

Wheat Market Outlook and Price Report: October 16th, 2017

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

i) Background and Rationale for the Report

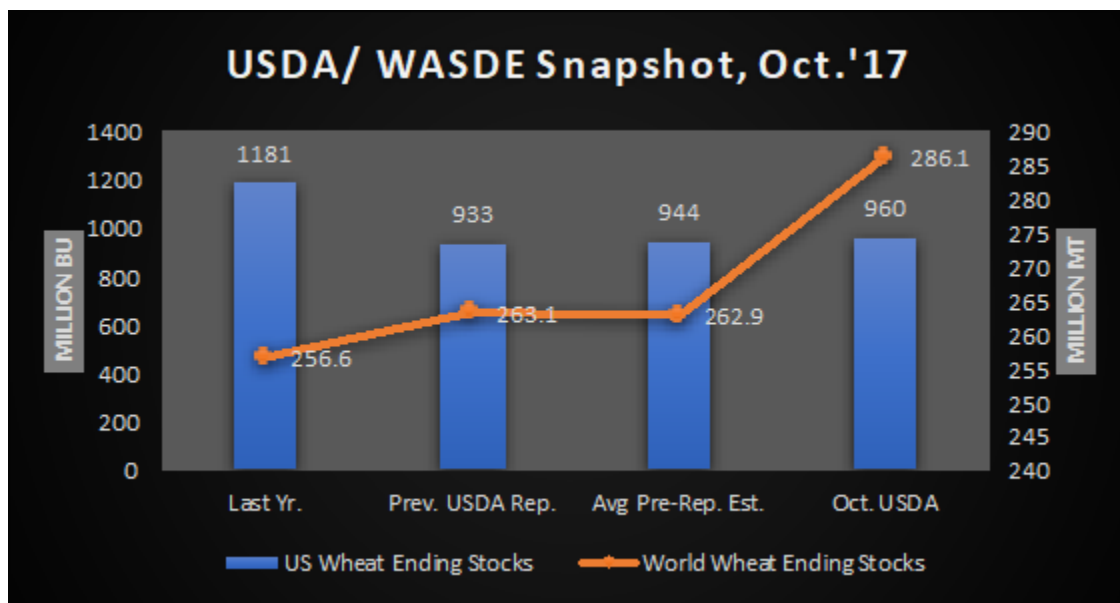
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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:

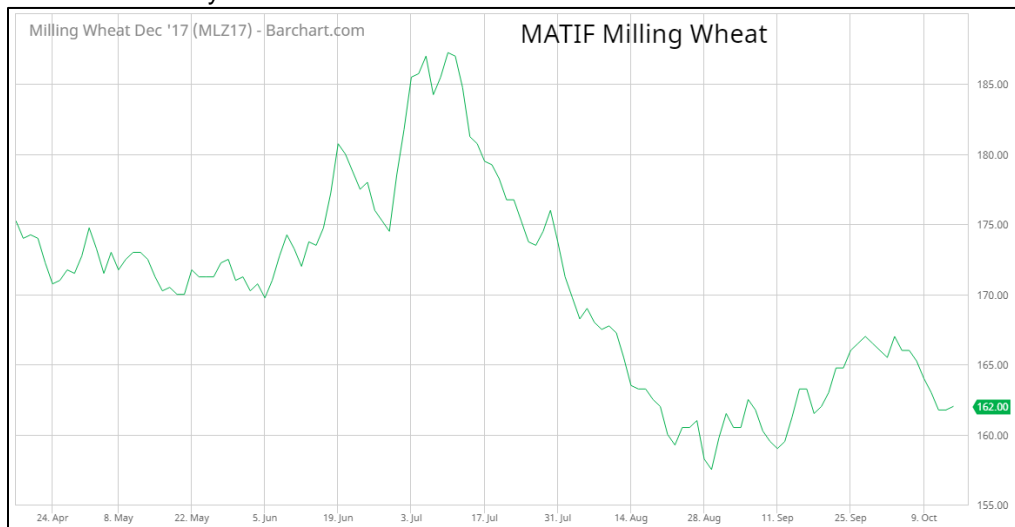
- **October 12th USDA WASDE Report:**
 - **World wheat production** for 2017/18 has again been increased, now by 6.34 million mt from last month's report due to production increase in Russia, the EU, and India.
 - **Canadian Wheat Production** is now projected to be 27 million mt, up from last month's estimate of 26.5 million mt.
 - **Australian Wheat Production** has been reduced by just 1 million mt, to 21.5 million mt which is a smaller than expected reduction.



