

Wheat Market Outlook and Price Report: July 31st, 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).

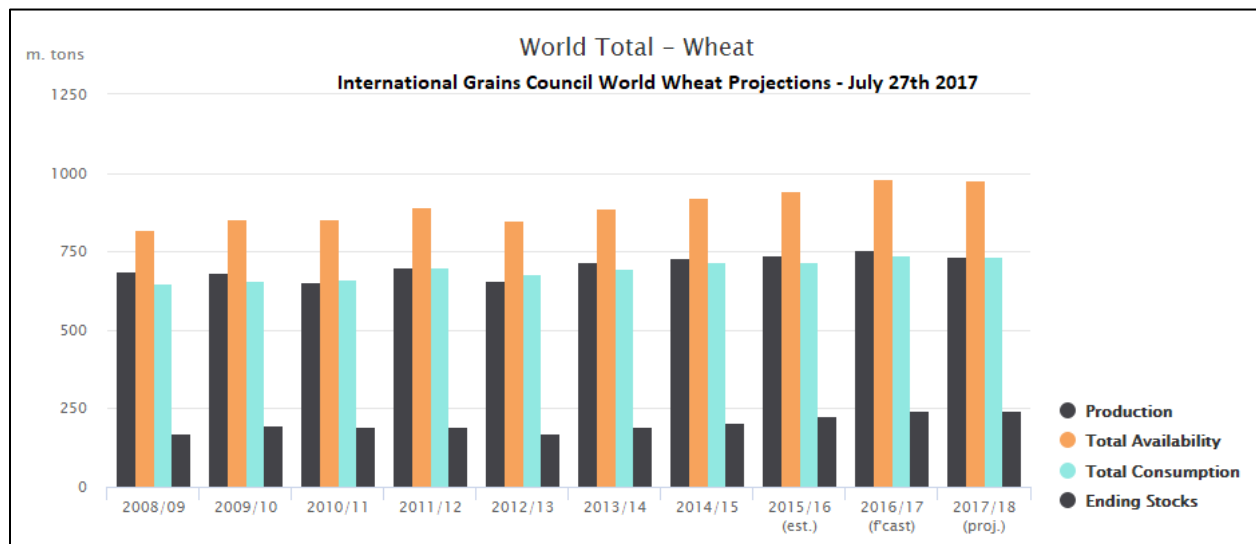
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various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

