

## Wheat Market Outlook and Price Report: September 18th, 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).

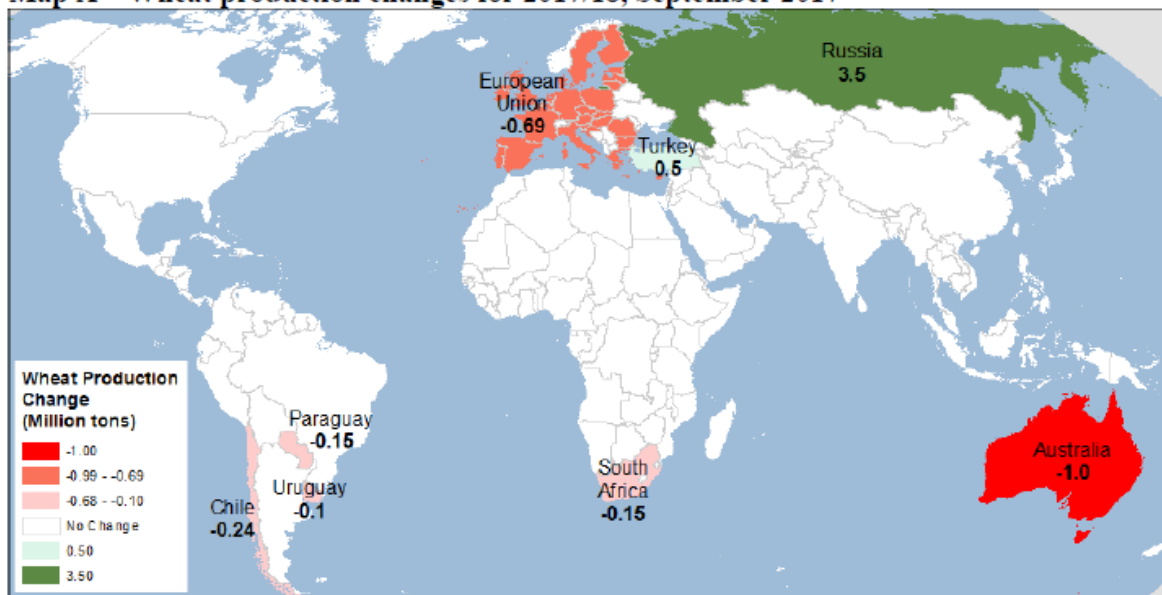
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various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

- **September 12<sup>th</sup> USDA Wheat Outlook Report:**
  - **World wheat production** for 2017/18 has been increased again by an additional 1.7 million mt on a 3.5 million mt production increase in Russia and regions for the former Soviet Union.
  - **Projections for world wheat supplies** have been lowered by 1 million mt due to a 2.7 million mt reduction in beginning stocks.

**Map A – Wheat production changes for 2017/18, September 2017**





- **World ending wheat stocks** are now projected at 263.14 million mt, down slightly from last month's estimate of 264.69 million mt but still a new record for world ending wheat stocks.

➤ **Global wheat production and trade:**

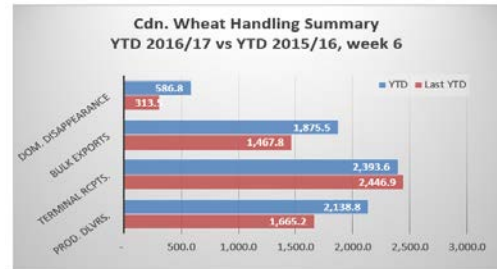
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** December contract Chicago wheat closed the week at 449 which is up by 11 cents for the week, and up by 6 cents in Fridays trade, while December contract Kansas hard red winter wheat closed the week at 446 which is up by 4.4 cents for the week and up by 4 cents in Fridays trade. On the Minneapolis futures markets, December contract hard red spring wheat closed the week at 621.4 which is down by 25.2 cents for the week, and down by 11 cents in Fridays trade.
- **Funds** -Very little action this week by either group. The Specs are short wheat by -12.5 million contracts, while Index Funds are long wheat by +24 million contracts.
- **Matif:** Matif exchange in Europe December contract milling wheat is up by €3.75/mt for the week, but was unchanged in Fridays trade. Matif wheat has been trading stronger in spite of high currency and ample French wheat supplies.

