

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

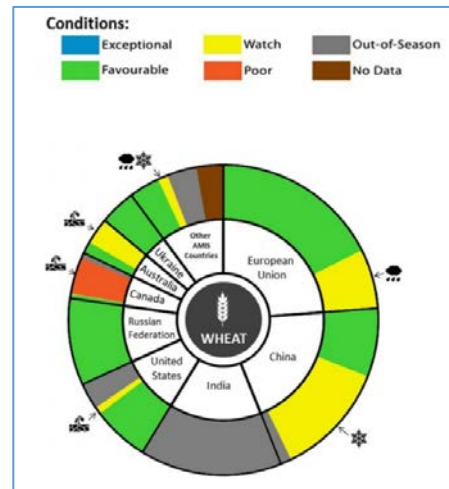
2017/18 World Wheat Overview:

- **November 2nd Agriculture Market Information System (AMIS) Market Monitor Report**
 - FAO-AMIS publishes updates on world markets once per month and provides a good summary and comparison between the world's most watched wheat supply and demand estimates. This month's report also increased wheat production one more time due to good results and continued upgrades to Black Sea wheat yields this year:
 - AMIS revised **World wheat production** forecasts for 2017/2018 upwards by 2.7 million mt due to production increased in Russia and the Ukraine.
 - **Projections for wheat utilization** have been revised upwards from 734.3 million mt, to 738.2 million mt due to expectations for higher feed consumption. What is currently undervalued vs corn which makes it more attractive in chicken rations.
 - **World ending wheat stocks** have been lowered by 3 million mt on higher consumption, but are still forecasted to set a new record at 258.2 million mt.

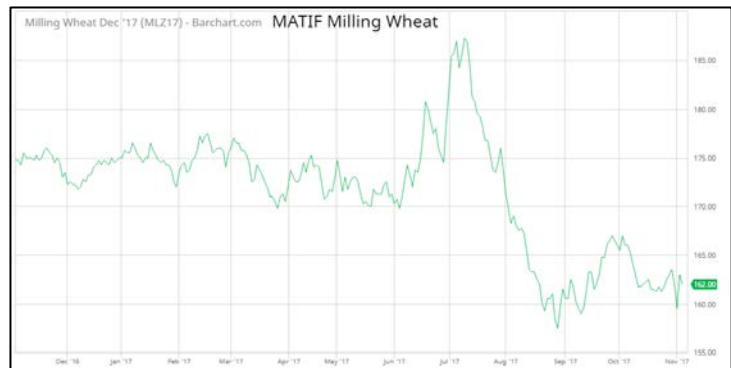
WHEAT	FAO-AMIS		USDA		IGC		<i>in million tonnes</i>	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18		
	<i>est.</i>	<i>f'cast</i>	<i>est.</i>	<i>f'cast</i>	<i>est.</i>	<i>f'cast</i>		
		5-Oct	2-Nov	11-Oct	26-Oct			
Production	760.2	750.1	752.8	754.2	751.2	754.1	748.5	
Supply	982.6	996.4	998.0	995.4	1,007.8	977.9	990.2	
Utilization	732.8	734.3	738.2	738.8	739.6	736.1	741.1	
Trade	177.4	174.7	175.2	182.5	180.0	175.6	174.2	
Stocks	245.2	261.2	258.2	256.6	268.1	241.7	249.2	