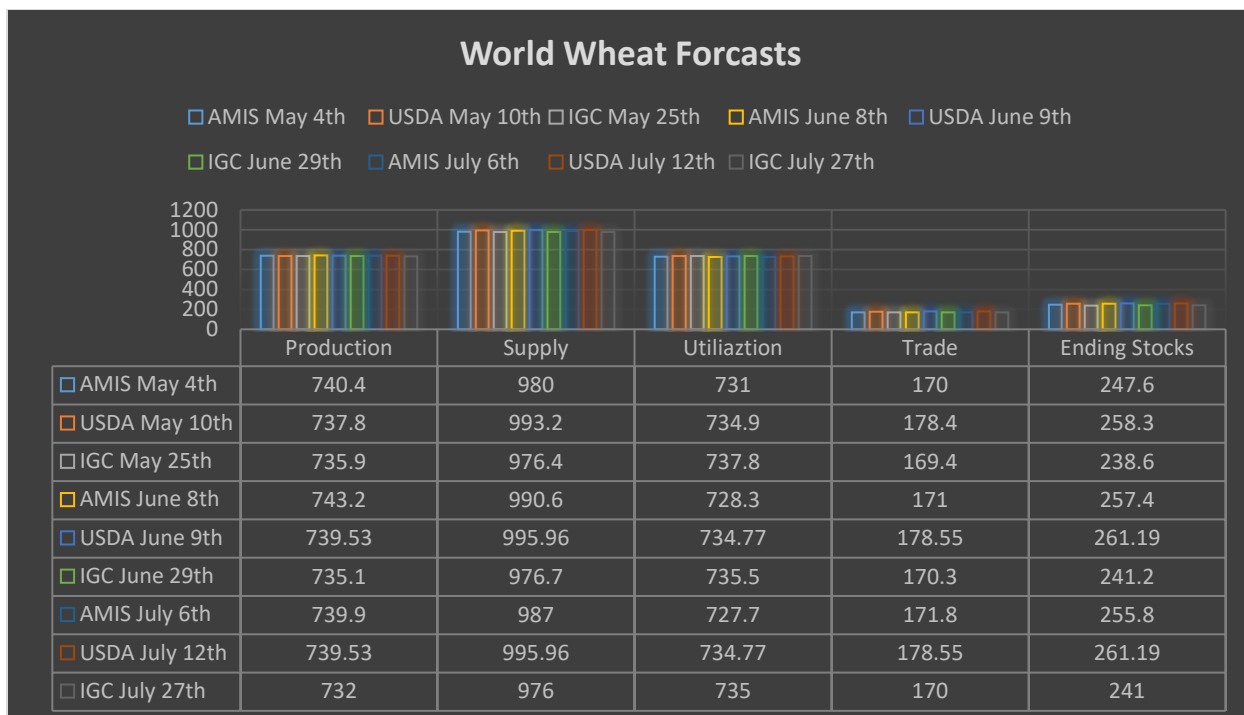
ii) Wheat Market Outlook July. 14/17

2017/18 World Wheat Overview:

➤ **July 27th USDA Grain Market Report:**

- **World wheat production** for 2017/18 is forecasted to fall by 3 million mt from last month's estimates and world wheat production is now projected at 732 million mt.
- **Production estimates** have been reduced due to dry conditions in the US, Australia, and southern Europe
- **World ending stocks** remain unchanged from last month's report at 241 million mt. The 5-year average for world ending wheat stocks is 207 million mt.

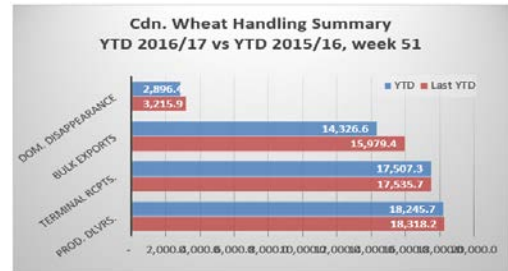




- **World wheat** supply remains adequate with estimates supply estimates ranging from 732 million mt, to 739 million mt.
- **World ending stocks** projections remain stable and range from 241 million mt – 261 million mt.
- **The USDA** is expected to project tighter ending stocks and lower production in the August 12th WASDE report. However, world supply and ending stocks are expected to remain adequate.
- **Concerns** about a global shortage of high protein wheat seem unfounded with the average protein levels of HRW increasing as the US winter wheat harvest moves north, and with a significant portion of HRS wheat being utilized for livestock feed.
- **Futures:** On the futures market, Chicago Sep wheat closed the week 18.2 cents lower, but was up by 1.2 cents in Fridays trade, while Minneapolis Sep HRS wheat closed the week down by 25.2 cents, but was up by 4 cents in Fridays trade.
- **Funds:** Index funds well positioned on long side with very good profits. Spec funds have modest position and can go either way dependent on the weather and crop reports. The upcoming WASDE report will be important to how spec funds will proceed going forward.
- **Matif:** Matif exchange in Europe closed at 170.25 which was up by 1.50 on Fridays trade, but down by 0.25 for the week

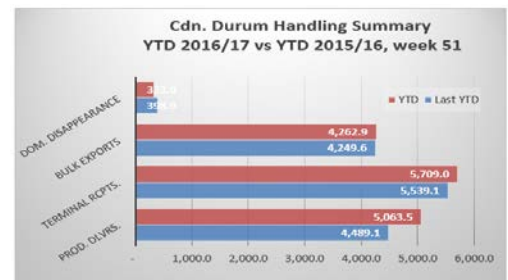
- **Canadian wheat:**

- According to the CGC, producers delivered 388k mt of wheat into the handling system, which is down from last week's 400k mt. Exports for week 51 were 200k mt, down from last week's 394k mt, and down 10% (-1.6 million mt) from last year's YTD exports.



- Elevator stocks are currently at 2.9 million mt with 1.7 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 183k mt at Thunder Bay, 444k mt at the St Lawrence, and 198k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 293k mt at port, which is comparatively small.



- Producers delivered 96k mt of **durum** into the handling system over the past week. Durum *exports* during week 51 amounted to 102k mt; 4.26 million mt year-to-date. This is very close to last years year to date exports of 4.25 million mt.

- Manitoba crops have been developing quickly with hot humid weather and many fields are beginning to turn. NW, SW, and Central regions of Manitoba are reporting below normal precipitation and would benefit from rain. Disease and insect pressures remain low and most crops are above average.

