

## Wheat Market Outlook and Price Report: July 10th, 2017

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### **i) Background and Rationale for the Report**

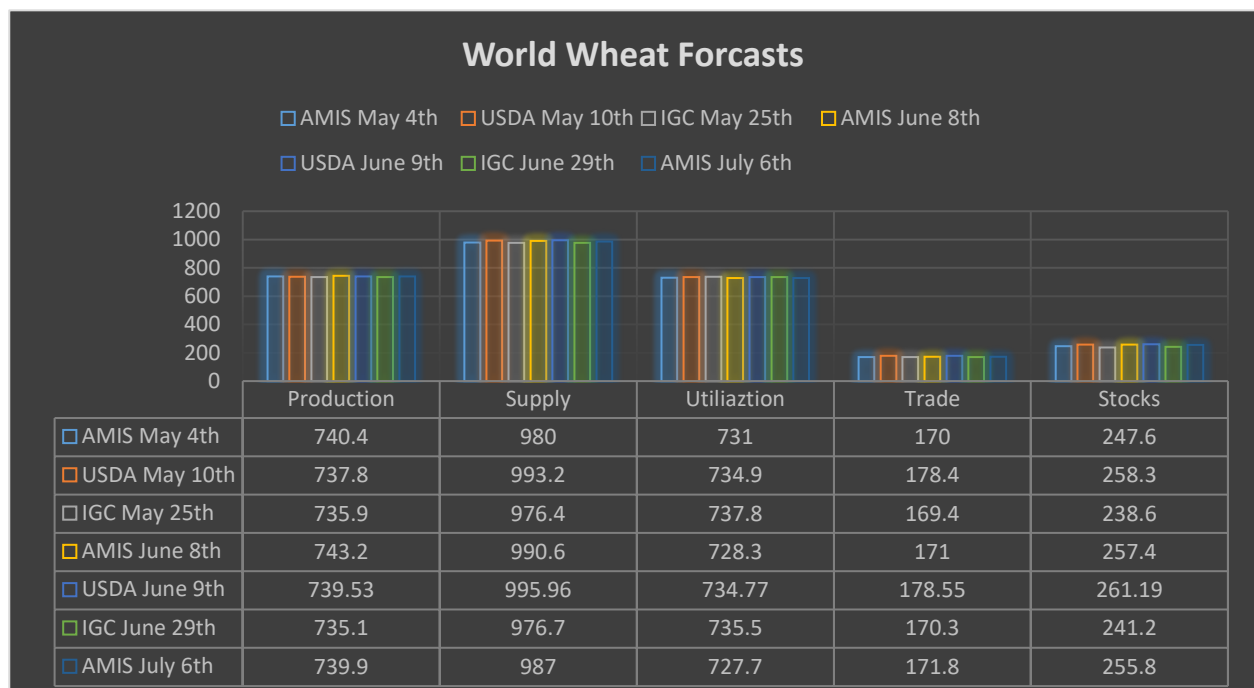
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