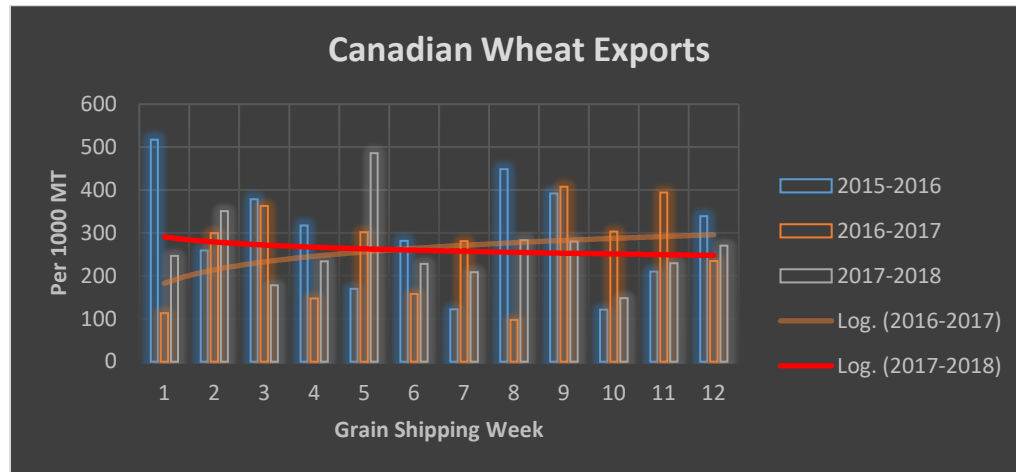
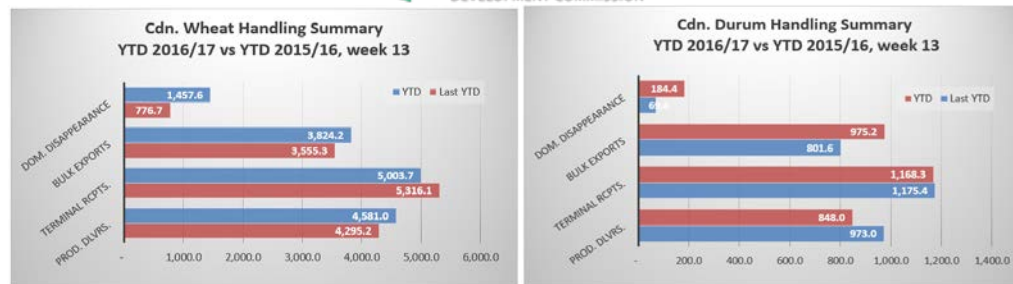
➤ **Global wheat production and trade:**

Major Wheat Growing Regions of the World and Current Conditions:



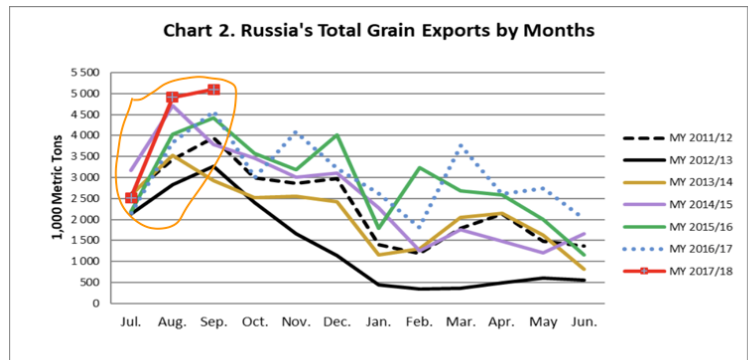
- **Futures:** Wheat was quiet in Friday's trade and heading into the weekend. December contract Chicago wheat closed at 425.6, down by just 0.2 cents in Fridays trade, but down by 1.4 cents for the week. Kansas hard red winter wheat closed at 426.6, up by 1.4 cents for the week, and up by 1 cent in Fridays trade. In Minneapolis, December contract hard red spring wheat closed at 624.6, up by 2 cents on Friday, and up by 9.2 cents for the week.
- **Funds** Index Funds did nothing, while Speculators reached their short-term objectives to be overall short 50 mln tonnes. Spec Funds sold 5.5 mln mt of wheat during the week, to reach a 21.4 mln mt wheat short. Note both Index and Spec. are long oilseeds.
- **Matif:** The Matif exchange in Europe closed at Euro162.00/mt, which was down by Euro1.00/mt on Fridays trade, and down by Euro1.00/mt for the week
- **Canadian wheat:**
- Producers delivered 336k mt of wheat into the handling system, which is down from last week's 353k mt. Exports for week 13 were 369k mt, up from last week's 272k mt, and up by 8% from last year's YTD exports.
- Elevator stocks are currently at 3.274 million mt. The bulk of wheat inventory at port is located on the east coast with 369k mt at Thunder Bay, 782k mt at the St Lawrence, and 269k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 324k mt at port, which is comparatively small. – *With stocks in our ports, it is hard for us to understand why Canadian wheat did not trade to either Iraq or Taiwan. Given our calculations, it would appear basis country bids that these sales represented very healthy margins for Canadian Companies.*
- Producers delivered 85k mt of **durum** into the handling system over the past week. Durum exports during week 13 amounted to 119k mt; 975k mt year-to-date. This is ahead of last years year to date exports of 802k mt.