- Saskatchewan's crop progress report indicates that most crops are developing normally, Hot temperatures and a lack of rain continue to be a concern in southern regions. Topsoil moistures is rated as 5% surplus, 35% adequate, 38% short, and 33% very short. Harvest of early or winter crops is now beginning in some parts of Saskatchewan.

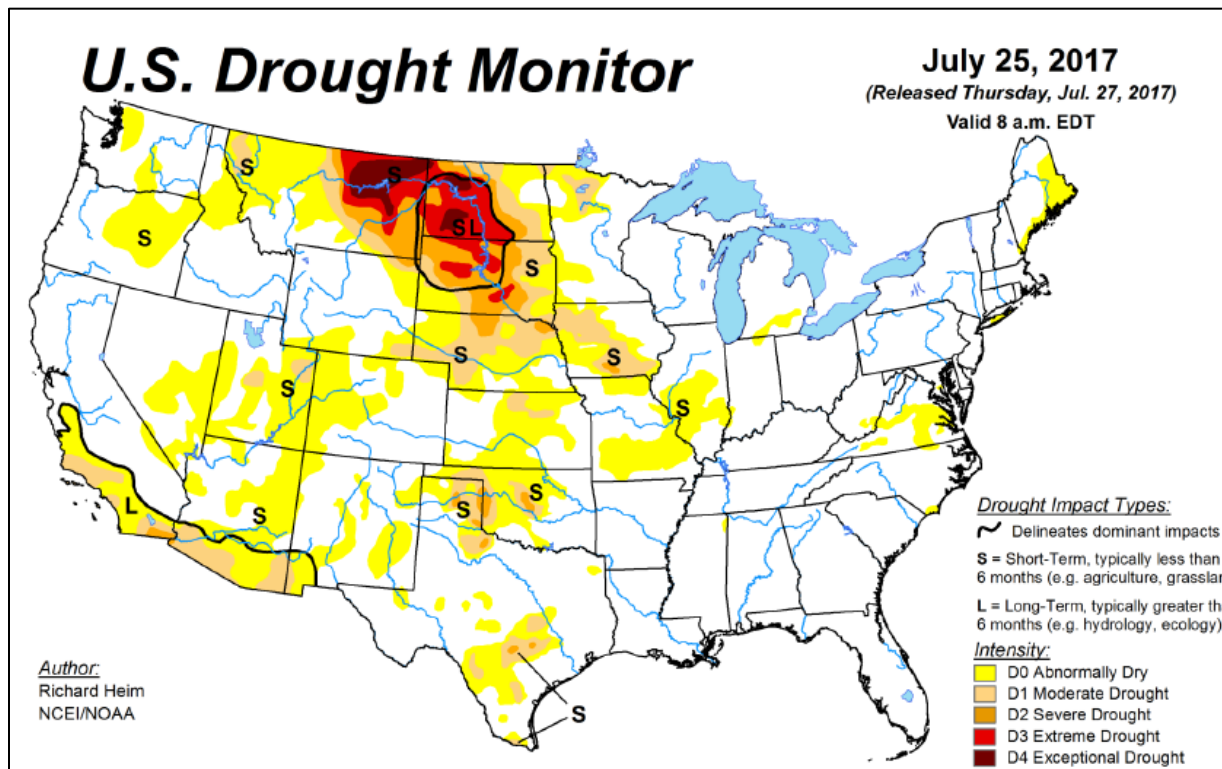
- The July 25th Alberta crop report indicates that crop conditions across the province have declined by a further 4% since last week's report, largely due to hot dry weather in southern and central Alberta as drought moves further north. Meanwhile northern regions of the province reported heavy rains. Provincially, topsoil moisture is rated 47% good/excellent while subsoil moisture is rated 55% good/excellent.