**Canadian wheat:**

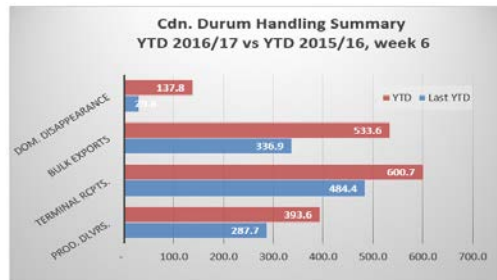
- According to the CGC, producers delivered 404k mt of wheat into the handling system, which is down from last week's 595k mt. Exports for week 6 were 230k mt, down from last week's 517k mt, and up by 28% from last year's YTD exports.
- *We note that railcars supplied were less than 30 percent of wheat stocks in primary elevators, only 13 percent of the total primary grain and oilseeds stocks, and yet nobody complains.*
- Elevator stocks are currently at 3.123 million mt with 1.5 million mt at primary elevators and most of the remaining inventory at port.

- Producers delivered 59k mt of **durum** into the handling system over the past week. Durum *exports* during week 6 amounted to 57k mt; 534k mt year-to-date. This is ahead of last year's year to date exports of 337k mt.



- The Manitoba crop progress report indicates that the spring cereal harvest is now nearing completion.

- Saskatchewan's crop progress report indicates that that producers have made significant harvest progress in the past week. 65% of the Saskatchewan crop is now reported to be harvested as of September 11<sup>th</sup> which is up from 45% harvested last week and ahead of the 5-year average of 40% harvested for this year to date.



- The September 12<sup>th</sup> Alberta crop progress report indicates that the Alberta harvest is now 45% complete provincially which is a 13% increase from last week. A few scattered areas have experienced frost as of September 12<sup>th</sup>. 50% of spring wheat is now reported to be harvested.

- US wheat:**

The US spring wheat crop is now reported to be 94% harvested as of September 10<sup>th</sup>. Idaho has 9% of its spring wheat remaining to harvest, while Montana has 11%, North Dakota 6%, Washington 5%, and South Dakota 4%. The Minnesota spring wheat harvest is now reported to be 100% complete. Planting of next year's winter wheat crop is now underway in the US, with 16% of Colorado, 17% of Nebraska, and 30% of Washington already planted as of September 10<sup>th</sup>. Nationally, 5% of the US winter wheat crop is now planted.

- US wheat export sales in the past week were disappointing at 317k mt. This is weaker than trade expectations of 350- 550k mt. This week's exports are down by 16% from last week, and down by 22% from last year's year to date exports, despite HRW remaining very competitive on paper.
- US wheat futures ended slightly lower in KC and the CBOT, sharply lower in Mpls where the market gave back all the week's previous gains.

- Australian wheat:**

Projections for the Australian wheat crop have been progressively downgraded with the USDA cutting their projections for the Australian crop by 1 million mt in the latest WASDE report. The Australian Bureau of Agriculture Resource Economics and Sciences (ABARES) also downgrading the Australian crop and Australia is estimated to have the smallest wheat crop since 2008/2009. Current projections for Australian production are 21.34 million mt (ABARES), 22.5 million mt (USDA September WASDE) and 20.1 million mt (National Australian Bank). 20.1 million mt would be a 10-year low in Australian wheat production and Australia will have a significant reduction from last year's 32.64 million mt.

- Australian new crop wheat futures were up just A\$2/mt on the week, but new crop Fob replacement is put at US\$249/mt for APW in Western Australia. The discount for ASW quality is ~US\$8/mt. At these values, Australian wheat will only sell to truly inelastic buyers.

- Argentine wheat:**

Argentina has suffered from excess moisture and several reporting agencies have sharply cut projections for the Argentine wheat crop. However, the Rosario Grains Exchange has still estimated the Argentine wheat crop to be 17 million mt which is close to the USDA's

September 12<sup>th</sup> estimate of 17.5 MMT, indicating that crop yield will remain good with only some downgrading in quality due to moisture.

The Buenos Aires Grain Exchange now predicts that the heavy rains in Argentina could result in around 70 thousand hectares of wheat losses. This is in addition to previously expected losses of 80 thousand hectares, but total Argentine wheat acreage is 5.35 million hectares and the affected areas are not large enough to affect total production at this point.