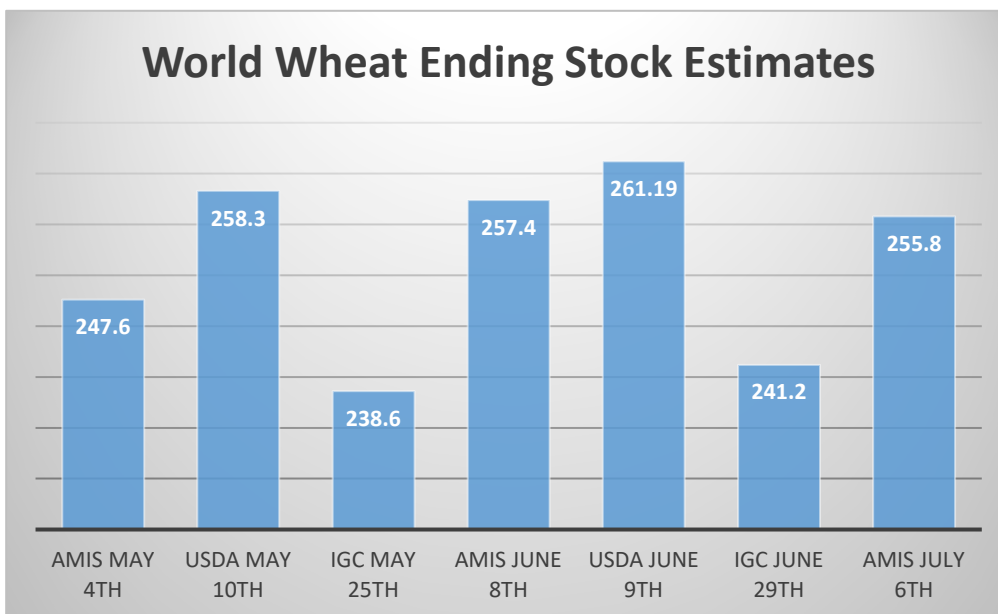
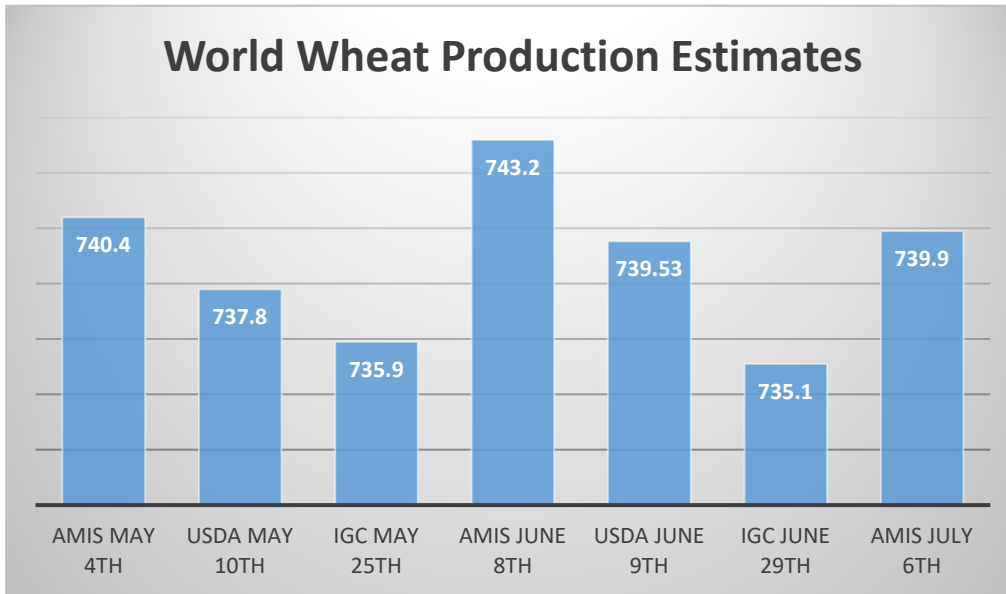
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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 July 10/17**

#### **2017/18 World Wheat Overview:**

- **July 6<sup>th</sup> Agricultural Market Information System (AMIS) report:**
  - **AMIS production forecast** for 2017/18 wheat has been lowered by 3.3 million mt, mostly due to dryer conditions in Europe lowering global supply.
  - **World wheat supplies** for 2017/18 are forecast to remain adequate with stocks projected to end the season above their already high opening levels.
  - **AMIS has lowered** their projections for global ending stocks for the 2017/2018 crop year by 1.6 million mt due to downward adjustments in ending stocks Argentina and the EU.