➤ **Global wheat production and trade:**

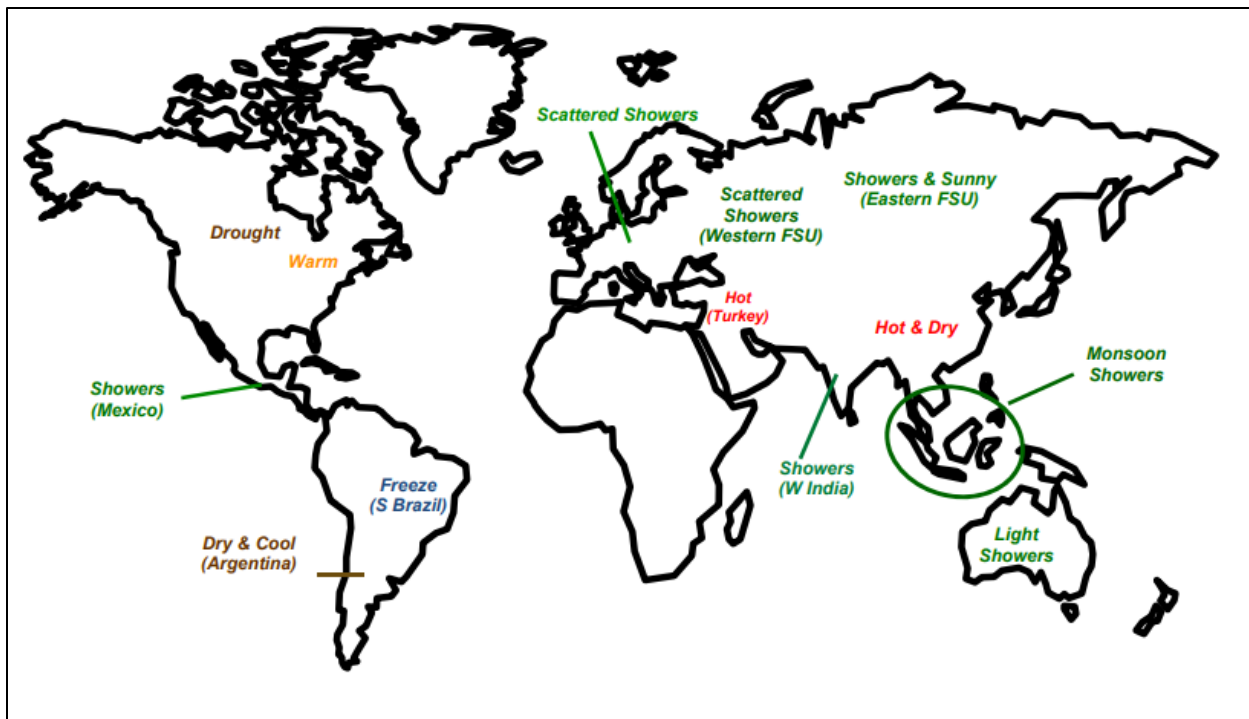
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **US wheat:**

The US winter wheat harvest is now reported to be 84% complete as of July 23rd, which is up from 75% harvested last week. Colorado and Nebraska are now reported to be 99% harvested, while South Dakota is reported to be 90% harvested, and Montana 50% harvested. Protein levels have improved with the harvest moving northward, and average protein is now reported to be 11.3%. The Oregon, Washington, and Idaho wheat harvest is now underway with variable yields being reported. Meanwhile US spring wheat is now reported to be 96% headed, which is up from 91% headed last week and slightly ahead of the 5-year average of 94% headed for this YTD. The crop condition is now reported to be 33% good or excellent which is unchanged from last week. The US spring wheat tour took place this past week and has pegged average US spring wheat production at 38.1 bushels per acre (excluding abandonment). While final abandonment is unknown, it is thought that it could be as high as 40-50% in some regions of southwestern North Dakota. 38.1 bushels per acre is the lowest spring wheat tour forecast since 2007.

