

Wheat Market Outlook and Price Report: July 4th, 2017
 By Marlene Boersch/ A.P. Temple
 Mercantile Consulting Venture Inc.

i) Background and Rationale for the Report

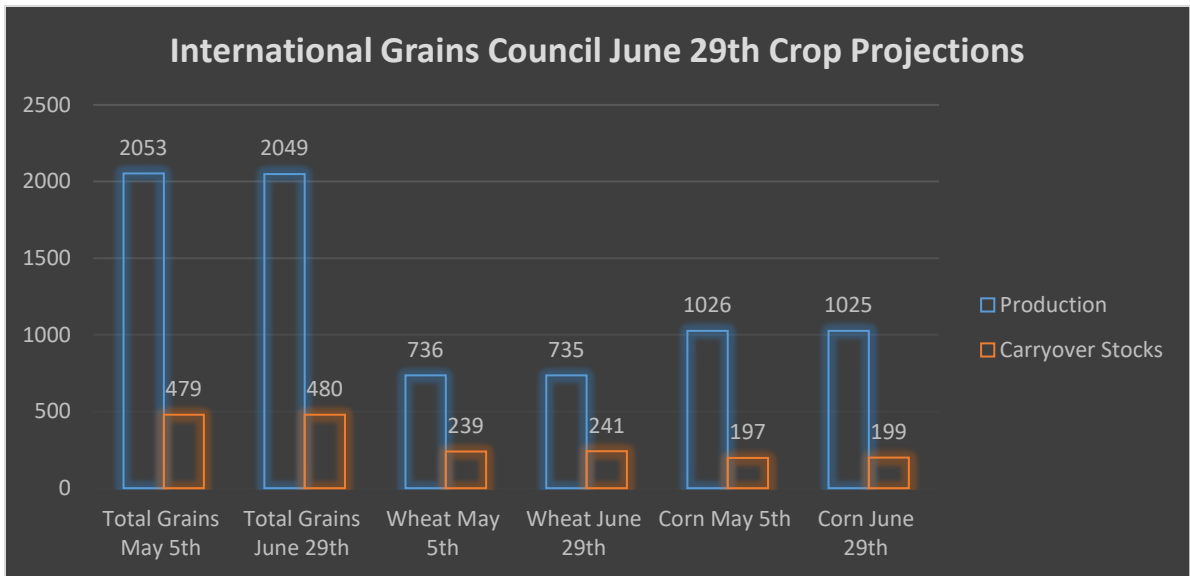
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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) Wheat Market Outlook July. 4/17

2017/18 World Wheat Overview:

- **June 29th International Grains Council (IGC) market report:**
 - **World wheat production** for 2017/18 is forecasted to decrease by 1 million mt to 735 million mt while world ending wheat stocks are forecast to increase by 2 million mt to 241 million mt.
 - **Total grains production** is forecasted to decrease by 4 million mt in the 2017/2018 crop year due to early reports from some regions in the northern hemisphere that indicate occasionally poor crops.
 - **In the June 29th report**, world wheat trade also increased by 2 million mt to 170 million mt, while consumption fell by 3 million mt to 735 million mt.

