

Wheat Market Outlook and Price Report: June 12th, 2017

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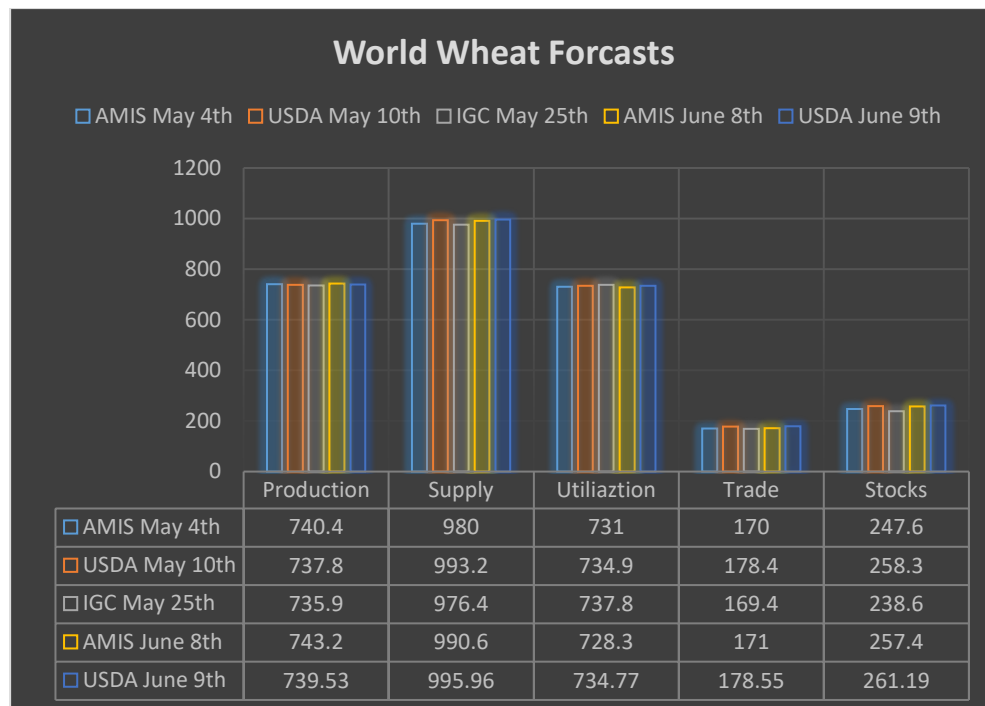
i) Background and Rationale for the Report

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 June 12/17

2017/18 World Wheat Overview:



➤ **June 8th Agricultural Market Information System (AMIS) report:**

- **World wheat production** for 2017/18 is forecasted to fall below the 2016 record, but large carryover stocks from last year should keep the wheat markets comfortably supplied.
- **AMIS production forecast** for 2017/18 wheat *has been raised*, but are still down from last year on a year to year comparison.

- AMIS has lifted their estimate for projected ending stocks to 257.4 million mt which is up from their estimate of 247.6 million mt on May 4th. This is largely due to upward revisions in China which have more than offset downward adjustments in the US.

➤ **June 9th USDA World Agriculture Supply and Demand Estimates (WASDE) report:**

- **Projected** global wheat supplies for 2017/18 has been raised by 2.8 million mt, on higher forecasted wheat production in Russia which is up by 2 million mt to 69 million.
- **Growing conditions** continue to be favorable for winter wheat with Turkey's wheat production forecast was increased by 0.5 million mt. India and the EU have slightly lowered their production estimates, but are still forecasted to have large crops with India estimating production at a record 96 million mt's, and the EU projecting 150.8 million mt. According to the USDA's June 9th report, US wheat supplies are also forecasted to be slightly higher vs previous estimates on increased beginning stocks, production, and imports.
- **Global ending stocks** are now projected to be 261.2 million mt, up 2.9 million mt from last month's estimates.

Global wheat events and trade:

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

- **Futures:** On Friday, wheat futures settled with losses of 1 to 4 cents in the Kansas City and Chicago contracts, as Minneapolis was up mostly a penny to 2 1/2 cent in the front months.
- **Funds:** Index Funds did a little selling. Specs and Spec funds were huge buyers of corn basis the WASDE feed grain numbers, but in our view the WASDE Chinese reduction in corn was to be expected.
- **Matif:** EU futures closed higher following the US, but for now there are no supply issues and French premiums were little changed.

