

## Wheat Market Outlook and Price Report: August 14th, 2017

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

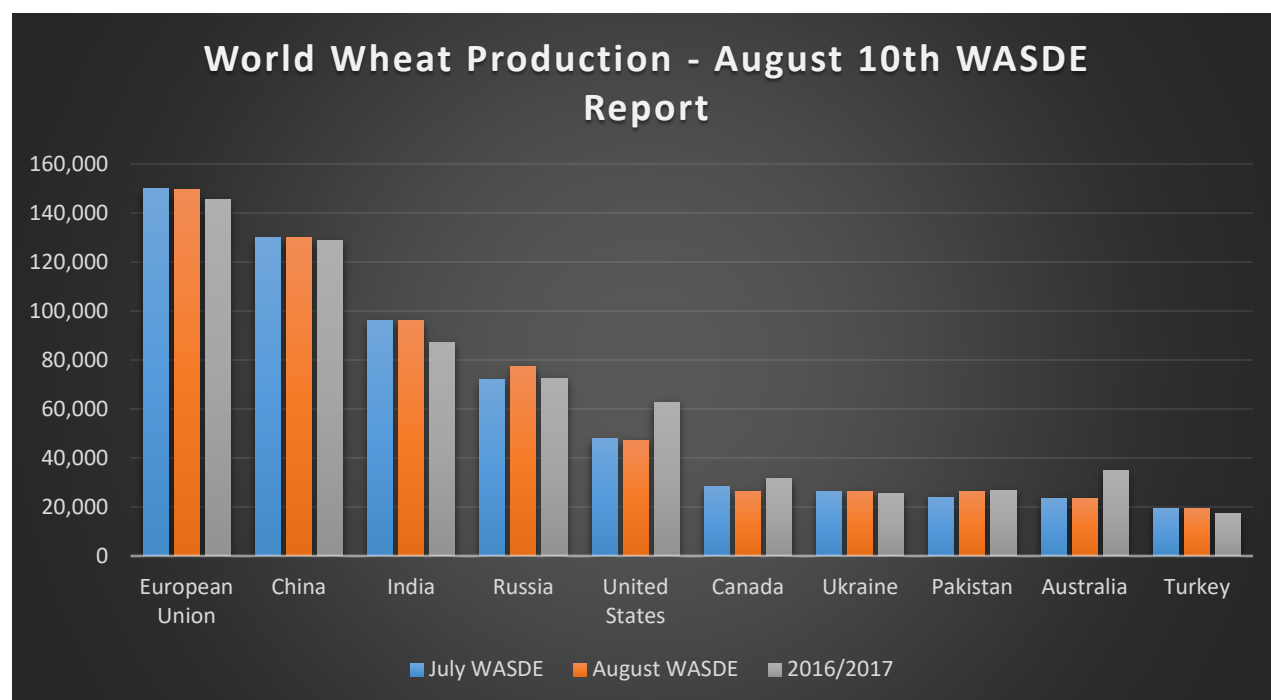
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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.

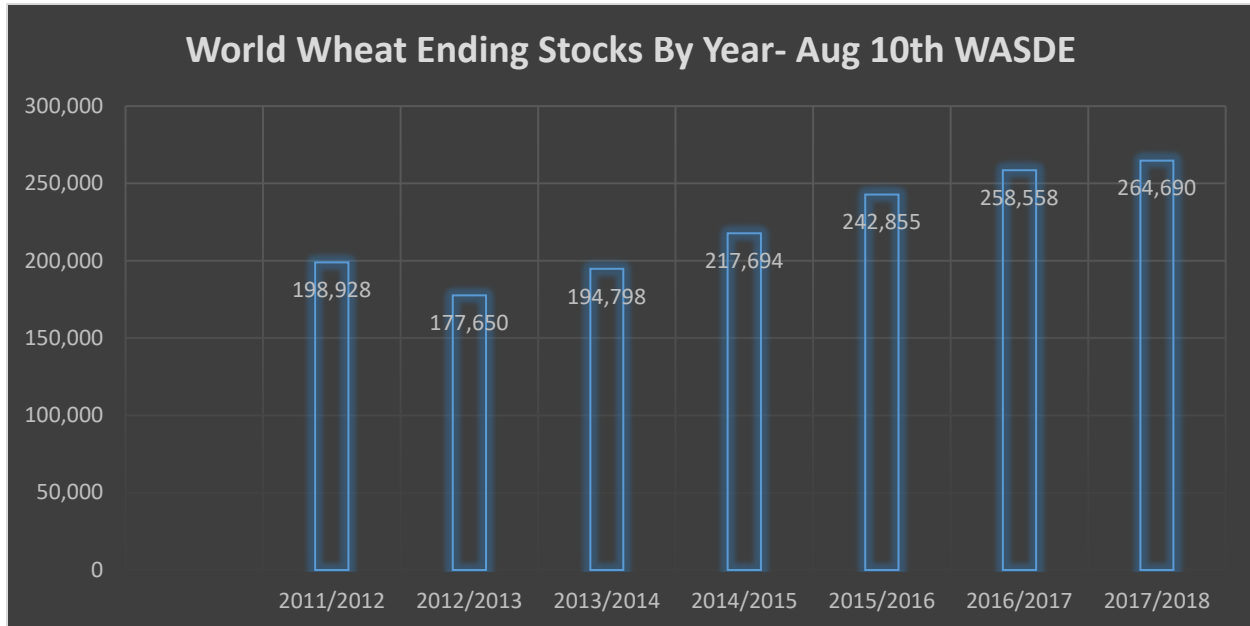
### **ii) Wheat Market Outlook July. 14/17**