➤ **Global wheat production and trade:**

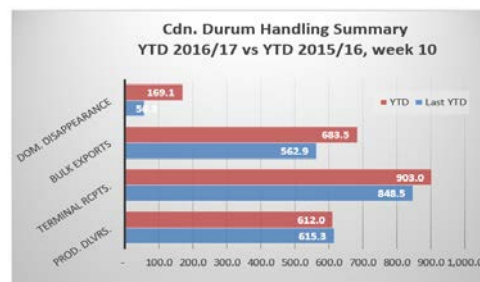
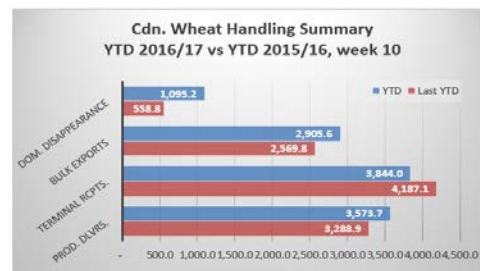
Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** Wheat markets closed higher in Fridays trade as they rebounded from Thursday's losses. In Chicago, December contract wheat closed at 439.4 which was up by 9 cents in Fridays trade, but down by 4 cents for the week. In Kansas, December contract hard red winter wheat closed at 436.2, which was up by 10 cents in Fridays trade, and unchanged for the week. In Minneapolis, December contract hard red spring wheat closed at 613.2 which was up by 3.6 cents for the day, but down by 8.6 cents for the week.
- **Funds** Index Funds did virtually nothing during the week, while speculative elements increased their wheat and corn short following release of the WASDE report and bought in the soy complex.
- **Matif:** Matif exchange in Europe dropped a small € 3.25/mt over the past week, but was up by €0.25 in Fridays trade.



Canadian wheat:

- According to the CGC, producers delivered 266k mt of wheat into the handling system, which is down from last week's 364k mt. Exports for week 10 were 180k mt, down from last week's 301k mt, and up by 13% from last year's YTD exports.
- Elevator stocks are currently at 3.225 million mt with 1.525 million mt at primary elevators and most of the remaining inventory at port.
- *Wheat visible stocks are a big 3.2 mln mt, as shipping/rail loadings continue to be much smaller than deliveries into the primary elevator system.*
- Producers delivered 33k mt of **durum** into the handling system over the past week. Durum exports during week 10 amounted to 42k mt; 684k mt year-to-date. This is 21% ahead of last year's year to date exports of 563k mt.



- Saskatchewan's crop progress report indicates that the Saskatchewan harvest is now 94% complete, which is up from 89% complete last week and many producers are now completely finished.
- The Alberta harvest is lagging only slightly behind Saskatchewan, with 89% of the Alberta crop reported to be harvested as of October 10th.

US wheat:

US winter wheat planting is now 48% complete, which is close to trade expectations but is still behind the 5-year average of 58% planted for this year to date. 25% of the US winter wheat crop is reported to be emerged. The October 3rd USDA drought monitor report indicates that 20% of US winter wheat lies within drought affected regions. This year's US spring wheat production was increased by 5.8% from 364 million bushels last month, to 385 million bushels this month. Spring wheat supply thus went up from 672 million bushels last month, to 693 million bushels this month. Total use of spring wheat increased from 526 million bushels to 531 million bushels, and US ending stocks also rose from 131 million bushels in Aug, to 146 million bushels in Sept, and then to 162 million bushels in Oct.

Australian wheat:

Eastern Australia has had some recent rains in Queensland and New South Wales, but rains are thought to be too late to significantly boost yield potential. Western Australia remains dry and drought prevails in most regions. In the October 12th USDA crop progress report, the USDA has lowered projections for the Australian wheat harvest from 22.5 million mt, to 21.5 million mt. While this is a significant reduction, it is much smaller than was expected, and most private estimates project Australian wheat production in the range of 18 – 20 million mt.

- *Australian new crop Fob wheat and futures values fell sharply as prospects seemed to improve on better rains.*

Argentine wheat:

- While there was also some speculation that the USDA might cut Argentine wheat production due to excess moisture in the north, and drought in the south, this failed to materialize and USDA estimates of Argentine wheat production remain at 17.5 million mt. However, early harvest reports from Argentina have been reporting lower than expected yields and its thought that USDA numbers could be a bit optimistic.
- In South America, Argentine Fob values are little changed, despite the Buenos Aries Grain Exchange's recent estimate that 57% of the Argentine wheat crop as good or excellent, while 23% of the crop is reported to have excess moisture despite improving weather.

- **EU/Russian wheat:**
In last week's WASDE report, the USDA increased its estimates of Russian wheat production by 1 million mt to 82 million mt. While this is a significant increase, most analysts were expecting a much larger increase and some estimates have pegged Russian wheat production as high as 87 million mt. While Russian production increases were smaller than expected, the USDA did increase EU wheat production by 2.2 million mt which was not as anticipated. The increases in EU wheat production were attributed to higher than expected production in France, which was downgraded earlier in the year due to drought.
- **Black Sea wheat:**
- Black Sea wheat prices were pretty static all week with Russian 12.5% protein wheat for Oct-Nov at US\$193/mt plus US\$1 per month carry. The 11.5% protein discount remained around US\$6/mt with feed a further US\$8/mt lower.

