Wheat Market Outlook and Price Report: January 2nd, 2018

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

i) Background and Rationale for the Report

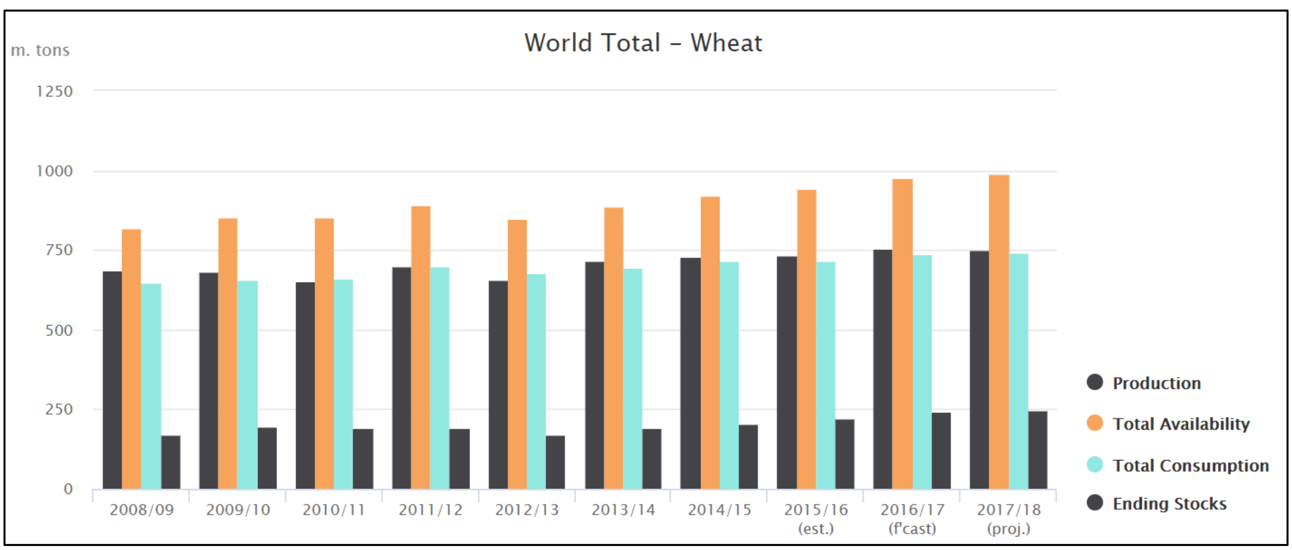
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 Dec. 11/'17

World Wheat Overview:

- **Little has changed in the past week and world wheat supplies remain plentiful.**
- According to IGC, total wheat availably in 2017/18 stands at 990 million mt, vs 977.8 million mt in 2016/17 and 942 million mt in 2015/16.
- World wheat ending stocks are projected at 249 million mt, up form 242 million mt last year and 224 million mt in 2015/16.
- While world wheat consumption has trended upwards, it is not increasing on pace with global production which is projected to be 749 million mt in 2017/18.



- **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 last week's market events in the major wheat origins.