#### Global wheat events and trade:

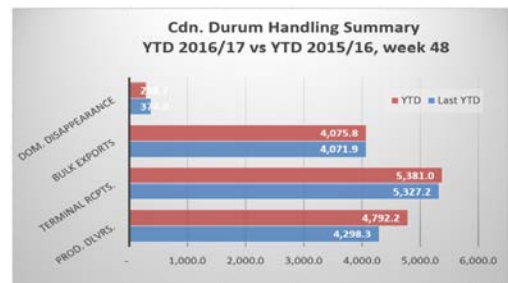
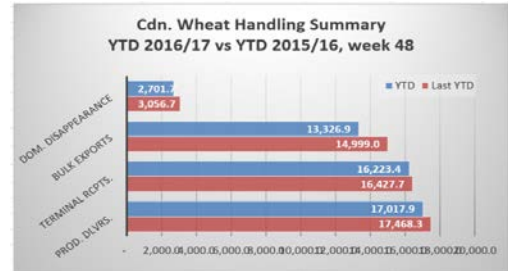
Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** Last week Chicago september wheat closed the week at US \$5.35 per bushel, which is up by 39 cents for the week, but down by 4 cents in Fridays trade. Meanwhile in Minneapolis, September hard red spring wheat closed the week up by 27 cents, but was down by 2 cents in Fridays trade and down by 51 cents on Thursdays trade. The week was marked by high volatility in Minneapolis wheat as the markets struggled to find a balance between the US drought and overvalued spreads between HRS and other wheat classes.
- **Funds:** Speculative hedge funds are now almost completely out of the wheat market and are estimated to have a net long position of only 1.4 million mt as of July 7<sup>th</sup>.

- **Matif:** Matif exchange in Europe closed the week up by 2.50 (1.42% gain for the week). Matif milling wheat has traded between US\$168 and US\$183/mt over the past month, and is up by 6.55% since June 8<sup>th</sup>. September Matif wheat has a 14 day volatility of 14% which is considerably lower vs Chicago wheat (42.78% volatility) and Minneapolis spring wheat (44.78% volatility).

**Canadian wheat:**

- According to the CGC, producers delivered 538k mt of wheat into the handling system, which is down slightly from last week's 541k mt. Exports for week 48 were 387k mt, up from last week's 231k mt, and down 11% (-1.67 million mt) from last year's YTD exports.
- Elevator stocks are currently at 2.9 million mt with 1.6 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 267k mt at Thunder Bay, 432k mt at the St Lawrence, and 129k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 351k mt at port, which is comparatively small.
- Producers delivered 143k mt of **durum** into the handling system over the past week. Durum *exports* during week 48 amounted to 189k mt; 4.08 million mt year-to-date. This is almost exactly on par with last year-to-date which was 4.07 million mt.



- Manitoba's July 4<sup>th</sup> crop progress report indicates that crops in the south central and south western regions would benefit from moisture and that precipitation amounts are still below normal for some regions. Crops in most regions are reported to be in good to excellent condition and warmer weather has improved crop development.
- The July 3<sup>rd</sup> Saskatchewan crop progress reports that most of the province received very little rain over the June 27<sup>th</sup> – July 3<sup>rd</sup> time period and that most regions are hoping for moisture to boost crop development. The south central and southwestern regions of the province are still the most drought stricken with only 24% of cropland in the southwestern region rated as having adequate moisture. 76% of topsoil in the southwestern region is reported to be short or very short of moisture and rain is desperately needed.
- In the July 4<sup>th</sup> Alberta crop progress report, the provincial crop ratings declined to 75% good/excellent vs 78% last week. This decline is largely attributed to Montana drought that has spread northward reducing topsoil moisture on some regions of southern Alberta. Other regions of Alberta experienced no change in crop condition ratings and most crops are developing 7 – 14 days behind last year. Topsoil moisture levels are reported to be good or excellent in 66% of the province while subsoil moisture is reported to be good or excellent in 70% of the province.

