

Wheat Market Outlook and Price Report: May 23, 2017

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

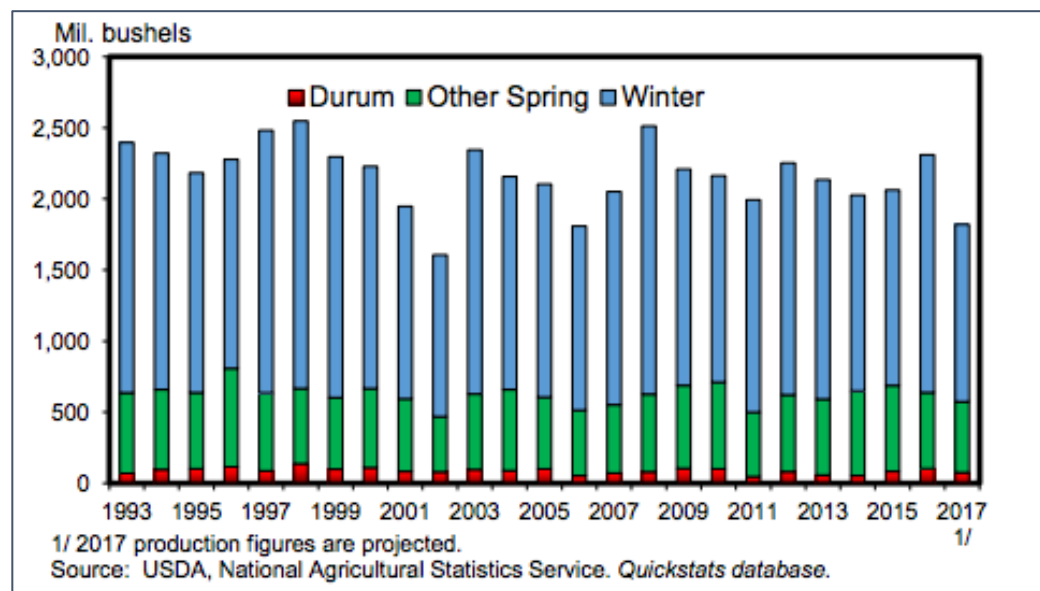
i) Background and Rationale for the Report

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 Markets May 23, 2017

2017/18 US Wheat Production Outlook



- **US winter wheat production:** US winter wheat production in 2017 is projected to fall 25 percent from 2016. This is based on both lower harvested area and a return to more typical yields, following record-setting yields in the 2016/17 marketing year.
- **US spring wheat:** Production for other spring and durum is based on the planted area indicated in the March USDA-NASS Prospective Plantings report and projected using the 10-year harvested-to-planted ratios by State and 1985-2016 yield trends by State, with exceptions for Arizona, California, and Idaho. Based on

this forecasting method and data, other spring and durum production are projected down 3 percent and 17 percent (respectively) in the new marketing year.

- Other spring planted area declines are significant for Colorado, Minnesota, North

2017	Other Spring	Durum
Planted area (million acres)	11.308	2.004
Harvested area (million acres)	11.016	1.967
Yield (bushels/acre)	45.2	39.1
Production (million bushels)	497.877	75.978
2016	Other Spring	Durum
Planted area (million acres)	11.605	2.365
Harvested area (million acres)	11.303	2.893
Yield (bushels/acre)	47.2	44.0
Production (million bushels)	534.027	104.116

Dakota, Oregon, and South Dakota, while declines in durum planted area are most dramatic in North Dakota (down 310,000 acres) and Montana (down 90,000 acres). Notably, in several of these States, soybean and pulses seeding is up, indicative of possible swapping of planted area across commodities (soybeans).

Global wheat and trade:

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

- Futures:** US wheat futures rebounded 8-11¢/bu Friday, but Kansas City still ended the week slightly lower.
- Funds:** Speculative hedge funds are currently short approximately 21 million mt in the wheat market. Spec Funds sold 3.3 million mt of wheat last week. Spec Funds sold any long they had in HRW in that process, presumably because the US frost/snow event turned out to be much less damaging than feared.
- EU:** Matif got within 25¢ of contract lows, and Sep-Dec widened to €4.25/mt. The Euro rose 2.5% to its highest close since early October, and most of Europe got some welcome rains.

Canadian wheat:

- According to the CGC, producers delivered 231k mt of wheat into the handling system, which is down from last week's 369k mt. Exports for week 41 were 230k mt, which is also down slightly from last week's 303k mt, and down 17% (-2.22 million mt) from last year's YTD exports.
- Elevator stocks are currently at 2.7 million mt with 1.5 million mt at primary elevators and most of the remaining inventory at port.
- The bulk of wheat inventory at port is located on the east coast with 285k mt at Thunder Bay, 447k mt at the St Lawrence, and 147k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 225k mt at port which is comparatively small.