- **US wheat:**
 - The US winter wheat crop 84% planted as of October 29th, which is slightly behind the 5-year average of 87% planted for this year to date.
 - Iraq bought 450,000 mt US HRW out of tender at US\$299/mt cost and freight. Taiwan paid US\$289/mt Fob for HRS 14.5 pro and US\$235/mt for HRW 12.5 pro. – These would work back to very good prices for Canadian wheat.
- **Australian wheat:**
 - The Australian harvest continues, but rain is forecasted for some regions of the country which could slow harvest progress and reduce crop quality. Fob wheat prices from Australia have been largely uncompetitive against Black Sea or Argentine wheat.
 - Australian Fob and futures values for wheat were down this week. However, wheat based on Saudi Arabia specifications was quoted Fob US\$20/mt (+) higher than what the Saudis paid C&F, so Australian wheat exports still look totally confined to inelastic demand in Asia.
- **Argentine wheat:**
 - Reports this past week have estimated Argentine wheat production at 16.8 million tons, which would be 700,000 tons smaller than the last USDA estimate of 17.5 million mt. Argentine Fob values have moved a bit lower last week to US\$178/mt, and Argentine wheat is price competitive into Africa and regions of Asia.
- **EU wheat:**
 - EU exports continue to be weak due to increased competition from the Black Sea, and exports are reported to be down by 25% vs last year, and down by 7 million mt from the USDA's October projection. Expectations are that EU exports will be adjusted in the November 8th USDA WASDE report.
 - The wheat sale to Saudi Arabia which looked to be a ~US\$5/mt discount to quoted German/Baltic wheat.
- **Black Sea wheat:**
 - Additional rain is reported to have further improved soil moisture for wheat establishment in Ukraine and Russia.

- Russian wheat exports are on pace to set a new record and *Russia has steadily increased its export capacity. Total Russian exports in 2017/2018 could potentially reach 43.6 million tonnes*, and Russia is reported to be launching new support initiatives to move grain from Siberia, the Volga Valley, and Urals which would further bolster Russian exports.
- *Russia is increasing grain rail and export capacity at a much faster rate than Canada is.*
- Russian 12.5 protein wheat traded down to US\$192/mt for November shipment in the Black Sea. Discounts for the 11.5 protein wheat remains at US\$7/mt, with feed wheat holding firm at US\$182/mt.

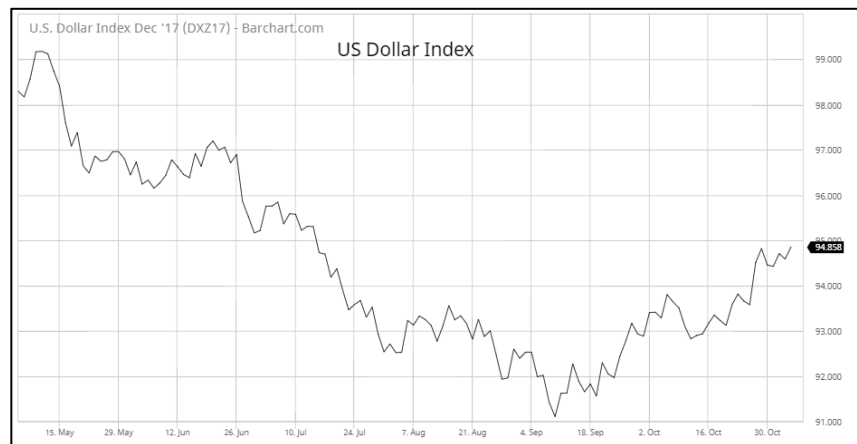


Source: FAS/Moscow based on Russia's Customs data. Exports in September 2017 is based on estimates of industry analysts

Wheat Market Outlook:

➤ Significant events:

The US dollar has continued to show strength, and has increased in value by 2.09% since early September. This is hurting the competitiveness of US wheat exports and could result in higher ending US wheat stocks. However, it is increasingly probable that the US Federal Reserve might leave interest rates unchanged in their December meeting, which could push the US dollar lower.



