

Wheat Market Outlook and Price Report: May 29, 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.

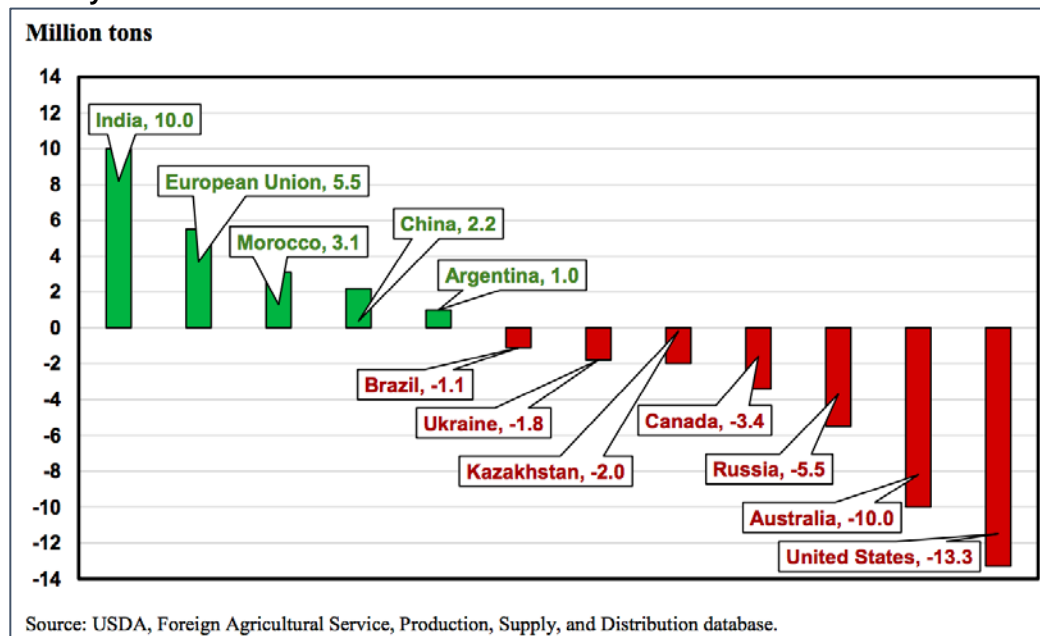
ii) Global Wheat Markets May 29, 2017

2017/18 World Wheat Production May Update – International Grains Council (ICG)

WORLD ESTIMATES					
	14/15	15/16 est.	16/17 f'cast.	17/18 proj.	
million tons				27.04	25.05
TOTAL GRAINS ^{a)}					
Production	2051	2012	2120	2054	2053
Trade	322	346	349	342	346
Consumption	2010	1988	2087	2079	2086
Carryover stocks	457	481	513	491	479
year/year change	41	24	32		-34
Major exporters ^{b)}	150	154	178	169	158
WHEAT					
Production	730	738	754	736	736
Trade	153	166	173	166	169
Consumption	715	719	738	738	738
Carryover stocks	206	225	241	239	239
year/year change	15	19	16		-2
Major exporters ^{b)}	66	68	79	73	68

a) Wheat & Coarse Grains

- **Total grain production:** With changes mainly for corn, the IGC forecast for total grains (wheat and coarse grains) production in **2016/17** is 8 million mt higher month-on-month, at a record 2,120 million mt, up by 5% year-on-year. However, because of increased consumption, especially for feed, the projection for carryover stocks is cut by 3 million mt, to 513 million mt, *still the largest ever*.
- Total grains production expectations for **2017/18** at 2,053 million mt is only slightly lower m/m. Increased consumption from last time is mostly for industrial use, on upward revisions for corn-based ethanol in the USA and starch in China. This contributes to smaller ending inventory figures for those countries and the forecast for world total grains stocks is cut by 12 million mt from before, to 479 million mt (-7% y/y). Only a small y/y retreat in trade is anticipated, to 346 million mt. [Note coarse grain and wheat usage are linked by feed use of either grain.]
- **World wheat production and trade:** IGC did not change their 2017/18 wheat production forecast of 736 million mt. They did, however, increase wheat trade by 3 million mt to 169 million mt. Wheat ending stocks were left at 239 million mt, though stocks at major exporters were lowered by 5 million mt.
- **Projected changes in 2017/18 wheat production (from 2016/17) by producing country:**