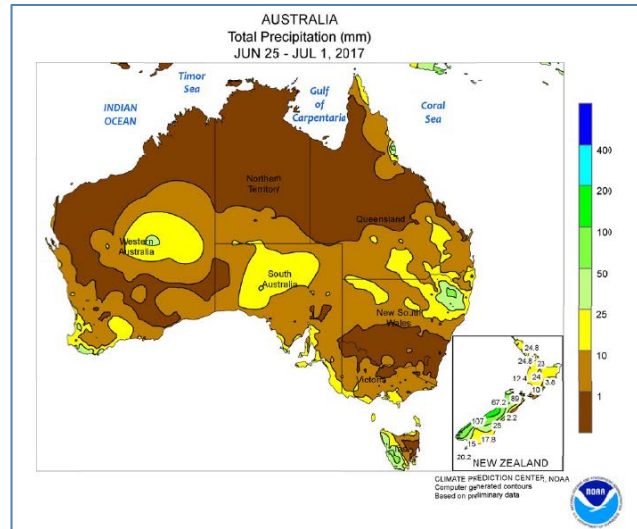
**US wheat:**

- The US winter wheat crop is now reported to be 53% harvested which is close to the 5-year average of 54% harvested for this year to date and up from last week's estimates of 41% harvested. The US winter wheat crop is now rated as 48% good/excellent, which is down slightly from last week's estimate of 49% good/excellent. The US custom wheat harvest continues to move northward and is currently in west central and northeast Kansas, northeast Colorado, and southern Nebraska. The Kansas harvest is now reported to be 79% complete while TX and OK are now reported to be 99% complete. 203 samples have now been collected with an average protein reported to be 11.3% which is up from 11.2% last week. Average test weights from the US crop are 60.4 lbs per bushel and average

falling number is 365. According to the July 4ths USDA drought monitor, 6% of the US winter wheat crop lies with drought stricken regions and winter wheat protein levels are expected to improve as the harvest moves northward into the drought affected states. Wheat streak mosaic has been reported in the southern Nebraska panhandle which will affect yields in that region. The US spring wheat crop is now rated as 59% headed which is up from 36% headed last week and ahead of the 5-year average from 54% headed for this year to date. The US spring wheat crop is currently reported to be only 37% good or excellent which is down from last weeks 40% good/excellent rating and down significantly from last year's 72% good/excellent rating.

**Australian wheat:**

- o Aussie futures rallied A\$8/mt with Fob values following although they were ill-defined, because there are few firm offers. APW in Western Australia closed at US\$255/mt Fob for Aug-Sep against Black Sea 11.5% protein wheat, which was offered at US\$210/mt C&F Indonesia.



- o Much needed rain was reported across western Australia in amounts of 5-25 mm, but conditions are still dry and rainfall totals are still well below normal. Drought conditions are reported to have spread into regions of southern Australia and yield projections for the Australian wheat crop have been reduced by as much as 32%. Australia had its 2nd driest June on record with rainfall 62% below average according to the Met Office, and there is little in the forecast for the next two weeks.

**Argentine wheat:**

- o Argentine 12% protein Fob wheat offers at US\$190-192/mt were flat from August through new crop Dec-Jan with 11.5% protein wheat at a US\$5-7/mt discount. *As the cheapest wheat in the world on a Fob basis*, at least one cargo of Argentine wheat was pencilled in to Algeria this week.
- o Argentine wheat has benefited from 10- 50 mm of moisture that fell across its southern winter grain belt, which has aided the germination and establishment of recently seeded crops. BAGE (Buenos Aires Grain Exchange) left its acreage estimate unchanged at 5.5 million ha, but suggested a reduction could be made due to the ongoing wet weather.

**EU wheat:**

- o Dry conditions continue in much of southern Europe, but widespread rain late in the week boosted prospects for summer crops, but also brought talk of quality issues in central France, notably sprout and Hagberg. Offers of German/Baltic 14% protein premiums were tough to find at the end of the week as precipitation increased and the forecast turned much wetter for next week.
- o Both Matif wheat in Europe and CME wheat futures in the US bounced to 11-month highs early, but gave most of it back by the close. French premiums were little changed following the sale to Algeria. With French wheat again US\$12-16/mt too expensive at the GASC tender, France will clearly need to stay competitive to its 'traditional' destinations.