(CGC) Grain Handling Summary Wheat					Week 41	(to May 14/'17)
('000 mt)	Terminal			Dom.		
	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance		
Week 41	230.9	385.8	230.3	43.4		
Week ago	368.9	306.3	303.0	41.4		
YTD	13,993.9	13,569.5	10,792.6	2,311.9		
Last YTD	15,014.6	14,072.8	13,015.0	2,590.2		
YTD less Last YTD (k mt)	-1,020.7	-503.3	-2,222.4	-278.3		
YTD over Last YTD (%)	93%	96%	83%	89%		
Mercantile based on weekly CGC Handling Data						
(CGC) Grain Handling Summary Durum					Week 41	(to May 14/'17)
('000 mt)	Terminal			Dom.		
	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance		
Week 41	64.3	116.7	90.9	4.5		
Week ago	70.4	107.1	140.3	3.9		
YTD	3,968.5	4,496.3	3,445.9	253.5		
Last YTD	3,882.3	5,064.3	3,859.4	334.3		
YTD less Last YTD (k mt)	86.2	-568.0	-413.5	-80.8		
YTD over Last YTD (%)	102%	89%	89%	76%		
Mercantile based on weekly CGC Handling Data						

- Producers delivered 64k mt of **durum** into the handling system over the past week. Durum *exports* during week 41 amounted to 91k mt; 3.45 million mt year-to-date. This is 11% or 414k mt lower than last year-to-date.
- Saskatchewan's May 15 progress report shows the province to be 21% seeded spring wheat, which is slightly behind the 5-year average of 33%. Alberta is also well behind schedule with 31.4% of the crop seeded as of May 16th, well behind the 5-year average of 65% for all grains for that date. Manitoba seeding progress is close to average with much southern Manitoba is nearing completion due to abnormally dry conditions.

US wheat:

- USDA reports planting of spring wheat as of May 21 at 90% complete vs last years 94% and an 84% 5-year average. Spring wheat emergence is rated at 62% vs last years 72% and the 5 year average of 59% for this date.
- As of May 21, US winter wheat is reported to be 72% headed vs the 5 year average of 67% YTD. 85% of the winter wheat crop is rated as fair or better, which slightly better than last week's 83%. 52% of the crop are in good to excellent condition 62% last year).
- US old crop sales were 248k mt (season total 1,039 million bu). New crop sales were 393k mt (season total 114 million bu). Inspections were 691kt (season total 946 million bu, up 34%).
- **France:** The French wheat crop is rated as 75% good/excellent, which is a slight decline from last week's 76% and remains below last year's conditions at this time.
- **Argentina:** Argentine old crop wheat Fob values fell US\$3/mt whilst the new crop bid-offer remained at a wide US\$168-\$178/mt for Dec-Jan. According to reports from the Buenos Aires Grain Exchange (BAGE), the Argentine wheat crop will likely be larger in the coming year vs. this year. It is anticipated that Argentina will plant 5.5 million hectares (13.6 million acres) of wheat this year, with early ideas on the 2017/18 wheat crop being 17.5 million mt vs. this year's 16.3 million mt crop.
- **Russia:** In the Black Sea at the close, old crop Russian 12.5 protein wheat was put at US\$184-188/mt, new crop Jul-Aug was quoted at US\$172-176/mt with September at US\$174-177/mt plus US\$3-4/mt per month through December '27. The 11.5% wheat discount was put at US\$7/mt with new crop feed wheat a further US\$7/mt less.
- Russian spring wheat plantings were put at around 47% complete on 14.5 million ha.
- The Russian Rouble was flat despite a 4% rally in crude oil and the VAT issue continued to complicate origination.

Significant purchases/ trades:

- After having effectively eliminated French wheat by raising the protein level 0.5% to 12%, **Egypt** (GASC) purchased 295k mt Black Sea & US wheat at US\$207.18-\$208.64/mt for June 15-24 shipment. *This is arguably somewhat bullish US HRW wheat.*
- **Tunisia** bought 75k mt at US\$181.75-184.40/mt plus 17kt at US\$190/mt for Jul-Sept. '17 shipment.
- **Iraq** bought 50k mt Australian wheat at US\$271.17/mt, about US\$4/mt above the US offer.
- **Japan** was seeking 115,491 mt of wheat with Canadian and US origin in their weekly tender that closes May 18. Of the total 79,572 mt is US origin specific wheat.
- **Indian importers** are reportedly sitting on record port stocks, which can't find homes due to the arrival of the domestic crop.