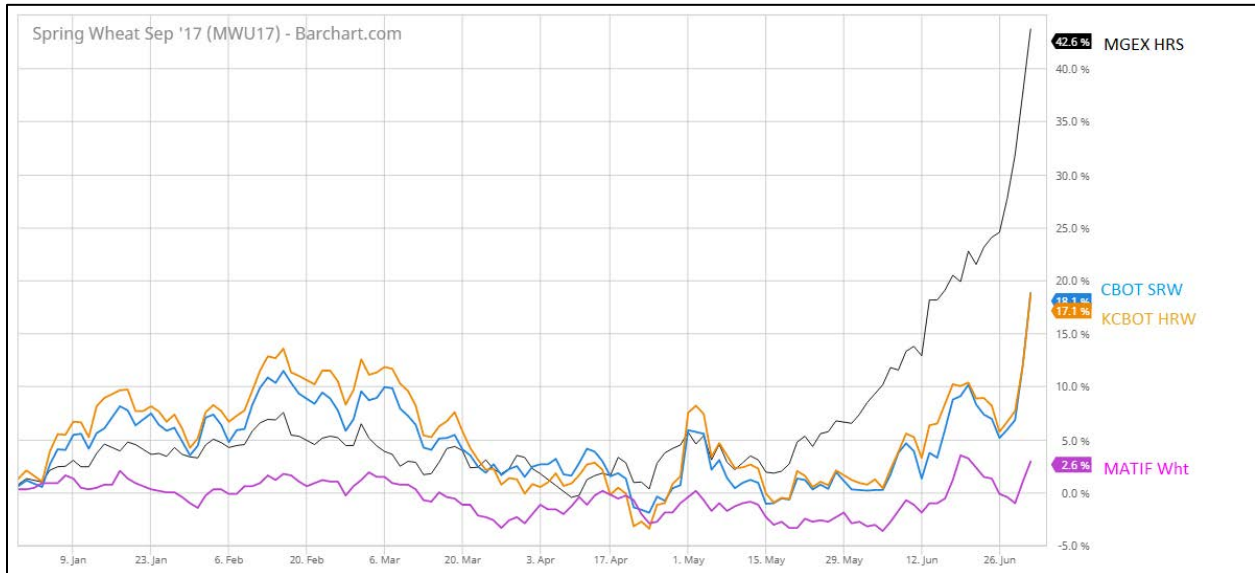


Global wheat events and trade:

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

o **Futures:**

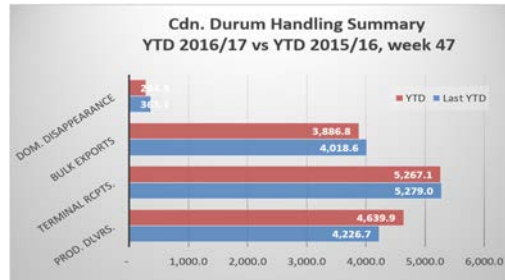
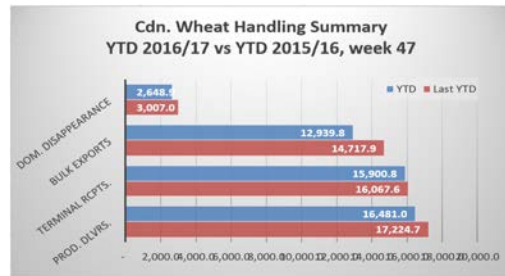
September Chicago wheat futures closed up US 29.75 cents on Friday's trade, up 6.9% for the week and up 19.04% for the month of June. Meanwhile Minneapolis September HRS closed the week up by US 32 cents on Friday's trade, and up US 106 cents for the week driven primarily by weather concerns in the northern US plains and by fund short covering. Overall, the HRS market is up by 35% for the month of June and up by 45% over the past 3 months. Spreads between HRS and other classes have continued to be exceptionally wide, driven by concerns about a shortage of high protein wheat.



- o **Funds:** Large buying by Funds was the driver of the futures markets this week while cash buying was absent. To support futures, we need dramatic reduction of wheat production in the July 12 WASDE report.
- o **Matif:** EU wheat futures hit 10-day lows early on the cooler wetter weather and a 14-month high in the Euro, but ended the week higher.

Canadian wheat:

- o According to the CGC, producers delivered 541K mt of wheat into the handling system, which is up significantly from last week's 422k mt. Exports for week 47 were 231k mt, down significantly from last week's 374k mt, and down 12.08% (-1.78 million mt) from last year's YTD exports.
- o Elevator stocks are currently at 2.78 million mt with 1.5 million mt at primary elevators and most of the remaining inventory at port.
- o Producers delivered 137k mt of **durum** into the handling system over the past

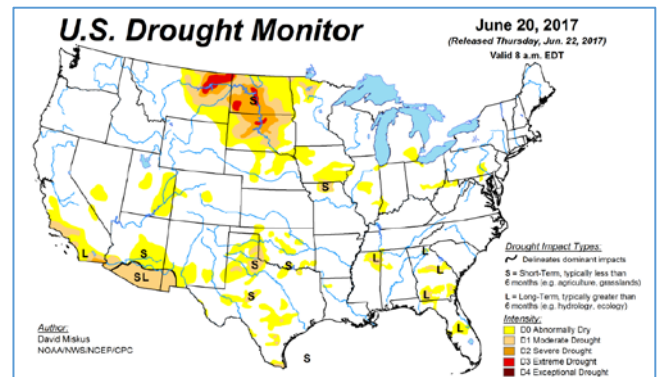
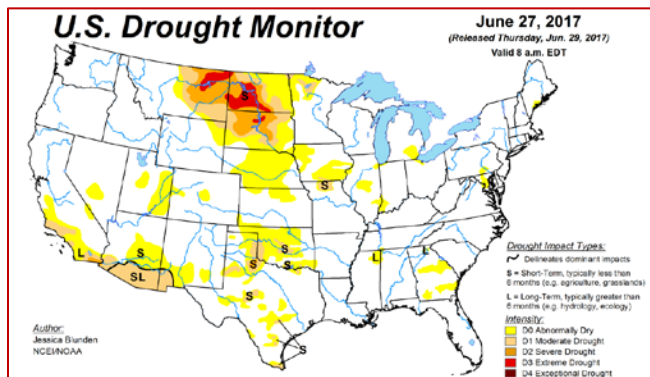