**Black Sea wheat:**

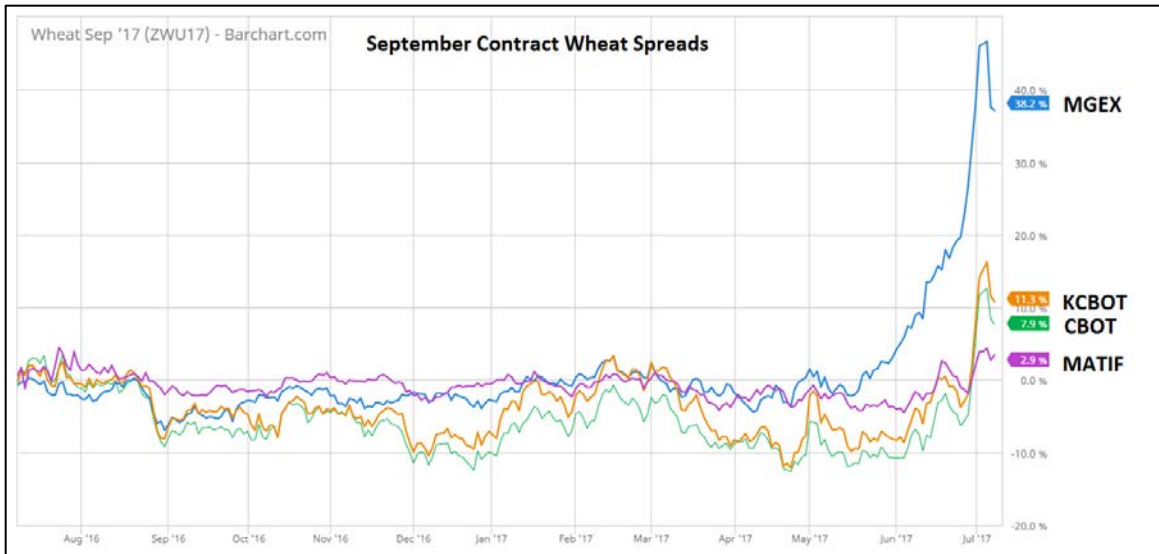
On July 5<sup>th</sup>, 355k mt of Russian wheat were tendered and accepted by Egypt (GASC tender) at prices from US\$212.75 – \$215.45/mt, while 60k tonnes of Romanian wheat were accepted at US\$211/mt. On the July 8<sup>th</sup> purchase, 120k tonnes of Russian wheat were bought at prices from US\$219.50 - \$219.92/mt. There was a significant jump in both FOB wheat prices and freight, resulting in an increase of US\$5-8/mt in C & F prices.

#### Significant trades of the week:

- **Algeria** bought 420k mt of wheat for September shipment at US\$214-216/mt C&F Algiers.
- **Egypt** (GASC) bought 410k mt wheat for August 5-15 shipment at US\$211-215.50/mt.
- 3 days later **Egypt** paid US\$4-8/mt more for 115k mt wheat for August 10-20 shipment at US\$219.50/mt.
- **Japan** bought 91,660 mt of US wheat as part of their regular purchases.
- US wheat inspections were 505k mt (season total of 103 million bu; up 23%), sales were 375kt (season total 308 million bu unchanged on last year against USDA's projected 3% decline).

#### Wheat Market Outlook:

- Significant events:
  - The weekly USDA crop press report further reduced the condition rating for US spring wheat from 40% good/excellent, to only 37% good/excellent.
  - Minneapolis Hard Red Spring Wheat showed even higher volatility this past week with movements of as much as 51 cents US in a single day.
  - Australian wheat is thought to be significantly lower yielding versus original estimate's due to below normal rainfall.
  - Russia, and much of the former Soviet Union continues to have a favourable outlook and the Russian spring wheat crop appears to be in good condition.
  
- Outlook:
  - Spreads between HRS and other wheat classes remain very wide and it still seems that HRS is overvalued relative to other wheat. July is often a big weather month and its possible that the current rally might continue for several more weeks. However, the long term outlook is for spreads to narrow to a more historical premium for HRS.
  - US futures will remain volatile, but key is if the rise in prices of the cash markets continues as we move into the Northern Hemisphere harvest. In the US, Canada, and Australia, the crop size will be the main issue, while the EU will be more of a crop quality concern as the forecast turns much wetter.



