

Wheat Market Outlook and Price Report: September 4th, 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).

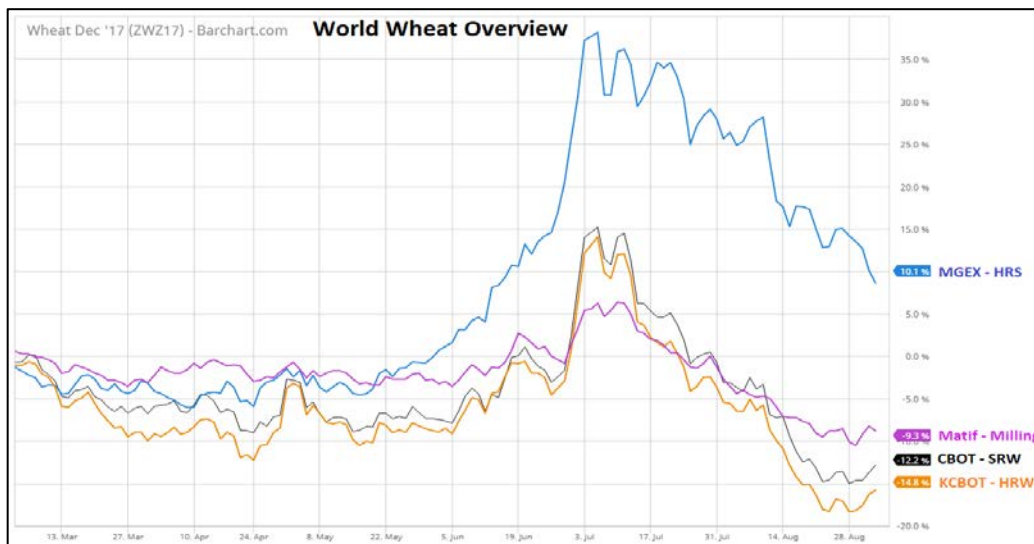
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various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

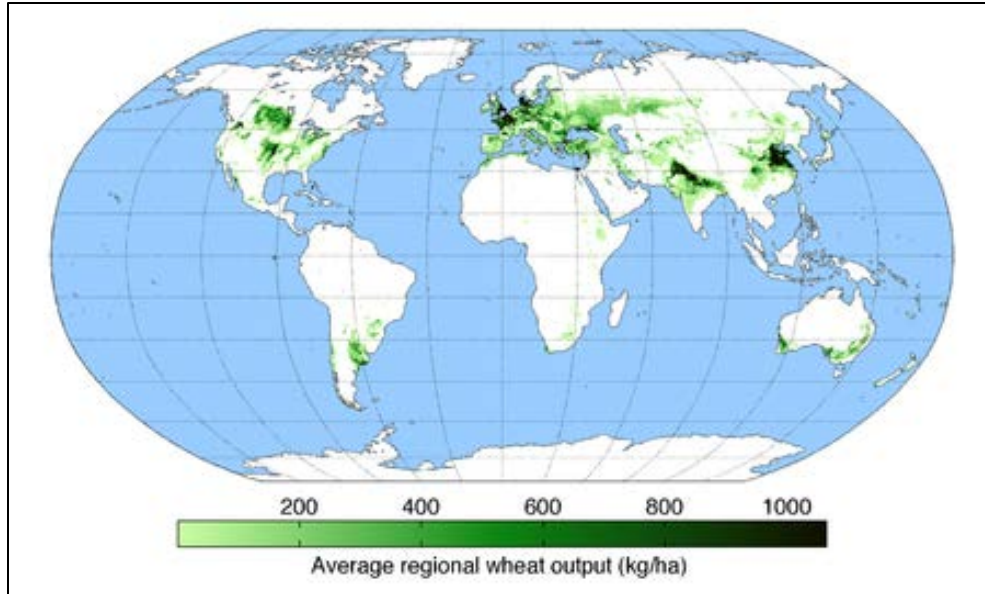
2017/18 World Wheat Overview:

➤ **Wheat Spread Comparison**

- **Winter wheat is currently undervalued vs corn**, Kansas HRW and Chicago SRW wheats have shown strength in the past week and they could be nearing bottom.
- **On the Matif exchange**, French milling wheat has increased in value vs other wheat and is beginning to show some strength.
- **The spread** between hard red spring and Kansas hard red winter has narrowed by 41 cents in the past week and HRS continues to fall in value. We expect this spread to continue to narrow and spring wheat should fall to around \$1.00 US premium over hard red winter. There is little bullish news for spring wheat at the present time.