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

- **August 10<sup>th</sup> USDA WASDE Report:**
  - **USDA Estimated World wheat production** for 2017/18 has been increased by 5.35 million mt from last month's report to an estimated 743.18 million mt.
  - **Production estimates for the former Soviet Union** have been revised upwards by 8.5 million mt while Canadian, US, and EU production has been reduced.



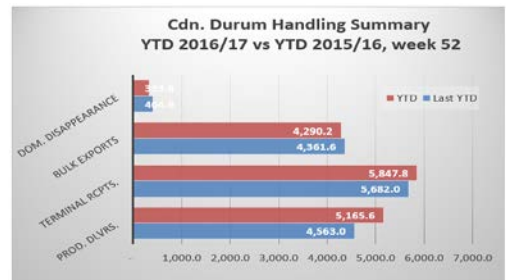
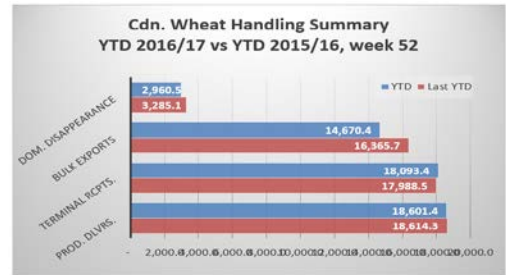
- **Projections for world ending wheat stocks** have been increased by 4.1 million mt from the July WASDE report, and are now projected at 264.7 million mt which would set a new record for world ending wheat stocks.
- **While there is no shortage** of wheat in the world, the August WASDE report does seem overly bearish and is expected that production estimates and ending stocks will be revised lower in September.



- **Futures:** On the futures markets, September Chicago wheat closed the week down by 15.4 cents, and down by 1.2 cents in Fridays trade while September Minneapolis hard red spring wheat closed the week down by 42 cents, and was down by 29 cents in Fridays trade.
- **Funds:** Index Funds did very little during the week while speculative funds returned to selling. Speculative Funds and Speculators saw very little supportive in the WASDE numbers were focused on selling in the latter half of the week. We expect them to add to their short in the coming weeks.
- **Matif:** Matif exchange in Europe closed at 160.25 which was down by 1.00 on Fridays trade, and down by 2.75 for the week

- **Canadian wheat:**

- According to the CGC, producers delivered 361k mt of wheat into the handling system, which is down from last week's 388k mt. Exports for week 52 were 337k mt, up from last week's 200k mt, and down 10% (-1.7 million mt) from last year's YTD exports.
- Elevator stocks are currently at 3 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 130k mt at Thunder Bay, 596k mt at the St Lawrence, and 192k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 307k mt at port, which is comparatively small.
- Producers delivered 104k mt of **durum** into the handling system over the past week. Durum exports during week 52 amounted to 27k mt; 4.29 million mt year-to-date. This is very close to last years year to date exports of 4.36 million mt.