week. Durum exports during week 47 amounted to 63k mt; 3.89 million mt year-to-date. This is 3.28% or 132k mt lower than last year-to-date.

- The June 26th Manitoba crop progress report indicates that precipitation fell across the province in amounts of 3 – 29 mm. Some crops in low areas are reported to be experiencing moisture stress and cooler conditions have prevailed in most regions. Most farmers are now applying for close to applying fungicides and haying is also now in progress.
- The June 20-26 Saskatchewan crop progress report rates 87% of fall cereals, 62% of spring cereals, 55% of oilseed crops, and 67% of pulse crops to be at or ahead of their normal stage of development. While much of SK has been cool and dry, the majority of crops are in good to excellent condition. Some regions in the south reported frost and varying amounts of precipitation fell across the province. The southwestern region reports the driest conditions with 84% of topsoil rated as short or very short of moisture which is having a serious impact on crop yield in those regions.
- In the most recent Alberta crop progress report that was released on June 29th, most of Alberta is reported to have had widespread showers in the amount of 5 – 20 mm. All regions of Alberta reported declining crop condition ratings with the exception of the peace River region which maintained its previous rating. The provincial crop condition rating is now 78% good or excellent which is down by 4% from last week's report but still ahead of the 5 year average of 73% good or excellent for this year to date.

US wheat:

- According to the June 26th USDA crop progress report, the US winter wheat crop is now estimated to be 41% harvested which is slightly ahead of the 5-year average of 39% harvested for this year to date. The report continues to rate 49% of the winter wheat crop as good or excellent which is unchanged from last week. While USDA ratings have remained stable, the June 27th US drought monitor shows intensifying drought in the northern US plains and reports that approximately 11% of the US winter wheat crop lies within the drought affected regions. Wheat markets have continued to be very strong and are largely driven by the rally in Minneapolis HRS and by a reportedly shrinking supply of high protein wheat. The recently released USDA acreage report also indicates that US wheat acres planted in 2017 have decreased from last year's numbers to 45.7 million acres. This is a 9% decrease from 2016/2017 crop year and is the smallest US wheat acreage planted since 1919. However, the recent report also shows that wheat acreage estimates increased by 1% from the last USDA acreage report. As of June 25th, the US spring wheat crop was rated 40% good or excellent, which is only down slightly from last week's estimates of 41% good or excellent. The US spring wheat crop is also now rated as 36% headed which is slightly ahead of the 5-year average of 35% for this YTD.



- Based on calculations resulting from the June 25th USDA crop progress ratings, it seems the US spring wheat crop may face a yield reduction of 30% from the 3-year average yield. While this would dramatically reduce US ending stocks, it does not completely erode the large carrying stocks from 2016/2017 and should still leave the US with ending stocks of

HRS wheat. HRS exports will likely be reduced in the coming crop year due to large price spreads between spring and winter wheats.

Australian wheat:

- Reports for the June 18-24 time period indicate that some scattered showers fell across regions of Australia, but that dryness still persists and more rain is needed.
- Australian new crop wheat futures soared A\$20/mt to new contract highs and old crop Fob values rose A\$25/mt. By Friday, interior bids reflected a \$A35/mtm rally in the Fob parity. Crop estimates are dropping below the USDA/ABARES levels of 25 million mt, with some private talk already pushing down towards 20 million mt.

Argentine wheat:

- Argentina continues to experience favourable warm dry conditions as harvest continues.
- Argentine old crop Fob values were unchanged, but new crop offers rose US\$5/mt to US\$190-192/mt for 12% protein wheat, although the 11.5% protein wheat discount widened to US\$10/mt.
- The Peso hit all-time lows and farmer selling of the current crop rose to 14.1 million mt (and remains way above last year's 7.7 million mt), of which exporters own 10.75 million mt (5.3 million mt last year).

