in most contracts on Friday, with light volume in the nearby May. July Kansas City was 12 3/4 cents higher on the week, with Chicago showing a 10 cent gain. Minneapolis had little change in the July contract, down 1/2 cent.
- **Funds:** Fund traders lowered their net short position by 37,689 contracts in Chicago wheat futures and options as of Tuesday. Spec traders switched their net position from -17,233 short to 512 long in Kansas City wheat futures and options on Tuesday, with a net change of 17,745 contracts. They may have flipped back bearish on Thursday.
- **EU:** Matif old crop ended up €1/mt ahead of next week's expiry, while new crop ended unchanged after an initial 8-week high spike following the US weekend weather. Weakness in the wheat market came from an improved European weather outlook. French wheat was already expensive against the better quality German, Baltic and Russian wheat.
- **Australian** new crop futures rose A\$8/mt (US\$5.90/mt) to 5-month highs. Old crop Fob values rose just US\$2/mt.
- **Argentina:** Argentine Fob offers for nearby 12% protein wheat fell by US\$2-3/mt with the discount for 11.5% protein wheat still around US\$7/mt and 11% protein wheat another US\$7/mt less. New crop 12% protein wheat was offered at US\$176/mt, but the 11.5% protein discount here was only US\$3/mt.
- **Russia:** In the Black Sea, trade was close to zero. Old crop Russian 12.5% protein wheat was offered at US\$185/mt with bids US\$4/mt away. The new crop bid-offer spreads ranged from US\$4 to US\$8/mt. Presume the mid-point at US\$173/mt for Jul-Aug plus US\$3/mt per month.

Significant purchases:

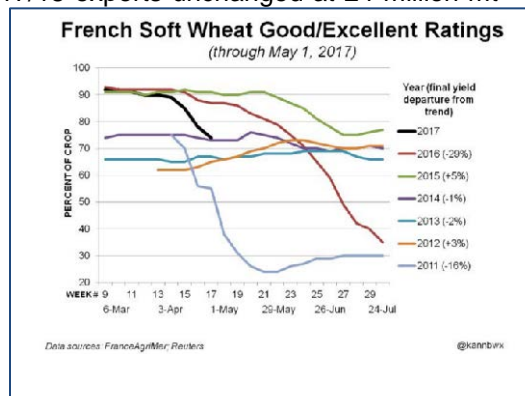
Not a lot to report here this week:

- **Tunisia** bought 75k mt Aug-Nov *optional origin durum* at US\$258.50/mt to \$259.98/mt C& F Tunis. Shipment is for Aug 15-Nov.5'17.
- **Taiwan** seeks to buy 95,750 metric tons of U.S. wheat for June-July shipment from the PNW. The tender closes on May 9th.
- **Iraq** seeks to buy 50,000 metric tons of wheat from the U.S., Canada or Australia. The tender closes May 7th.
- The Baltic Panamax index has lost 37% in 3 weeks.

Wheat Market Outlook:

Significant events this past week:

- **EU:** Brussels trimmed 300k mt off the 2017 EU soft wheat crop to 141.9 million mt (134.4 million mt last year) and left both 16/17 and 17/18 exports unchanged at 24 million mt and 28.9 million mt respectively.
- French soft wheat is estimated at 74% good/excellent based on data from AgriMer in France, down from 78% last week. This is also worse than last year at this time.
- **Brazil:** On 19 April, the Ministry of Agriculture in Brazil reduced the minimum wheat prices of all wheat types by 3.6 percent for the 2017/18 crop.
- **Russia:** Russian spring wheat plantings were put at 6% complete (7.5% last year), and Russia will resume grain exports to Turkey within the next few days.



- The crude oil slump to 13-month lows took the Rouble to a 2-month low, which could change the outlook for Russian marketing.
- **US:** We are expecting the next **USDA report** on Wednesday; the report will likely require some interpretation, because it will reflect conditions as of May 1st - the day of the storm.

➤ **Outlook:**

- It still is all about weather - in the US, Canada, Europe and Black Sea - not only on volume prospects (quantity), but also on anticipated quality. Specifically, the increased uncertainty about the market means that
 - Farmers may not sell until they know what they have got.
 - Funds are still short despite buying a total 56,000 contracts last week.
 - Dryness across Western Europe: Western Europe saw widespread rains, but Spain, the UK and the Baltics and Ukraine were dry. Temperatures were below normal except in Spain.
 - Australia was dry.
 - US Plains turned drier and warmer while heavy rain and cold temperatures persisted all week across much of the Midwest and Delta.
 - Canada turned warmer and drier but fieldwork has been relatively slow.
 - Importantly for Canada, US HRS wheat is just 31% planted (52% last year) and 9% emerged (20% last year).
- *There are various weather issues around the world, and Funds are still short. This market needs to be watched as it could develop sustained 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 8, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$6.67	\$245.08	1 CWRS 13.5	\$6.62	\$243.25
1 CWAD 13.0	\$6.94	\$255.00	1 CWAD 13.0	\$6.76	\$248.39
1 CPSR 11.5	\$4.85	\$178.21	1 CPSR 11.5	\$5.07	\$186.29
SW Sask			SW Sask		
1 CWRS 13.5	\$6.65	\$244.35	1 CWRS 13.5	\$6.67	\$245.08
1 CWAD 13.0	\$7.06	\$259.41	1 CWAD 13.0	\$6.85	\$251.70
1 CPSR 11.5	\$4.82	\$177.11	1 CPSR 11.5	\$4.99	\$183.35
NE Sask			NE Sask		
1 CWRS 13.5	\$6.51	\$239.20	1 CWRS 13.5	\$6.54	\$240.31
1 CWAD 13.0	\$6.97	\$256.11	1 CWAD 13.0	\$6.80	\$249.86
1 CPSR 11.5	\$4.58	\$168.29	1 CPSR 11.5	\$4.85	\$178.21
SE Sask			SE Sask		
1 CWRS 13.5	\$6.50	\$238.84	1 CWRS 13.5	\$6.59	\$242.14
1 CWAD 13.0	\$7.01	\$257.58	1 CWAD 13.0	\$6.81	\$250.23
1 CPSR 11.5	\$4.59	\$168.65	1 CPSR 11.5	\$4.74	\$174.17

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 Basis² (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:
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.

² 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."

- 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 8, 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	\$345.60	\$315.37		
HRS	\$343.08			
HRW 11.5	\$267.51			
SWW 12.0	\$251.90			
1 CWRS 13.5³	\$345.60		\$239.20	\$106.40
2 CWRS 13.0³	\$343.08		\$222.67	\$120.41
3 CWRS³	\$267.51		\$207.24	\$60.28
CPS³	\$244.84		\$163.51	\$81.33
1 CWAD⁴		\$387.92	\$258.31	\$129.61
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)		\$184.00		
French 11.0 (Rouen)		\$192.60		
ASW 10.5 (W Coast)		\$202.00		
Argentine 12.0		\$183-\$188.00		

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

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					May 8, 2017
Canadian Funds					
PNW value/Vancouver	1CWRS13.5	2CWRS	Grade 3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.21	\$9.15	\$7.09	\$6.66	\$6.66
Parity Track Rosetown	\$7.72	\$7.65	\$5.59	\$5.17	\$5.17
Track Bid Rosetown Area	\$6.51	\$6.06	\$5.64	\$4.45	\$4.45
Gross Margin at Elevator (\$/bu)*	\$1.21	\$1.59	-\$0.05	\$0.72	\$0.72
Gross Margin at Elevator (\$/mt)*	\$44.36	\$58.38	-\$1.76	\$26.35	\$26.35
* to cover elevation, elevator market risk, margin					