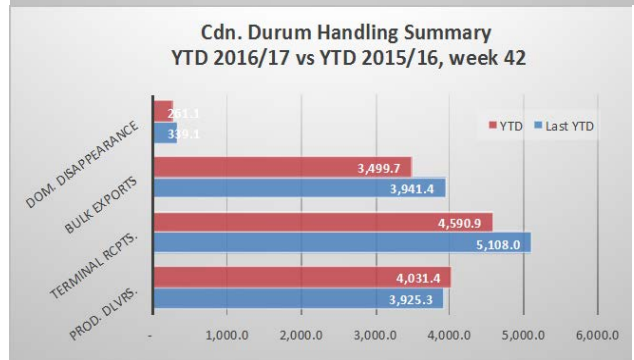
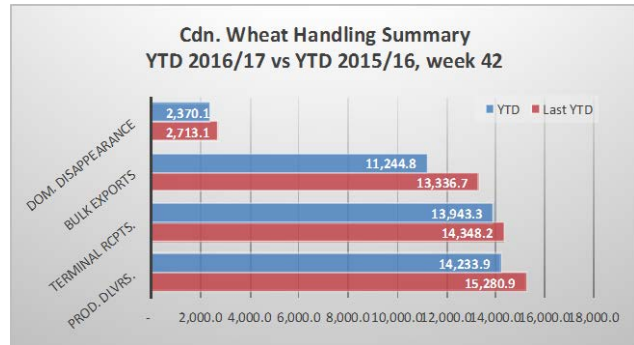
Global wheat and trade:

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

- **Futures:** In the futures markets wheat was relatively unchanged throughout much of the week in mixed trading, but closed the week at US\$4.38 per bushel, up sharply 7 cents with a small price rally ahead of the US Memorial Day weekend. News on Friday that Turkey is curbing Russian wheat imports with new tariffs helped to support the grains complex, though the news was later called incorrect.
- **Funds:** Speculative hedge funds are currently short approximately 19.3 million mt in the wheat market. Spec Funds sold bought 1.3 million mt of wheat last week.
- **Matif:** EU futures closed flat to fractionally lower in a light volume trade. The Euronext September lost .25 Euros to 166.75 while the December held steady at 171.25.

Canadian wheat:

- o According to the CGC, producers delivered 238k mt of wheat into the handling system, which is up slightly from last week's 231k mt. Exports for week 42 were 452k mt, which is up sharply from last week's 230k mt, and down 16% (-2.09 million mt) from last year's YTD exports.
- o Elevator stocks are currently at 2.6 million mt with 1.08 million mt at primary elevators and most of the remaining inventory at port.
- o The bulk of wheat inventory at port is located on the east coast with 321k mt at Thunder Bay, 560k mt at the St Lawrence, and 140k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 393k mt at port which is comparatively small.
- o Producers delivered 62k mt of **durum** into the handling system over the past week. Durum exports during week 42 amounted to 54k mt; 3.5 million mt year-to-date. This is 10% or 442k mt lower than last year-to-date.



- o Saskatchewan's May 16th – May 22nd crop report shows the province to be 60% seeded, which is slightly behind the 5-year average of 65%. The May 23rd Alberta agriculture crop progress report shows that the harvest of 2016 crops has progressed significantly and that progress has been made on seeding of 2017 crops. Seeding progress across the province was up by 26% from last week and seeding in Alberta is now reported to be 57% complete. In Manitoba, seeding is estimated to be 85 – 90% complete across the province with many of the early seeded cereal crops now in the 2-3 leaf stage. Some frost was reported in areas, but most frost sensitive crops are not yet emerged.
- o *According to Agriculture and Food Canada (AAFC) last week, almost all acreage increases in spring wheat will be taken on by hard red spring wheat, accounting for 80% of total wheat acres, versus 76% in 2016/17. That being said, hard red spring wheat prices have been trending a bit higher lately with some of the U.S. winter wheat crop concerns.*