EU wheat:

- Hot dry conditions have helped to promote the dry down of winter crops but have also had a negative impact on summer crops in Spain, France, and Italy.

Ukrainian Wheat:

- Drought has intensified in the north central region of the Ukraine and is having a negative effect on the Ukraine wheat crop.
- Ukraine's weather bureau put the crop at 23 million mt against 26 million mt last year, with the vegetation index maps showing a sharp decline from last year. [See map below.]
- Rainfall across Ukraine and South Russia is projected at around 50% of normal over the next two weeks, coming on the back of a very dry month of June.

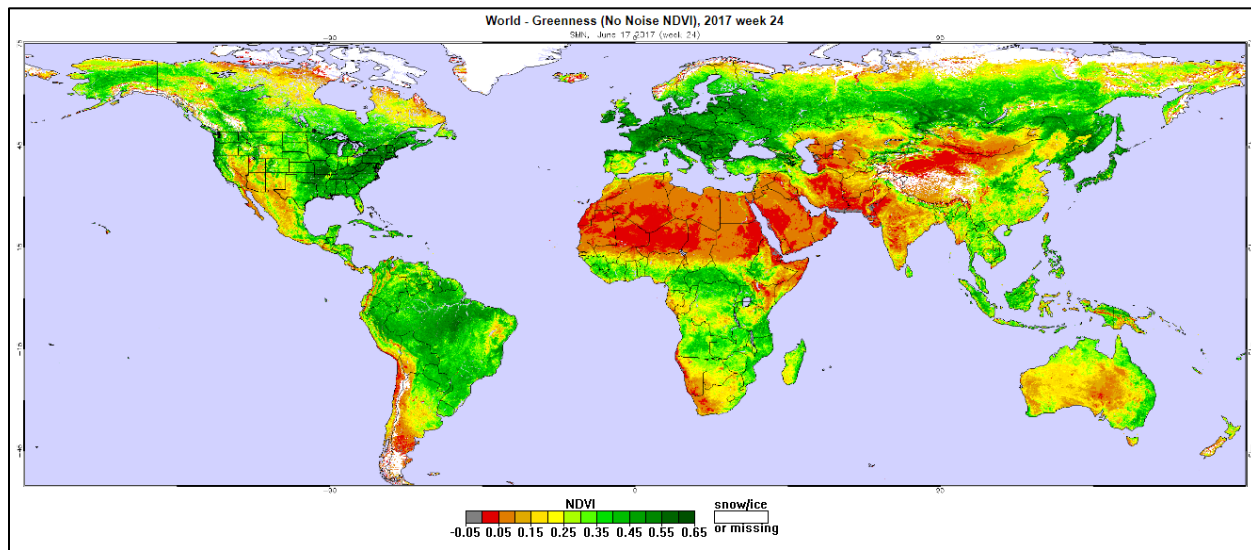
Russia and the former Soviet Union:

- Most of Russia and the former Soviet Union reported cool weather and widespread showers over the June 18th – 24th time period and crops in these regions are thought to be in good condition.

Black Sea wheat:

- The bid for June'17 Russian 12.5 protein wheat rose to a US\$1/mt premium over the deferred months at US\$193/ mt, and short sellers to GASC (Egypt) struggled to find offers.
- The same was true for Ukrainian 11.5 protein wheat (bid US\$183/mt) and for feed wheat (bid US\$170/mt). Farmers remained tight holders, with execution and logistics still a major issue. The Ruble ended down slightly on the week.
- The **Turkish Lira** and **Egyptian pound** fell to all-time lows, which is negative for demand. Historically, Turkey and Egypt are the two biggest buyers of Russian wheat.
- Regarding the next crop, we note that there are more winter cereals being planted in Russia this fall, but the opposite is true for the Ukraine, where fewer acres are getting planted. In addition, the Ukrainian winter wheat crop had emergence problems and will be more susceptible to winter kill.

World Vegetation Health Index, June 19th 2017:



Significant purchases of the week:

- Cash trades were nominal restricted to small trades of wheat into the Middle-East.
- **Jordan** bought 50,000 mt LH Oct at US\$217mt.
- **Turkey** lowered its import tax from 130% to 45%.
- **Iraq** tenders July 3 for US/ Canadian/ Australian wheat.
- **Algeria** tenders July 4th for the September position.
- The USDA reported 140k mt sales to 'unknown' destinations.