Wheat Growing Regions of the World



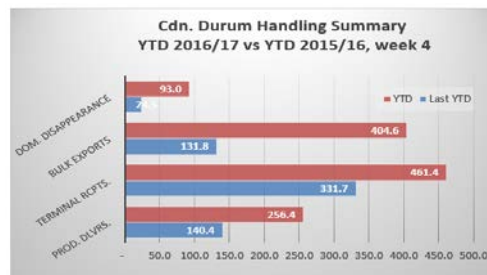
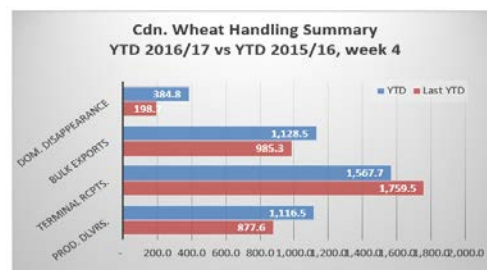
Global wheat and trade trade:

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

- **Futures:** On the futures markets, Chicago December wheat closed the week at \$4.36 US\$ per bushel, which is up by 3.5 cents for the week, and up by 4.2 cents in Fridays trade. In Minneapolis, December contract hard red spring wheat closed the week at \$6.31 US per bushel, which is down by 37.4 cents for the week, and down by 8.6 cents in Fridays trade.
- **Funds:** Index funds and Speculative interests were both sellers last week. Speculative funds were heavy sellers of Dec futures at the carry to where September was trading. We are at close to five year lows on futures and for now we see downside limited to 25 cents lower through harvest, after which we will see some upside.
- **Matif:** The Matif exchange in Europe closed at 160.50 which was down by 1.00 on Fridays trade, and down by 0.50 for the week.

○ **Canadian wheat:**

- According to the CGC, producers delivered 408k mt of wheat into the handling system, which is up from last week's 286.4k mt. Exports for week 4 were 268.5k mt, up from last week's 202k mt, and up by 15% from last year's YTD exports.
- Elevator stocks are currently at 2.78 million mt with 1.2 million mt at primary elevators and most of the remaining inventory at port.
- Producers delivered 81k mt of **durum** into the handling system over the past week. Durum exports during week 4 amounted to 229k mt; 404.6k mt year-to-date. This is ahead of last years year to date exports of 132k mt.
- The **Manitoba** crop report indicates that rain fell throughout the province in limited amounts over the past week. The harvest



of winter cereals is nearing completion, while the harvest of spring cereals continues. Winter wheat yields are reported to be 50 – 80 bu/ac, fall rye 75 – 110 bu/ac, spring wheat 50 – 95 bu/ac.

- **Saskatchewan's** crop progress report indicates that the Saskatchewan harvest is now 26% complete provincially. The southeast part of the province is now reported to be 49% complete, while most of the unharvested crops are in northern regions. Provincially, the winter cereal harvest is now reported to be 98% complete, while 14% of spring wheat are not harvested. 25% of spring wheat is now reported to be ready for straight cutting.
- The **Alberta** crop progress report indicates that the Alberta harvest is well underway with 17.8% of the crop already harvested. This is well ahead of the 5-year average of 10% harvested for this year to date. The most advanced regions are the southern and central parts of the province which suffered from dry conditions. Provincially, 17% of spring wheat has already been harvested.
- **Statistics Canada** released its Canadian production estimates on August 31st, which project Canadian wheat production for the 2017/2018 crop year to be down by 19.5% nationally. Projections for Saskatchewan's wheat production are for a crop that is 30% smaller vs last years crop, and this projection is due to a 1.7% reduction in harvested area combined with a forecasted 28.8% decline in average yield

- **US wheat:**
The US winter wheat harvest is now completed, and the US spring wheat harvest is now reported to be 76% complete as of August 27th. This is up from 58% complete last week and harvest is well ahead of the 5-year average of 66% harvested for this year to date. The average protein of the US spring wheat crop is reported to be 15% which is down slightly from last weeks 15.1%, but up significantly from last years average of 14.2%. The average test weight for US spring wheat is 60.8 lbs per bushel and crop quality is good.

- **Australian wheat:**
The Australian wheat crop has remained stable, but most regions would benefit from additional rainfall. Expectations are that USDA will slightly reduce its projections for the Australian wheat crop in the September WASDE report.

- **Argentine wheat:**
 - Argentine wheat planting is now reported to be 99% complete and the region has been dominated by mostly dry weather and above normal temperatures.
 - Argentine new crop wheat values fell to US\$175/mt for 12% protein, while 11.5 protein wheat was offered at US\$170/mt (against around US\$175/mt for December Black Sea wheat), although BAGE (Buenos Aires Grain Exchange) quoted excessively wet conditions threatening one third of the crop.