- **EU/Russian wheat:**
  - in the monthly WASDE report, the USDA has further increased projections for the Russian wheat crop by 3.5 million mt to 81 million mt, with some reporting agencies suggesting that the crop could be larger and that the USDA estimate is still too conservative. The USDA has projected Russian wheat exports to be up by 1 million mt and the Russian transportation system could be strained moving this record crop to export markets.
  - In the September 12<sup>th</sup> WASDE report, the USDA also lowered projections for European wheat production by 700,000 MT but, EU production still remains high. The French Agriculture Ministry has now projected the French wheat crop to be the 3<sup>rd</sup> largest on record at 37.9 million mt and the hot dry conditions in France helped to boost the quality of French wheat, which is currently reported to have an average protein of 12%.
  - Meanwhile the UK is reported to have above average yields and good quality, while Italian and Spanish crops are smaller due to drought stress. Northern Europe is not as positive with German wheat production forecasted to be lower and Polish wheat reported to be of poorer quality due to rains during harvest. Overall European yields are good and average quality is good.
  - The French market still valued some US\$15mt higher than comparable wheat in the Black Sea!
- **Black Sea wheat:**
  - The Black Sea wheat market was quiet with values mostly unchanged: The benchmark Russian 12.5% protein wheat at US\$186/mt for October, plus US\$2/mt per month, less US\$10/mt for 11.5%protein. Feed wheat US\$8/mt less.

#### **Significant purchases/ trades:**

##### **It was an extremely quite week in cash wheat trading**

- In their weekly wheat tender, Japan bought a total of 139,382 mt of Australian, Canadian and US wheat. Of the 139k mt, 55,645 mt were US origin wheat.
- Otherwise, we did not have any reports of cash wheat trades, although we do think Egypt bought some Russian wheat; we should have details later on Monday.

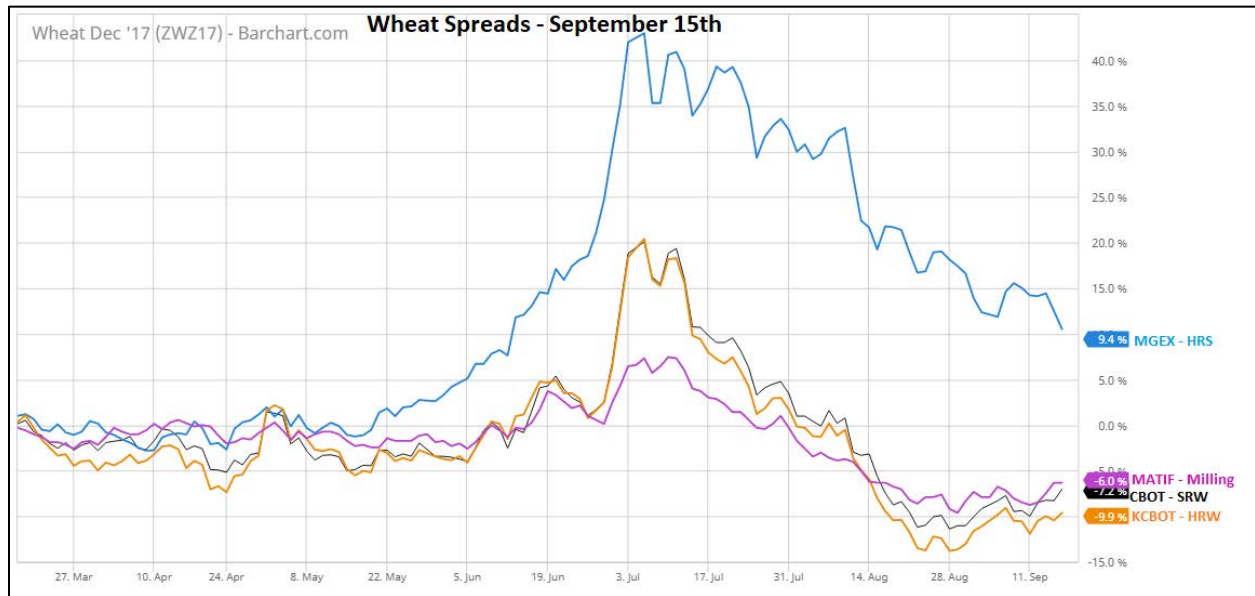
#### **Wheat Market Outlook:**

- Significant events:
  - With the Canadian harvest now well in progress, harvest reports indicate that the drought in western Canada will not have a significant impact on spring wheat yields. Reports indicate that Manitoba spring wheat is yielding over 60-80 bushels per acre while Saskatchewan yields are thought to be 45 – 60 bushels per acre with the exception of the Weyburn and south region which is yielding 30 bushels per acre. Southern Alberta is drought affected with areas south of High River reporting 25 – 35 bushels per acre, but the rest of the province yielding 50 to 80 bushels per acre in early reports.
  - *With large primary stocks and poor rail loadings “elevator companies” widened their “basis” for wheat.*
- **Outlook:**