Canadian wheat:

- According to the CGC, producers delivered 490 mt of wheat into the handling system, which is up significantly from last week's 232k mt. Exports for week 44 were 244k mt, down significantly from last week's 445k mt, and down 12.78% (-1.7 million mt) from last year's YTD exports.
- Elevator stocks are currently at 2.5 million mt with 1. 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 273k mt at Thunder Bay, 469k mt at the St Lawrence, and 112k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 359k mt at port, which is comparatively small.
- Producers delivered 151k mt of **durum** into the handling system over the past week. Durum exports during week 42 amounted to 28k mt; 3.56 million mt year-to-date. This is 10.07% or 359k mt lower than last year-to-date.
- Saskatchewan's crop progress report indicates that seeding is almost complete with 94% seeded which is slightly ahead of the 5-year average for this YTD. Seeding is most advanced in the south eastern and southwestern regions with 98% of the crop seeded. Meanwhile 96% is reported to be seeded in the east central region and 95% in the west central region. The northern region of the province still has the most acres remaining to seed, with seeding estimated at only 88% complete in the northwest and 84% complete in the north east. Drought concerns have begun to emerge in some southern regions and rain is badly needed.
- In Manitoba, hot dry conditions have prevailed across the province with shower activity bringing very little precipitation. Most areas of the province are in need of a moderate rainfall

to improve soil moisture. Seeding operations are reported to be 95% complete across the province with the majority of remaining unseeded acres in the north-west regions due to earlier heavy rains that delayed planting. Most crops have emerged well and farmers are now focused on herbicide application. Flea beetles have been reported on canola in some regions and control measures were applied on some acres.

- In the June 9th Alberta crop progress report, seeding is estimated to be 91% complete across the province which is up from last week's 79% but still well below the 5-year average of 99.5% for this YTD. The majority of the unseeded acres are located in the northern regions of the province with spring wheat estimated to be 96% seeded in the north-west and north-east regions, and only 72% seeded in the peace river region.

US wheat:

- US wheat was up 20¢ ahead of the USDA report on the drop in HRS ratings and the ongoing hot dry conditions across the Dakotas. Season export sales are at a 4-year high, but whilst the rally made US wheat increasingly uncompetitive against other origins, the US is currently not about demand - it is about supply and weather with still only limited agreement in the major models. HRW cash premiums soared as both yield and protein continued to disappoint
- The weekly USDA crop progress report on June 5th rated the US winter wheat crop as 49% good/excellent which is down 1% from last week and 13% lower than last year's YTD report. Harvest reports from Oklahoma and Texas have indicated good quality and near average yields for HRW wheat and the custom harvesters have now crossed the Kansas/Oklahoma state line. Limited areas along the southern Kansas border have been harvested but progress has slowed with grain moisture testing above 14% due to humidity and precipitation. 65 samples have been collected from Texas and Oklahoma which indicate protein levels of 10.8% and an average test weight of 60.9 lb/bu.
- The potential for severe drought in the northern US plains brought note to spring wheat that has been the large driving factor in the market this week. Drought combined with a lower US dollar index and speculative funds buying back short positions, has support wheat prices as the grains complex moved upward. However, according to the USDA's drought monitor, only 4% of the US winter wheat crop is affected by the current drought.

➤ **Global wheat production and trade:**

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

Australian wheat:

- Aussie old crop Fob wheat rose US2/mt. New crop futures hit 10-month highs as dryness concerns increased (USDA made no changes to the Aussie S&D).
- Wheat in Australia is off to a mixed start. Dry conditions have prevailed in many regions as planting is nearing completion. Rain is needed, but it is still quite early for making any predictions.

Argentine wheat:

- Argentine old crop Fob wheat eased US\$2/mt, and the 11.5 protein discount narrowed to US\$5-7/mt. New crop wheat was unchanged with Dec-Jan offered at US\$180/mt.
- The Buenos Aires Grain Exchange (BAGE) put plantings at 21% complete against 16% last year, and maintained expected acreage at 5.5 million ha.
- Farmer sales of the current crop are put at 13.3 million mt (just 7.3 million mt last year).
- USDA raised production and exports by 1 million mt for '16/17 and by 500k mt for '17/18.

EU wheat:

- Hot dry conditions in France and Spain have hampered wheat growth and development, but yield expectations are still relatively unchanged.

Black Sea wheat:

- In the Black Sea, nearby/immediate harvest positions remained firm as the Ruble and VAT issues seemed to outweigh the renewed concerns over Egypt. The trade was surprised

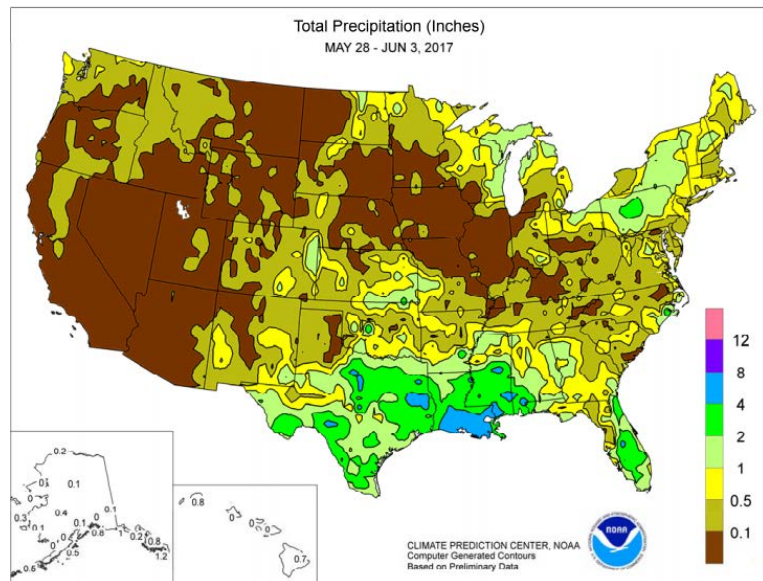
by the volume of offers to GASC at Saturday's tender: At Friday's close the bid-offer on Russian 12.5 protein wheat was US\$177-182/mt for LH July and US\$175-180/mt for August, plus nominally US\$2/mt per month through December, although there were no firm offers beyond September.