Wheat Market Outlook:

Significant events this past week:

- **Egypt's** higher protein wheat requirement will raise costs for Egypt and lower French wheat sales. This is because Egypt's state-buyer GASC raised the required level of protein content in purchases by 0.5% for most origins. The move is said to be aimed at increasing the quality of subsidized bread relied on by tens of millions of Egyptians. According to a tender document seen by Reuters, Black Sea origins such as Russian, Romanian, and Ukrainian wheat, which have made up the lion's share of GASC purchases over the past year, will now be required to have at least 12.5 percent protein wheat content instead of 12%. Other wheat origins such as France will now require 12% protein from 11.5%. French wheat, which is far more difficult to source with 12% protein.
- **India's** wheat imports have slowed in recent weeks as good quality domestic crop wheat has hit the market, leaving traders with unsold imported stockpiles in port silos. Wheat inventories at ports have climbed to a record high of about 1.8 million mt, mainly stemming from cargoes shipped from Australia and the Black Sea region.
- **Syria's** government has raised the price it pays farmers for their wheat to 140 pounds (\$0.27) a kilo as the procurement season begins to offset higher production costs as conflict continues in grain producing areas. The new price is 12% higher than the 125 Syrian pounds (\$0.24) announced in December. The Damascus government subsidizes bread for areas it controls and aid agencies offer supported prices in other areas. Subsidized bread has long been a main staple for Syrians.
- The purchase of 115k mt of **US HRW wheat by Egypt** (GASC) at US\$185/mt (~\$6.50/bu) was significant and somewhat bullish US wheat. However, Egypt also bought wheat from Russia, Ukraine, & Romania.
- Stratégie Grains reports that drought in western Europe reduced yields in nations including Spain and top wheat producer France, while frosts mostly in northern Europe probably also hurt grain crops.

➤ **Outlook:**

- The following issues have been exerting significant influence on the markets over the past few days:
 - Kansas winter wheat conditions improved this week versus last week, which was negative for prices. The blizzard/ snow 'damage' has become an event/ been factored into the market.
 - Specs Funds in wheat futures covered a significant portion of their short position during the rally after the blizzard and are now short 150k contracts in Chicago vs. a record short of 188k contracts a few weeks ago.
 - The US\$ has broken support, which is beneficial to commodities.
 - After a slow start due to wet weather, planting progress in the US for corn, soybeans, and spring wheat have now caught up roughly to their 5-year average. Seeding delays in the US are no longer a concern.
- The wheat market is still anxious about:
 - Weather issues: USA/ Canada (seeding progress and emergence), Europe (rain), Argentina, Australia (precipitation), China (dry, windy)
 - Quality cash wheat
 - Size of the Fund short (Specs are -17.7 million mt short wheat)
- *There are still various weather issues around the world, but their impact seems diminished; Funds are still short. While this market needs to be watched, it has become harder for now to have '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 23, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$6.66	\$244.72	1 CWRS 13.5	\$6.58	\$241.78
1 CWAD 13.0	\$6.99	\$256.84	1 CWAD 13.0	\$6.78	\$249.12
1 CPSR 11.5	\$4.65	\$170.86	1 CPSR 11.5	\$4.88	\$179.31
SW Sask			SW Sask		
1 CWRS 13.5	\$6.72	\$246.92	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$6.91	\$253.90
1 CPSR 11.5	\$4.62	\$169.76	1 CPSR 11.5	\$4.82	\$177.11
NE Sask			NE Sask		
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.08	\$260.15	1 CWAD 13.0	\$6.92	\$254.27
1 CPSR 11.5	\$4.37	\$160.57	1 CPSR 11.5	\$4.69	\$172.33
SE Sask			SE Sask		
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	\$6.53	\$239.94
1 CWAD 13.0	\$7.13	\$261.98	1 CWAD 13.0	\$6.87	\$252.43
1 CPSR 11.5	\$4.39	\$161.31	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 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
 - 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)

- 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 23, 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	\$344.12	\$311.44		
HRS	\$336.69			
HRW 11.5	\$257.97			
SWW 12.0	\$250.54			
1 CWRS 13.5³	\$344.12		\$238.47	\$105.65
2 CWRS 13.0³	\$336.69		\$221.93	\$114.76
3 CWRS³	\$257.97		\$206.13	\$51.83
CPS³	\$243.61		\$151.75	\$91.85
1 CWAD⁴		\$381.25	\$258.31	\$122.94
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$186.00			
French 11.0 (Rouen)	\$187.38			
ASW 10.5 (W Coast)	\$200.00			
Argentine 12.0	\$185-\$190.00			

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 23, 2017
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.18	\$8.97	\$6.83	\$6.63	\$6.63
Parity Track Rosetown	\$7.68	\$7.48	\$5.34	\$5.13	\$5.13
Track Bid Rosetown Area	\$6.49	\$6.04	\$5.61	\$4.13	\$4.13
Gross Margin at Elevator (\$/bu)*	\$1.19	\$1.44	-\$0.27	\$1.00	\$1.00
Gross Margin at Elevator (\$/mt)*	\$43.73	\$52.84	-\$10.09	\$36.87	\$36.87
* to cover elevation, elevator market risk, margin					