- As of August 8<sup>th</sup>, Manitoba crops are reported to have been developing normally. Rainfall fell across most of the province over the past week and winter cereals are now in the hard dough stage with harvest underway in some regions. Canola is podded and some swathing has begun in southern regions. Early seeded spring wheat is now reported to be in the soft dough stage with lodging visible in some fields due to recent heavy rains. Harvesting of field peas has also begun with reports of good quality and good yields.
- As of August 7<sup>th</sup>, the Saskatchewan crop progress report indicates 31% of winter wheat, 11% of field peas, and 10% of lentils are now in the bin, while 5% of mustard and 1% of canola have been swathed. Across the province, 2% of the crop is now combined and 3% is now swathed or ready for straight cut, which is close to the 5-year average for this YTD.
- The August 8<sup>th</sup> Alberta crop report indicates that crop conditions across the province have declined by a further 1% since last week's report. The Alberta harvest is now rated as 4% complete, with most harvest activity occurring in southern and central regions of the province. 66% of winter wheat and 29% of fall rye are now reported to be harvested. Rainfall across the province in the past week was too scattered and light to significantly improve topsoil moisture conditions, and central and southern regions of Alberta remain dry.

➤ **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 crop is now reported to be 94% harvested, which is up from 88% harvested last week, and ahead of the 5-year average of 92% harvested for this year to date. South Dakota, and Wyoming are both reported to be 99% complete, while Montana is reported at 95% harvested. Meanwhile Idaho is reported to be 67% harvested, Oregon 85% harvested, and Washington 72% harvested. The US spring wheat crop is now reported to be 24% harvested which is up from 9% harvested last week, and crop condition is now reported to be 32% good/excellent, which is up from 31% good/excellent last week. Spring wheat harvest is progressing steadily with North Dakota spring wheat is now reported to be 16% harvested, Montana 33% harvested, Minnesota 9%, and South Dakota 65%.

In recent WASDE reports, the USDA pegged US spring wheat production at 9.91 million mt, which is down by 26% from last year and down by 30% from the 5-year average. Total US spring wheat supply is set at 16.3 million mt, which is a 22% decrease from last year. The US spring wheat stocks to use ratio is now set at 24% which down from 44% last year. With the spring wheat harvest progressing, it is expected that abandonment might further reduce US production going forward, since an unknown but significant number of acres were baled for livestock feed in regions of western North Dakota, Montana, and South Dakota. According to reports, 30-50% of spring wheat fields were abandoned in some regions, with large portions of western North Dakota through to have abandonment in the range of 40%. Actual abandonment will not be known until the USDA releases its final harvested acreage report, but this number will be much anticipated going forward.

- **Australian wheat:**

Australia has had additional “soaking rains” which have provided needed moisture in the drought ridden wheat belt. While the USDA’s WASDE report left projections for the Australian wheat crop unchanged at 23.5 million mt, some analyst are predicting that the crop will be smaller than USDA projections, with the National Bank of Australia’s August 8<sup>th</sup> production forecast coming in at 22.7 million mt which is an 8 year low.

- **Argentine wheat:**

- Argentina is reported to have had favorable dry weather over the July 30- August 5<sup>th</sup> time period which has aided with corn harvesting and wheat planting. WASDE projections for the Argentine wheat crop remained unchanged from July at 17.5 million mt.

- **EU wheat:**

Central and northern Europe are reported to have had showers which have aided the filling of small grains. Dryness persists in southern regions with heat and drought having a negative impact on crops in the Balkans. Overall crop prospects for Europe are favorable and harvest is well underway in most regions.

- **Black Sea wheat:**

Black Sea wheat ended the week down by \$2 as the USDA WASDE reported hiked expectations for the Former Soviet Union wheat crop by 8.5 million mt (5.5 million mt in Russia, 2.5 million mt the Ukraine). This drop curtailed buyer interest with even GASC showing no reaction to the price declines. September Russian 12.5 pro was buyable down to \$193 with 11.5 pro offered at a \$16 discount and feed offered at a further \$12 markdown.

### **Wheat Market Outlook:**

- Significant events:

The most significant event in the past week was the release of the USDA WASDE report which has sparked a significant market decline. While the trade is currently operating with the released USDA numbers, there is considerable discussion about the accuracy of the WASDE numbers and speculation of a future reduction in world wheat production in September. While we still maintain a bearish outlook for spring wheat, the WASDE report did seem needlessly over-bearish. Most notably, the report did not consider the issue of acreage abandonment in the drought ridden pockets of the northern US plains, where it is reported that as much as 40% of the wheat crop was baled for livestock feed in some areas. The USDA also failed to adjust Australian wheat production lower, while private estimates are for a smaller Australian crop. Given these factors, it seems probable that there could be a small reduction in world wheat production in future USDA reports.

➤ *Outlook:*

The outlook for wheat is bearish at the moment and there seems to be little which could spark a price rally. Our focus going forward will be on Russia's ability to raise wheat exports on pace with their increased production.