Significant purchases/ trades:

- **Egypt** (GASC) bought 170K mt of Russian wheat in their latest tender at US\$214-\$215/mt C&F. The price was up about US\$1/mt from last week's tender. Romanian and French wheat was also offered in the tender. The Romanian wheat was reportedly US\$3/mt too expensive to be competitive. (The weight of harvest pressure seems to have passed in Russia and more grains are going under cover; more due to lack of export transportation than a lessening of the desire to sell.)
- **Bangladesh** purchased 100k tons of Black Sea Wheat for November / December shipment. The 11.5 % protein wheat is reported to have traded at \$223 / ton, while 10.5 % traded at \$ 218 per mt. Both are quoted on a C & F basis.
- **Tunisia** bought 75k mt durum wheat at US\$285/mt for Dec-Jan'18 shipment, and 50kt soft wheat at US\$209/mt.

Wheat Market Outlook:

Significant events:

- The latest USDA supply and demand report was bearish for wheat showing both U.S. and world ending stock projections larger than anticipated. The world wheat number was particularly bearish, adding 5 mln mt to projected ending stocks this year.
- In the past week reports indicate that Indian wheat production is higher than earlier thought, with 2017/2018 Indian wheat production now projected at a record 98.38 million mt, up from 96 million mt in the September report. Due to higher production, estimates for Indian wheat imports have been lowered by 0.5 million mt, to 3.5 million mt. India is the world's 3rd largest wheat producer, and was responsible for 12% of 2016/2017 global wheat production.
- Argentina announced this past week that they will export wheat to Mexico for the first time, with 27k mt of sales scheduled for December delivery. Prior to this, Argentina has only exported wheat to Brazil, and Mexico's recent wheat purchase might be taken as indicative of Mexico's weakening trade relations with the US.

➤ **Outlook:**

- Agriculture and Agri-Food Canada released their outlook for principle field crops this past week, and have projected all Canadian wheat production to be 22.8 million mt, which is an increase of 1.2 million mt from their September estimate. This upward adjustment combined with higher US production in the USDA report, leaves hard red spring wheat well enough supplied and with a bearish outlook.

- A major re-allocation of the world export matrix is still needed. It is now underway, with French wheat pricing, Southern Hemisphere crops, and Russia's real export capacity being the keys. At the present time, Russian and FSU crops are leading exports whilst North American and EU exports are lower.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: October 16, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '17 (bu.)	Dec. '17 (mt)
1 CWRS 13.5	\$6.34	\$232.96	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.09	\$260.51	1 CWAD 13.0	\$7.19	\$264.19
1 CPSR 11.5	\$4.69	\$172.33	1 CPSR 11.5	\$4.58	\$168.29
SW Sask			SW Sask		
1 CWRS 13.5	\$6.38	\$234.43	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$7.29	\$267.86	1 CWAD 13.0	\$7.23	\$265.66
1 CPSR 11.5	\$4.46	\$163.88	1 CPSR 11.5	\$4.56	\$167.55
NE Sask			NE Sask		
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.25	\$229.65
1 CWAD 13.0	\$7.12	\$261.62	1 CWAD 13.0	\$7.12	\$261.62
1 CPSR 11.5	\$4.47	\$164.25	1 CPSR 11.5	\$4.47	\$164.25
SE Sask			SE Sask		
1 CWRS 13.5	\$6.22	\$228.55	1 CWRS 13.5	\$6.28	\$230.75
1 CWAD 13.0	\$7.21	\$264.92	1 CWAD 13.0	\$7.29	\$267.86
1 CPSR 11.5	\$4.43	\$162.78	1 CPSR 11.5	\$4.38	\$160.94

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*

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.

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) \approx 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) \approx 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific North West (PNW) \approx 3 CWRS in Vancouver
 - SW (lowest price wheat) \approx CPS red (mostly fed domestically)
 - HAD (Lakes) \approx 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.

"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 M

Relevant FOB Prices and Export Basis			Oct. 16, 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	\$347.86	\$319.33		
HRS	\$340.96			
HRW 11.5	\$275.62			
SWW 12.0	\$252.61			
1 CWRS 13.5³	\$347.86		\$230.02	\$117.84
2 CWRS 13.0³	\$340.96		\$206.13	\$134.83
3 CWRS³	\$275.62		\$198.79	\$76.84
CPS³	\$246.17		\$163.51	\$82.66
1 CWAD⁴		\$402.62	\$245.82	\$156.80
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)		\$193.00		
French 11.5 (Rouen)		\$192.24		
APW 10.5 (W Coast)				
Argentine 12.0				

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					Oct. 16, 2017
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.29	\$9.10	\$7.33	\$6.70	\$6.70
Parity Track Rosetown	\$7.80	\$7.61	\$5.83	\$5.20	\$5.20
Track Bid Rosetown Area	\$6.26	\$5.61	\$5.41	\$4.45	\$4.45
Gross Margin at Elevator (\$/bu)*	\$1.54	\$2.00	\$0.42	\$0.75	\$0.75
Gross Margin at Elevator (\$/mt)*	\$56.42	\$73.40	\$15.41	\$27.68	\$27.68
* to cover elevation, elevator market risk, margin					