While winter wheat markets seem to have reached their seasonal low and are slightly rebounding, Minneapolis spring wheat continues to be overvalued, although the spreads are narrowing. The

spread between Minneapolis hard red spring and Kansas City hard red winter narrowed by 29.4 cents over the past week while the spread between Minneapolis hard red spring and Chicago soft red winter narrowed even further at 36 cents per bushel.

*We see further weakness in Mpls/Kansas; that spread should go to \$1.50 premium December Mpls.*



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

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

Date: September 18, 2017

NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Nov. '17 {bu.}	Nov. '17 {mt}
<b>1 CWRS 13.5</b>	\$6.10	\$224.14	<b>1 CWRS 13.5</b>	\$6.19	\$227.45
<b>1 CWAD 13.0</b>	\$7.17	\$263.45	<b>1 CWAD 13.0</b>	\$7.22	\$265.29
<b>1 CPSR 11.5</b>	\$4.45	\$163.51	<b>1 CPSR 11.5</b>	\$4.41	\$162.04
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$6.13	\$225.24	<b>1 CWRS 13.5</b>	\$6.20	\$227.81
<b>1 CWAD 13.0</b>	\$7.28	\$267.50	<b>1 CWAD 13.0</b>	\$7.24	\$266.03
<b>1 CPSR 11.5</b>	\$4.31	\$158.37	<b>1 CPSR 11.5</b>	\$4.31	\$158.37
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$5.89	\$216.42	<b>1 CWRS 13.5</b>	\$5.95	\$218.63
<b>1 CWAD 13.0</b>	\$7.17	\$263.45	<b>1 CWAD 13.0</b>	\$7.22	\$265.29
<b>1 CPSR 11.5</b>	\$4.40	\$161.67	<b>1 CPSR 11.5</b>	\$4.30	\$158.00
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$5.99	\$220.10	<b>1 CWRS 13.5</b>	\$6.04	\$221.93
<b>1 CWAD 13.0</b>	\$7.25	\$266.39	<b>1 CWAD 13.0</b>	\$7.32	\$268.97
<b>1 CPSR 11.5</b>	\$4.44	\$163.14	<b>1 CPSR 11.5</b>	\$4.43	\$162.78

**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>	(0.18)	(6.61)
<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* 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

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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."

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 M

Relevant FOB Prices and Export Basis				Sept. 18, 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	\$343.70	\$312.70		
HRS	\$336.96			
HRW 11.5	\$256.54			
SWW 12.0	\$244.86			
1 CWRS 13.5 <sup>3</sup>	\$343.70		\$214.95	\$128.74
2 CWRS 13.0 <sup>3</sup>	\$336.96		\$191.07	\$145.89
3 CWRS <sup>3</sup>	\$256.54		\$183.72	\$72.82
CPS <sup>3</sup>	\$238.57		\$159.47	\$79.10
1 CWAD <sup>4</sup>		\$401.65	\$252.80	\$148.85
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)	\$186.00			
French 11.5 (Rouen)	\$191.65			
ASW 10.5 (W Coast)	\$234.00			
Argentine 12.0	\$170-180			

<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**

<b>Canadian Wheat - World Price Parities</b>						Sept. 18, 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>	
<b>Dec./Jan. delivery</b>	\$9.18	\$9.00	\$6.81	\$6.49	\$6.49	
<b>Parity Track Rosetown</b>	\$7.69	\$7.50	\$5.31	\$5.00	\$5.00	
<b>Track Bid Rosetown Area</b>	<b>\$5.85</b>	<b>\$5.20</b>	<b>\$5.00</b>	<b>\$4.34</b>	<b>\$4.34</b>	
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$1.84</b>	<b>\$2.30</b>	<b>\$0.31</b>	<b>\$0.66</b>	<b>\$0.66</b>	
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$67.47</b>	<b>\$84.61</b>	<b>\$11.54</b>	<b>\$24.11</b>	<b>\$24.11</b>	

\* to cover elevation, elevator market risk, margin