US wheat:

- o USDA reports planting of US spring wheat as 90% complete vs last year's 94%. Spring wheat emergence is rated at 62% vs last year's 75% and the 5-year average of 59% for this date.
- o According to NASS, growers intend to plant the fewest acres of other spring wheat since 1972. Acreage declines are significant for Colorado, Minnesota, North Dakota, Oregon, and South Dakota.
- o The Dakotas are getting a bit dry which has some people beginning to think about spring wheat yields being affected but it is still early in the crop year.
- o Export Sales were reported at a combined old crop / new crop figure of 544,800 mt, which was toward the top end of the range of estimates which ran between 250,000 and 650,000 mt. Old crop wheat sales at 201,900 mt exceeded the top end of the estimates, which for that position ran between 0 and 200,000 tons. Last week's old crop figure was 247,565 mt. New crop sales were 342,900 mt, well within the estimates range of 250,000 to

450,000 mt. (393,071 mt last week). The old crop figure was increased by a sale of 113,400 mt of SRW to Mexico.

- By class, HRW was again the leader at 235,100 mt or 43.2 % of the total. SRW, supported by the sale to Mexico, slotted in the second position at 162,300 mt or 29.8 %. HRS slipped to third at 97,300 mt (17.9 %) with SWW at 50,500 mt or 9.3 %. Durum was a negative 300 mt.
- **EU:** A softer Euro provided a measure of support while improving weather which has stabilized crops in Europe held prices in check.
- Last week, EU Soft Wheat exports totaled 97,000 tons bringing the total for the season to 21.8 MMTs, a 21 % decline from the 27.55 last year.
- French wheat ratings fell 1 point to 75% Good to Excellent and MARS trimmed the EU yield estimate to 5.91 mt per ha from 6.05 last month.
- **Russia:** Black Sea prices were little changed, with old crop Russian wheat with 12.5% protein still refusing to let go on the inverse and still offered at US\$188/mt, but with no buyers above US\$183/mt. New crop wheat with 12.5% protein was again US173-176/mt for Jul-Aug with US\$2-3/mt per month through December '17.
- Ukrainian 11.5% protein wheat is still a US\$7/mt discount, with feed wheat still around US\$160/mr for harvest plus US\$2-3/mt per month.

Significant purchases/ trades: *Very little going on here.*

- **South Korea** bought 63,000 mt of Feed Wheat, likely of Black Sea origin.
- The **Egyptian government** has purchased a total 2.73 mln mt of domestic wheat from local farmers since starting purchases in mid-April. This compares to 4.2 mln mt by same time last year. Egypt has said it plans to purchase ~4mln mt of local wheat in season.

Wheat Market Outlook:

Significant events this past week:

- The **International Grains Council** maintained its estimate of 2017-18 global wheat production at 736 million mt, down from 754 million mt the prior year. The trade estimate was raised by 3 million mt to 169 million mt, while consumption held steady at 738 million mt. Carryover stocks were unchanged at 239 million mt, down 2 million mt on the year. Stocks held by the major exporters declined 5 million mt on the month to 68 million mt, versus 79 million mt last season.
- **EU:** In Europe, yields were cut somewhat due to lower expected grain yields especially Spain (barley & wheat) and to some degree France (soft wheat), but UK yields were upgraded.
- **Russia:** SovEcon (Russian agriculture consultancy) trimmed the 2017 Russian grain crop by 3 million mt from their prior estimate to 106.5 million mt. *However, SovEcon expects Russia's grain exports to reach a record 36.5 million mt in the 2016/17 marketing year, which ends on June 30.* Despite Russia's grain exports already running at a record pace after the historically highest crop in 2016, one of the world's largest wheat exporters is still expected to start a new season on July 1 with all-time high stocks.
- **Turkey:** According to Turkey's economy ministry, news reports alleging new Turkish trade restrictions on agricultural imports from Russia do not reflect the truth. According to the Ministry, Turkey and Russia have agreed to remove obstacles before bilateral trade, and that Turkey is committed to deal with Russia.