- The firmness came despite private crop estimates moving closer to 70 million mt and the potential threat to early season Russian exports from Egypt, (around 25% of total Russian annual shipments). USDA also raised Russia's 2017 crop by 2 million mt to 69 million mt.

Wheat Market Outlook:

➤ Significant events:

- The most significant event in the past week was the rally in the grain complex which was largely sparked by dry weather in the northern US plains. Minneapolis spring wheat led the markets upward. Dry weather in southern Europe has also likely contributed to the situation.
- The Minneapolis - Kansas City futures spread hit UD\$1.59/bu, which is the highest level since 2012, while in Canada the Southern Prairies continued to suffer excessive dryness with May precipitation just 40% of normal.
- USDA fractionally raised the HRW crop and imports, thereby adding 10 million bu to ending stocks, while world stocks were raised 3 million mt to another new high.



➤ Outlook:

- Per Friday's Wasde report, *world stocks will continue to build in 2017/18*, and with total Russian supplies now above last year, the world's cash wheat driver should once again have plenty of wheat to export (and it remains easily the world's cheapest quality wheat). On the other hand, the USDA's all-wheat US total of 1,824 million bu requires a HRS yield of around 43 bu/ac, with many in the trade already using a sub-40 bu/ac number. Consequently, it is the July report that will address the US wheat Supply & Demand 'by-class', which will be trade's real focus. However, most of the fund short is in soft red Chicago wheat, which is not so bullish. - In our view, Kansas undervalued.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT

Date: June 12, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$7.17	\$263.45	1 CWRS 13.5	\$6.99	\$256.84
1 CWAD 13.0	\$7.08	\$260.15	1 CWAD 13.0	\$4.86	\$178.58
1 CPSR 11.5	\$4.83	\$177.47	1 CPSR 11.5	\$4.90	\$180.05
SW Sask			SW Sask		
1 CWRS 13.5	\$7.21	\$264.92	1 CWRS 13.5	\$7.05	\$259.05
1 CWAD 13.0	\$7.17	\$263.45	1 CWAD 13.0	\$5.92	\$217.52
1 CPSR 11.5	\$4.82	\$177.11	1 CPSR 11.5	\$5.03	\$184.82
NE Sask			NE Sask		
1 CWRS 13.5	\$7.04	\$258.68	1 CWRS 13.5	\$6.90	\$253.53
1 CWAD 13.0	\$7.25	\$266.39	1 CWAD 13.0	\$6.86	\$252.06
1 CPSR 11.5	\$4.57	\$167.92	1 CPSR 11.5	\$4.79	\$176.00
SE Sask			SE Sask		
1 CWRS 13.5	\$7.10	\$260.88	1 CWRS 13.5	\$7.00	\$257.21
1 CWAD 13.0	\$7.35	\$270.07	1 CWAD 13.0	\$6.99	\$256.84
1 CPSR 11.5	\$4.64	\$170.49	1 CPSR 11.5	\$4.82	\$177.11

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)
 - 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:

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."

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				June 12, 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	\$359.36	\$335.86		
HRS	\$303.06			
HRW 11.5	\$267.81			
SWW 12.0	\$246.76			
1 CWRS 13.5³	\$359.36		\$257.58	\$101.79
2 CWRS 13.0³	\$303.06		\$239.20	\$63.86
3 CWRS³	\$267.81		\$223.77	\$44.04
CPS³	\$239.90		\$167.19	\$72.72
1 CWAD⁴		\$384.33	\$260.15	\$124.18
Competing wheat: US\$/mt				
Russia 12.5(Black Sea, 25k mt)	\$193.00			
French 11.0 (Rouen)	\$182.74			
ASW 10.5 (W Coast)	\$210.00			
Argentine 12.0	\$183-188			

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					June 12, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.59	\$8.06	\$7.10	\$6.53	\$6.53
Parity Track Rosetown	\$8.10	\$6.56	\$5.61	\$5.03	\$5.03
Track Bid Rosetown Area	\$7.01	\$6.51	\$6.09	\$4.55	\$4.55
Gross Margin at Elevator (\$/bu)*	\$1.09	\$0.05	-\$0.48	\$0.48	\$0.48
Gross Margin at Elevator (\$/mt)*	\$39.95	\$2.02	-\$17.80	\$17.73	\$17.73

* to cover elevation, elevator market risk, margin