Iraq bought 450,000 mt US HRW out of tender at US\$299/mt cost and freight, and Taiwan paid US\$289/mt Fob for HRS 14.5 pro and US\$235/mt for HRW 12.5 pro. – These would work back to very good prices for Canadian wheat if it got sold.

Russian 12.5 protein wheat traded down to US\$192/mt FOB for November shipment.

➤ Outlook:

- The USDA will be releasing a WASDE report on November 8th which will be closely watched.
- The sheer size of the Russian crop seems to be bringing some increased sales 'urgency'.
- The EU appears undersold and needs to be more aggressive to increase export sales in competition with Russia/FSU wheat.

- There does not seem to be anything bullish on the wheat horizon in the short term. – Do not be short Minneapolis December wheat futures. Canadian wheat exports appear to be going nowhere, and in our view, exports will be lower than last year if exporters don't become more competitive.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: November 6, 2017					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan. '18 (bu.)	Jan. '18 (mt.)
1 CWRS 13.5	\$6.77	\$248.76	1 CWRS 13.5	\$6.93	\$254.64
1 CWAD 13.0	\$7.22	\$265.29	1 CWAD 13.0	\$7.37	\$270.80
1 CPSR 11.5	\$4.75	\$174.53	1 CPSR 11.5	\$4.78	\$175.64
SW Sask			SW Sask		
1 CWRS 13.5	\$6.82	\$250.59	1 CWRS 13.5	\$6.88	\$252.80
1 CWAD 13.0	\$7.44	\$273.38	1 CWAD 13.0	\$7.53	\$276.68
1 CPSR 11.5	\$4.59	\$168.65	1 CPSR 11.5	\$4.67	\$171.59
NE Sask			NE Sask		
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.20	\$264.56	1 CWAD 13.0	\$7.28	\$267.50
1 CPSR 11.5	\$4.44	\$163.14	1 CPSR 11.5	\$4.46	\$163.88
SE Sask			SE Sask		
1 CWRS 13.5	\$6.68	\$245.45	1 CWRS 13.5	\$6.72	\$246.92
1 CWAD 13.0	\$7.35	\$270.07	1 CWAD 13.0	\$7.45	\$273.74
1 CPSR 11.5	\$4.50	\$165.35	1 CPSR 11.5	\$4.54	\$166.82

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)
- Abbreviations: DNS (Dark Northern Spring Wheat); HRS (Hard Red Spring Wheat); HRW (Hard Red Winter Wheat); SW (Soft Wheat); HAD (Hard

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."

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				Nov. 30, 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	\$364.47	\$336.40		
HRS	\$352.77			
HRW 11.5	\$277.45			
SWW 12.0	\$256.86			
1 CWRS 13.5 ³	\$364.47		\$250.23	\$114.24
2 CWRS 13.0 ³	\$352.77		\$218.99	\$133.78
3 CWRS ³	\$277.45		\$259.05	\$18.40
CPS ³	\$250.31		\$157.26	\$93.04
1 CWAD ⁴		\$409.38	\$256.84	\$152.54
Competing wheat:		US\$/mt		
Russia 12.5 (Black Sea, 25k mt)		\$192.00		
French 11.5 (Rouen)		\$192.27		
APW 10.5 (W Coast)		\$231.00		
Argentine 12.0		\$172-175.00		

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

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					Nov. 30, 2017
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.74	\$9.42	\$7.37	\$6.81	\$6.81
Parity Track Rosetown	\$8.24	\$7.93	\$5.88	\$5.32	\$5.32
Track Bid Rosetown Area	\$6.81	\$5.96	\$7.05	\$4.28	\$4.28
Gross Margin at Elevator (\$/bu)*	\$1.43	\$1.97	-\$1.17	\$1.04	\$1.04
Gross Margin at Elevator (\$/mt)*	\$52.71	\$72.24	-\$43.13	\$38.06	\$38.06

* to cover elevation, elevator market risk, margin