Wheat Market Outlook:

- Significant events:
 - Spring wheat has continued to rally to unforeseen levels over the past several weeks on inclement weather and negative crop updates.
- Outlook:
 - *We continue to recommend selling wheat, particularly in Manitoba where bids exceed \$9.00/bu. (We can wait on other grains for the time being.) Early delivery of wheat will get the message to the elevators to move wheat. Note poor exports of wheat through week 47 at current prices. We do not want a repeat of the in the coming year.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 4, 2017

| NW Sask | Spot | | NW Sask | Deferred | |
|--------------------|--------|----------|--------------------|---------------|---------------|
| | (bu.) | (mt) | | Oct '17 (bu.) | Oct. '17 (mt) |
| 1 CWRS 13.5 | \$8.84 | \$324.82 | 1 CWRS 13.5 | \$8.63 | \$317.10 |
| 1 CWAD 13.0 | \$7.07 | \$259.78 | 1 CWAD 13.0 | \$6.86 | \$252.06 |
| 1 CPSR 11.5 | \$5.96 | \$218.99 | 1 CPSR 11.5 | \$5.92 | \$217.52 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$9.03 | \$331.80 | 1 CWRS 13.5 | \$8.65 | \$317.84 |
| 1 CWAD 13.0 | \$7.17 | \$263.45 | 1 CWAD 13.0 | \$6.99 | \$256.84 |
| 1 CPSR 11.5 | \$5.97 | \$219.36 | 1 CPSR 11.5 | \$5.91 | \$217.16 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$8.85 | \$325.18 | 1 CWRS 13.5 | \$8.49 | \$311.96 |
| 1 CWAD 13.0 | \$7.19 | \$264.19 | 1 CWAD 13.0 | \$7.05 | \$259.05 |
| 1 CPSR 11.5 | \$5.82 | \$213.85 | 1 CPSR 11.5 | \$5.75 | \$211.28 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$8.94 | \$328.49 | 1 CWRS 13.5 | \$8.63 | \$317.10 |
| 1 CWAD 13.0 | \$7.07 | \$259.78 | 1 CWAD 13.0 | \$6.86 | \$252.06 |
| 1 CPSR 11.5 | \$5.96 | \$218.99 | 1 CPSR 11.5 | \$5.92 | \$217.52 |

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 | | | July 4, 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 | \$448.56 | \$393.97 | | |
| HRS | \$440.97 | | | |
| HRW 11.5 | \$308.06 | | | |
| SWW 12.0 | \$260.59 | | | |
| 1 CWRS 13.5 ³ | \$448.56 | | \$313.06 | \$135.50 |
| 2 CWRS 13.0 ³ | \$440.97 | | \$297.99 | \$142.97 |
| 3 CWRS ³ | \$308.06 | | \$279.99 | \$28.07 |
| CPS ³ | \$253.95 | | \$209.07 | \$44.87 |
| 1 CWAD ⁴ | | \$396.35 | \$264.56 | \$131.79 |
| Competing wheat: | | | US\$/mt | |
| Russia 12.5 (Black Sea, 25k mt) | \$188.00 | | | |
| French 11.0 (Rouen) | \$197.07 | | | |
| ASW 10.5 (W Coast) | \$240.00 | | | |
| Argentine 12.0 | \$188-193 | | | |

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 | | | | | July 4, 2017 |
|--|------------------|--------------|--------------|--------------------|--------------|
| Canadian Funds | | | | Grade | |
| PNW value/Vancouver | 1CWRS13.5 | 2CWRS | 3CWRS | Winter wht. | CPS |
| Dec./Jan. delivery | \$12.03 | \$11.82 | \$8.20 | \$6.91 | \$6.91 |
| Parity Track Rosetown | \$10.53 | \$10.32 | \$6.71 | \$5.41 | \$5.41 |
| Track Bid Rosetown Area | \$8.52 | \$8.11 | \$7.62 | \$5.69 | \$5.69 |
| Gross Margin at Elevator (\$/bu)* | \$2.01 | \$2.21 | -\$0.91 | -\$0.28 | -\$0.28 |
| Gross Margin at Elevator (\$/mt)* | \$73.87 | \$81.34 | -\$33.56 | -\$10.11 | -\$10.11 |

* to cover elevation, elevator market risk, margin