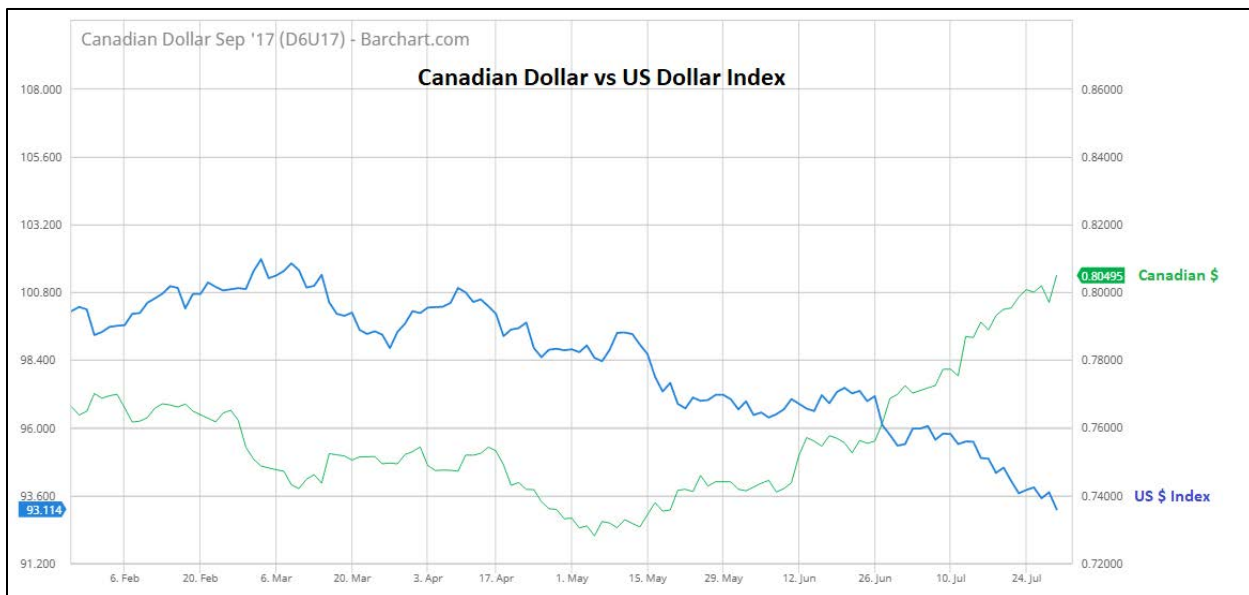


- **Australian wheat:**
Australia has had additional rain which has helped to stabilize crops, but still remains dry and most regions would still benefit from additional rain.
- **Argentine wheat:**
Over the July 16-22 time period, Argentina and Brazil both reported to have had an untimely frost which might hurt prospects for some of the wheat crop.
- **EU wheat:**
Northern Europe continues to have favorable conditions, while dryness persists in southern regions. Overall crop prospects for Europe are favorable and harvest is well underway in most regions.
- **Black Sea wheat:**
 - The bids for Russian 12.5 pro wheat remained firm at \$196-200 plus \$2 per month, with Oct reported trading at \$202 and Nov at \$204.
 - The discount for 11.5 pro widened to \$15 and quality spreads are reported to be widening with high-quality high-protein wheat trading at a premium.
 - Egypt's GASC is reported to have bought 420kt 1-10 Sep Black Sea wheat at around \$219 C&F, and their purchase pace so far this season equates an annualised 11 million mt.

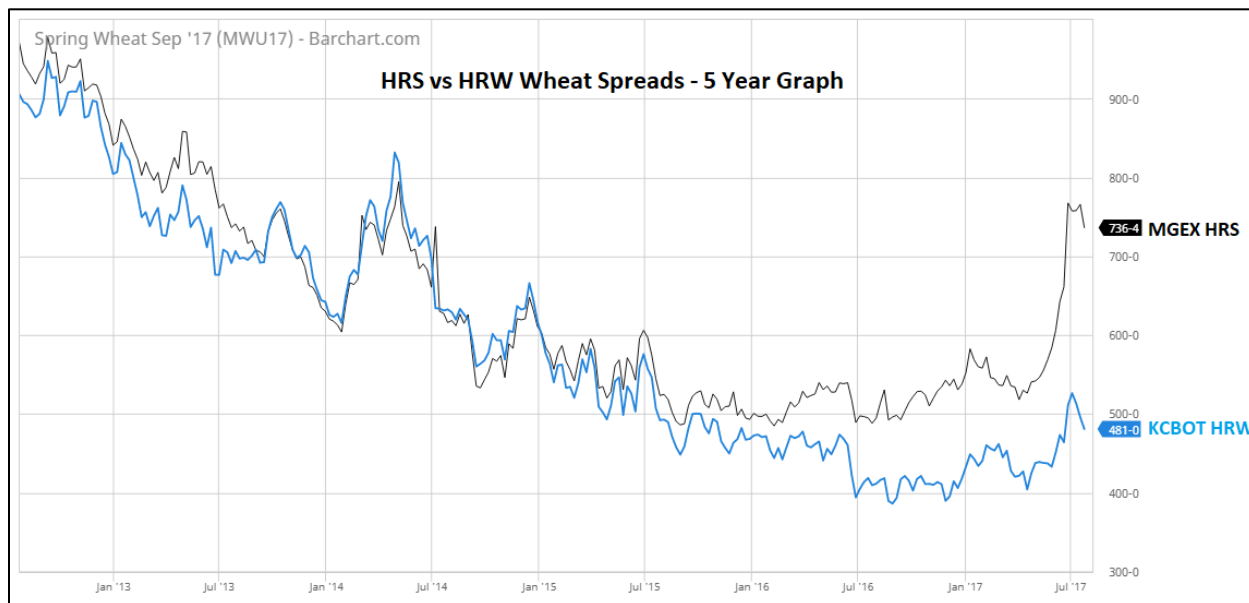


Wheat Market Outlook:

- Significant events:
 - The Canadian dollar has increased by 0.8% over the course of the past week which makes Canadian grain more expensive on the world market. While gains in the value of the Canadian Dollar have been attributed to strong economic growth, the declining value of the US dollar has probably played a larger role.



- **Outlook:**
 - Wheat spreads remain between Minneapolis HRS and Kansas HRW are still too wide and it seems probable that these spreads will narrow to a more historically typical norm in the coming months.



World wheat production estimates still indicate that there will be adequate supply in the 2017/2018 crop year. It is unlikely that there will be any real shortage of high protein wheat given that livestock feed is still a significant portion of HRS consumption, and that modern milling technology allows lower protein wheat to be substituted in place of high protein wheat. With high priced HRS, exports/demand will be lower in the coming year, and Russian/Canadian spring wheat crops still seem on track for normal or above normal production. Cash bids for Oct/Nov delivered new crop HRS wheat are currently in the range of \$7.40 - \$8.01 across the prairies which is still a very good value given world production. HRS could return to an historic 25-50 cent premium over HRW 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 31, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$7.58	\$278.52	1 CWRS 13.5	\$7.78	\$285.87
1 CWAD 13.0	\$7.80	\$286.60	1 CWAD 13.0	\$7.82	\$287.34
1 CPSR 11.5	\$4.84	\$177.84	1 CPSR 11.5	\$4.81	\$176.74
SW Sask			SW Sask		
1 CWRS 13.5	\$7.63	\$280.36	1 CWRS 13.5	\$7.84	\$288.07
1 CWAD 13.0	\$8.00	\$293.95	1 CWAD 13.0	\$8.12	\$298.36
1 CPSR 11.5	\$4.83	\$177.47	1 CPSR 11.5	\$4.81	\$176.74
NE Sask			NE Sask		
1 CWRS 13.5	\$7.42	\$272.64	1 CWRS 13.5	\$7.53	\$276.68
1 CWAD 13.0	\$8.67	\$318.57	1 CWAD 13.0	\$8.60	\$316.00
1 CPSR 11.5	\$4.76	\$174.90	1 CPSR 11.5	\$4.60	\$169.02
SE Sask			SE Sask		
1 CWRS 13.5	\$7.59	\$278.89	1 CWRS 13.5	\$7.70	\$282.93
1 CWAD 13.0	\$8.62	\$316.73	1 CWAD 13.0	\$8.67	\$318.57
1 CPSR 11.5	\$4.81	\$176.74	1 CPSR 11.5	\$4.65	\$170.86

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				July 31, 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	\$397.64	\$379.25		
HRS	\$390.29			
HRW 11.5	\$269.85			
SWW 12.0	\$253.30			
1 CWRS 13.5 ³	\$397.64		\$249.86	\$147.78
2 CWRS 13.0 ³	\$390.29		\$239.57	\$150.72
3 CWRS ³	\$269.85		\$214.58	\$55.26
CPS ³	\$246.86		\$181.15	\$65.71
1 CWAD ⁴		\$440.39	\$278.52	\$161.88
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$198.00			
French 11.5 (Rouen)	\$198.10			
ASW 10.5 (W Coast)	\$246.00			
Argentine 12.0	\$186.00			
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					July 31, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$10.65	\$10.45	\$7.17	\$6.72	\$6.72
Parity Track Rosetown	\$9.15	\$8.95	\$5.67	\$5.22	\$5.22
Track Bid Rosetown Area	\$6.80	\$6.52	\$5.84	\$4.93	\$4.93
Gross Margin at Elevator (\$/bu)*	\$2.35	\$2.43	-\$0.17	\$0.29	\$0.29
Gross Margin at Elevator (\$/mt)*	\$86.36	\$89.30	-\$6.16	\$10.73	\$10.73
* to cover elevation, elevator market risk, margin					