➤ *Outlook:*

- The following issues have been of importance:
 - Kansas winter wheat conditions and first US winter wheat harvest results.
 - Specs Funds in wheat futures bought another 1.3 million mt of wheat last week. (They have been buying in their grain short while at the same time selling oilseeds. – Will that continue?)
 - 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 to their 5-year average. Seeding delays in the US are no longer a concern.

- The wheat market is still watching:
 - Weather issues: USA/ Canada (Cdn. seeding progress and emergence), Europe (dryness in Spain & France; rain in the UK)
 - Quality of cash wheat
 - Size of the Fund short (Specs are -19.1 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 to have 'sustained arguments' for a more bullish market.*
- *The next important report to watch will be issued June 9th: The USDA monthly supply and demand report. On June 30th, USDA will issue their quarterly stocks and final planted acreage for corn, soybeans, and spring wheat.*

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 29, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$6.73	\$247.29	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	\$7.06	\$259.41	1 CWAD 13.0	\$6.78	\$249.12
1 CPSR 11.5	\$4.64	\$170.49	1 CPSR 11.5	\$4.80	\$176.37
SW Sask			SW Sask		
1 CWRS 13.5	\$6.73	\$247.29	1 CWRS 13.5	\$6.66	\$244.72
1 CWAD 13.0	\$7.21	\$264.92	1 CWAD 13.0	\$6.90	\$253.53
1 CPSR 11.5	\$4.61	\$169.39	1 CPSR 11.5	\$4.74	\$174.17
NE Sask			NE Sask		
1 CWRS 13.5	\$6.57	\$241.41	1 CWRS 13.5	\$6.52	\$239.57
1 CWAD 13.0	\$7.26	\$266.76	1 CWAD 13.0	\$6.81	\$250.23
1 CPSR 11.5	\$4.35	\$159.84	1 CPSR 11.5	\$4.50	\$165.35
SE Sask			SE Sask		
1 CWRS 13.5	\$6.59	\$242.14	1 CWRS 13.5	\$6.58	\$241.78
1 CWAD 13.0	\$7.29	\$267.86	1 CWAD 13.0	\$6.87	\$252.43
1 CPSR 11.5	\$4.36	\$160.20	1 CPSR 11.5	\$4.44	\$163.14

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*

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,

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.
 - 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.

Vancouver FOB, minus the elevator bid prices representative measure of the "export" basis for grains in Western Canada."

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				May 29, 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	\$350.56	\$311.44		
HRS	\$343.13			
HRW 11.5	\$265.89			
SWW 12.0	\$250.54			
1 CWRS 13.5³	\$350.56		\$240.67	\$109.88
2 CWRS 13.0³	\$343.13		\$221.93	\$121.20
3 CWRS³	\$265.89		\$206.13	\$59.75
CPS³	\$243.61		\$154.32	\$89.28
1 CWAD⁴		\$381.25	\$260.15	\$121.11
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$185.00			
French 11.0 (Rouen)	\$191.20			
ASW 10.5 (W Coast)	\$200.00			
Argentine 12.0	\$187.50			

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 29, 2017
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.35	\$9.15	\$7.05	\$6.63	\$6.63
Parity Track Rosetown	\$7.86	\$7.65	\$5.55	\$5.13	\$5.13
Track Bid Rosetown Area	\$6.55	\$6.04	\$5.61	\$4.20	\$4.20
Gross Margin at Elevator (\$/bu)*	\$1.31	\$1.61	-\$0.06	\$0.93	\$0.93
Gross Margin at Elevator (\$/mt)*	\$47.97	\$59.28	-\$2.16	\$34.30	\$34.30
* to cover elevation, elevator market risk, margin					