- **EU wheat:**
The European wheat harvest is now nearing completion and northern wheat growing regions were reported to have had wet weather during the latter stages of harvest. Reports indicate that there could be some quality concerns with German and Polish wheat due to excessive moisture during harvest.
 - EU farmers are still not selling because of a mix of low prices and ongoing quality concerns in the north. However, EU shipments continue to run way behind last year's and apart from French wheat to Algeria, Lithuanian to Saudi (which will soon start to run down) and Romanian to Egypt (which is now priced out against Russian), there is not much in the way of a demand driver for EU wheat. To reach USDA's 29.5 million mt annual total, shipments for the rest of the season must hit 27 million mt against 20.5 million mt last year, a more than 30% increase - which can not happen given today's prices.

- **Black Sea wheat:**

- In the Black Sea, Russian 12.5 protein wheat was offered at US\$180/mt early in the week, but closed slightly better at US\$18/mt for Sep-Oct plus US\$2/mt per month. The 11.5 protein discount widened to US\$10-12/mt with feed a further US\$8/mt less. Tunisia's purchase looked close to 11.5 protein replacement whilst GASC (Egypt) saw another drop in its purchase price.
- Russia could have a near monopoly at future GASC (Egyptian) tenders with France out of the game and Romania unable to originate milling wheat at these prices (Russian 12.5% protein wheat at US\$180/mt is just €150/mt, which is the price at which Balkan feed wheat has been trading into Spain).
- Current Russian wheat yields are 21% up on last year.

Significant purchases/ trades:

There were quite a few trades this week in the international cash markets:

- **GASC (Egypt)** bought 295k mt Russian/Ukrainian wheat at around US\$202/mt for Oct 1-10 shipment.
- **Tunisia** bought 2 x 25k mt at US\$193.50/mt for November.
- **Korea** bought 65k mt feed wheat at US\$195.50/mt for Feb.'18 arrival.
- **US export sales** were 536k mt for a season total 440 million bu, still slightly ahead of last year's 435 Mbu. HRW accounted for 55% of the weekly total with HRS a further 22%.

Wheat Market Outlook:

- Significant events:
 - The size of the Russian wheat crop again dominated the market sentiment as harvest data suggested more potential increases, although the threshold of export capacity was passed long ago,
 - Sales to GASC (Egypt) was concluded at around US\$7/mt below the previous purchase, with another huge volume of Russian wheat offered.

- *Outlook:*

Russia looks like it will lead the low cash markets for some time yet; however the longer-term picture is less clear. The Northern Hemisphere winter planting season is upon us with the Ruble at 11-week highs and EU farmers seeing prices that are below their cost of production. September is a key month for Australian wheat and conditions in that country remain dry and could reduce the size of the crop.

Recently, Minneapolis futures have declined over \$30.00 per mt versus Kansas and headed to a \$50 premium.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: September 4, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '17 (bu.)	Nov. '17 (mt)
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	\$6.50	\$238.84
1 CWAD 13.0	\$7.53	\$276.68	1 CWAD 13.0	\$7.56	\$277.78
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	\$6.50	\$238.84
1 CWAD 13.0	\$7.55	\$277.42	1 CWAD 13.0	\$7.58	\$278.52
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
NE Sask			NE Sask		
1 CWRS 13.5	\$6.18	\$227.08	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$7.46	\$274.11	1 CWAD 13.0	\$7.49	\$275.21
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$6.26	\$230.02	1 CWRS 13.5	\$6.29	\$231.12
1 CWAD 13.0	\$7.59	\$278.89	1 CWAD 13.0	\$7.62	\$279.99
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a

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)

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."

- 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				Sept. 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	\$348.90	\$317.43		
HRS	\$355.74			
HRW 11.5	\$257.68			
SWW 12.0	\$245.83			
1 CWRS 13.5 ³	\$348.90		\$223.40	\$125.50
2 CWRS 13.0 ³	\$355.74		\$210.54	\$145.20
3 CWRS ³	\$257.68		\$199.52	\$58.16
CPS ³	\$239.44		\$151.02	\$88.42
1 CWAD ⁴		\$407.73	\$261.98	\$145.75
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)		\$182.00		
French 11.5 (Rouen)		\$188.23		
ASW 10.5 (W Coast)		\$224.00		
Argentine 12.0		\$180-188		

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					Sept. 4, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.32	\$9.51	\$6.84	\$6.52	\$6.52
Parity Track Rosetown	\$7.83	\$8.01	\$5.34	\$5.02	\$5.02
Track Bid Rosetown Area	\$6.08	\$5.73	\$5.43	\$4.11	\$4.11
Gross Margin at Elevator (\$/bu)*	\$1.75	\$2.28	-\$0.09	\$0.91	\$0.91
Gross Margin at Elevator (\$/mt)*	\$64.13	\$83.83	-\$3.21	\$33.44	\$33.44

* to cover elevation, elevator market risk, margin