**Cash spring wheat prices rallied to as high as \$9.35 CAD per bushel over the past week, but are currently in the range of \$7.88 – 8.44 per bushel across the praires. While this is a significant reduction from the weeks high’s, its probably still a good selling opportunity. With a dry forecast and limited rain over the weekend the weather rally could continue, but funds are no longer short and it seems unlikely that cash prices will rise above \$9 going forward. Industry trade estimates of US spring wheat for the 2017/2018 crop year currently range from as low as 305 million bushels, to as high as 515 million bushels, with the average estimate being in the range of 412 – 416 million bushels. The 3-year average spring wheat production for the US is 577 million bushels, and it currently seems that the 2017/2018 crop year will see a 25-30% reduction from that average. Given this reduction, spreads between HRS and other wheat classes are still considered to be too wide and we expect these spreads to narrow in the coming months.**

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 10, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$8.02	\$294.69	1 CWRS 13.5	\$8.09	\$297.26
1 CWAD 13.0	\$7.15	\$262.72	1 CWAD 13.0	\$6.95	\$255.37
1 CPSR 11.5	\$5.81	\$213.48	1 CPSR 11.5	\$5.71	\$209.81
SW Sask			SW Sask		
1 CWRS 13.5	\$8.10	\$297.63	1 CWRS 13.5	\$8.15	\$299.46
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.11	\$261.25
1 CPSR 11.5	\$5.80	\$213.12	1 CPSR 11.5	\$5.72	\$210.18
NE Sask			NE Sask		
1 CWRS 13.5	\$7.91	\$290.65	1 CWRS 13.5	\$7.87	\$289.18
1 CWAD 13.0	\$7.31	\$268.60	1 CWAD 13.0	\$7.18	\$263.82
1 CPSR 11.5	\$5.58	\$205.03	1 CPSR 11.5	\$5.44	\$199.89
SE Sask			SE Sask		
1 CWRS 13.5	\$8.03	\$295.05	1 CWRS 13.5	\$8.07	\$296.52
1 CWAD 13.0	\$7.40	\$271.91	1 CWAD 13.0	\$7.31	\$268.60
1 CPSR 11.5	\$5.69	\$209.07	1 CPSR 11.5	\$5.53	\$203.19

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 Basis<sup>1</sup> (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)

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<sup>1</sup> 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				July 10, 2017
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$441.03	\$405.50		
HRS	\$433.45			
HRW 11.5	\$313.60			
SWW 12.0	\$274.28			
1 CWRS 13.5 <sup>3</sup>	\$441.03		\$293.58	\$147.45
2 CWRS 13.0 <sup>3</sup>	\$433.45		\$278.52	\$154.93
3 CWRS <sup>3</sup>	\$313.60		\$264.92	\$48.68
CPS <sup>3</sup>	\$267.65		\$203.93	\$63.72
1 CWAD <sup>4</sup>		\$412.14	\$244.72	\$167.42
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)	\$193.00			
French 11.5 (Rouen)	\$200.15			
ASW 10.5 (W Coast)	\$250.00			
Argentine 12.0	\$185-190			
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price <sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS <sup>4</sup> Values derived to Lakehead FOB				

## ADDENDUM

**Futures Driven Basis Calculation, Canadian Dollars per MT**

Canadian Wheat - World Price Parities						July 10, 2017
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$11.82	\$11.62	\$8.35	\$7.28	\$7.28	
Parity Track Rosetown	\$10.33	\$10.12	\$6.86	\$5.79	\$5.79	
Track Bid Rosetown Area	\$7.99	\$7.58	\$7.21	\$5.55	\$5.55	
Gross Margin at Elevator (\$/bu)*	\$2.34	\$2.54	-\$0.35	\$0.24	\$0.24	
Gross Margin at Elevator (\$/mt)*	\$85.83	\$93.32	-\$12.94	\$8.74	\$8.74	
* to cover elevation, elevator market risk, margin						