***Cash bids for hard red spring wheat currently range from \$6.50 - 7.15 per bushel across the prairies for Oct/Nov delivered new crop HRS. This is down significantly from last week and prices have continued to decline as the market tries to rebalance. The spread between hard red spring and hard red winter wheat remains too wide, although it has narrowed in the past week. With the spring wheat harvest now well underway, and with hard red spring overvalued vs hard red winter, there is little bullish news to drive spring wheat higher except for the possibility of a future adjustment in US wheat production due to abandonment. For the present time, the trade is operating with current USDA projections and spring wheat is expected to trade steady to lower as harvest progresses.***

**iii) Primary Elevator Price Tables and Grade Spreads**

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

Date: August 14, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
<b>1 CWRS 13.5</b>	\$7.08	\$260.15	<b>1 CWRS 13.5</b>	\$7.26	\$266.76
<b>1 CWAD 13.0</b>	\$8.44	\$310.12	<b>1 CWAD 13.0</b>	\$8.64	\$317.47
<b>1 CPSR 11.5</b>	\$4.52	\$166.08	<b>1 CPSR 11.5</b>	\$4.53	\$166.45
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$7.08	\$260.15	<b>1 CWRS 13.5</b>	\$7.32	\$268.97
<b>1 CWAD 13.0</b>	\$8.47	\$311.22	<b>1 CWAD 13.0</b>	\$8.74	\$321.14
<b>1 CPSR 11.5</b>	\$4.44	\$163.14	<b>1 CPSR 11.5</b>	\$4.53	\$166.45
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.90	\$253.53	<b>1 CWRS 13.5</b>	\$7.05	\$259.05
<b>1 CWAD 13.0</b>	\$9.08	\$333.64	<b>1 CWAD 13.0</b>	\$9.13	\$335.47
<b>1 CPSR 11.5</b>	\$4.52	\$166.08	<b>1 CPSR 11.5</b>	\$4.44	\$163.14
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$7.08	\$260.15	<b>1 CWRS 13.5</b>	\$7.18	\$263.82
<b>1 CWAD 13.0</b>	\$8.97	\$329.59	<b>1 CWAD 13.0</b>	\$9.15	\$336.21
<b>1 CPSR 11.5</b>	\$4.61	\$169.39	<b>1 CPSR 11.5</b>	\$4.60	\$169.02

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT**

<b>Avg. Grade Spread/ Pro Discounts</b>	<b>Cdn\$/bu.</b>	<b>Cdn.\$/mt</b>
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.20)	(7.35)
<b>1 CWRS 12.5</b>	(0.37)	(13.60)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.03	1.10
<b>2 CWAD 13.0</b>	(0.79)	(29.03)
<b>2 CWAD 12.5</b>	(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*

<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.



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.

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“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.”

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

Relevant FOB Prices and Export Basis				August 14, 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	\$363.22	\$351.10		
HRS	\$355.76			
HRW 11.5	\$256.91			
SWW 12.0	\$255.98			
1 CWRS 13.5 <sup>3</sup>	\$363.22		\$228.18	\$135.04
2 CWRS 13.0 <sup>3</sup>	\$355.76		\$209.81	\$145.95
3 CWRS <sup>3</sup>	\$256.91		\$182.62	\$74.29
CPS <sup>3</sup>	\$249.45		\$156.90	\$92.55
1 CWAD <sup>4</sup>		\$491.91	\$269.70	\$222.21
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$192.00			
French 11.5 (Rouen)	\$192.99			
ASW 10.5 (W Coast)	\$240.00			
Argentine 12.0	NA			
<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**

<b>Canadian Wheat - World Price Parities</b>					August 14, 2017
<b>Canadian Funds</b>	<b>Grade</b>				
<b>PNW value/Vancouver</b>	<b>1CWRS13.5</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
Dec./Jan. delivery	\$9.71	\$9.50	\$6.81	\$6.79	\$6.79
Parity Track Rosetown	\$8.21	\$8.01	\$5.32	\$5.29	\$5.29
Track Bid Rosetown Area	\$6.21	\$5.71	\$4.97	\$4.27	\$4.27
Gross Margin at Elevator (\$/bu)*	\$2.00	\$2.30	\$0.35	\$1.02	\$1.02
Gross Margin at Elevator (\$/mt)*	\$73.53	\$84.44	\$12.78	\$37.57	\$37.57

\* to cover elevation, elevator market risk, margin