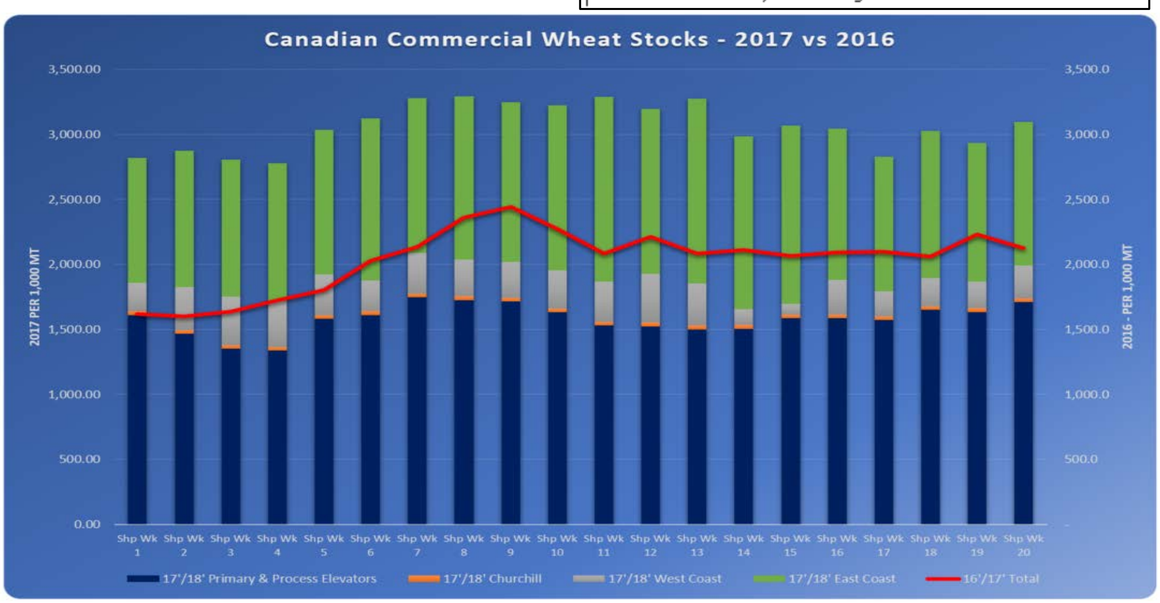
- **Futures:** March contract Chicago wheat closed at 433-4, up by 6.4 cents in Mondays trade and up by 8.6 cents over the past week. Meanwhile March contract Kanas hard red winter wheat closed at 434-6, up by 7.4 cents for the day and up by 12.4 cents for the week. In Minneapolis, March '18 hard red spring wheat moved 3.2 cents higher to close at 618-0 which is up by 5.1 cents for the week.
- **Funds:** Funds currently hold a near record short position for this time of year and the current wheat rally is driven by fund buying.
- **Matif:** Matif wheat futures in Europe closed at €158.50, down by €0.50/mt on Monday and down by €1.75 for the week. French and European exports have been lagging and France is expected to wake up to a need for fresh export demand in January.

- **Canadian wheat:**

Canadian wheat exports in shipping week 20 were reported at 367k mt, which is up from last week's 319k mt, but still below this this same week in 2015/16.
Canadian commercial wheat stocks rose from 2.935 million mt in shipping week 19, to a total of 3.094 million mt in grain shipping week 20. Canadian commercial wheat stocks in the current year have continued to be much higher vs the same week last year, with total current commercial stocks almost a million mt higher vs last year's 2.126 million mt. High commercial stocks are a sign that the that handling system is congested and indicate issues with rail transportation or week export demand.

(CGC) Grain Handling Summary Wheat		Week 20		(to Dec 17/'17)
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 20	387.1	337.4	367.4	105.8
Week ago	344.0	330.7	319.4	91.6
YTD	7,314.8	7,485.5	6,187.2	2,092.1
Last YTD	6,757.1	7,677.0	5,426.1	1,183.5
YTD less Last YTD (k	557.7	-191.5	761.1	908.6
YTD over Last YTD (%	108%	98%	114%	177%
Mercantile based on weekly CGC Handling Data				

(CGC) Grain Handling Summary Durum		Week 20		(to Dec 17/'17)
('000 mt)	Prod. Dlvrs.	Rcpts.	Bulk exports	Disappearance
Week 20	91.2	122.9	87.3	25.2
Week ago	118.0	80.1	75.8	10.2
YTD	1,530.0	1,952.6	1,476.7	316.0
Last YTD	1,904.3	2,116.7	1,466.0	122.4
YTD less Last YTD (k	-374.3	-164.1	10.7	193.6
YTD over Last YTD (%	80%	92%	101%	258%
Mercantile based on weekly CGC Handling Data				



US wheat:

- The US winter wheat belt has endured some extreme cold over the past week, with temperatures as low as -20 F in parts of Kansas, and with reports of zero-degree F (-18 C) temperatures in the Texas panhandle. With limited snow cover, the chance of winterkill has been greatly increased which seems to have sparked a round of fund buying.

Australian wheat:

- The Australian wheat harvest is nearing completion and the weather has been favorable with some showers in the forecast for South Eastern regions, but with continued warm dry conditions projected for most of the country. Australian wheat production is thought to be in the range of 20 – 21 million mt, a bit below the USDA's 21.5 million mt estimate.

Argentine wheat:

- Argentina has had a mix of rain and dry conditions, and is forecasted to receive continued dry conditions for the next 10 days, with the long-term outlook looking wetter. However, we are in an ongoing dry trend and the long-term forecast is thought to be unreliable. Meanwhile Brazil has a favorable outlook aside from projections for dryness in some southern regions. On the cash market Argentine wheat is currently trading around $179 US per mt for 12.0 protein.

EU wheat:

- While north America has been cold and dry, Europe has been experiencing temperatures that are well above normal with wet conditions prevailing in many regions. Wheat area is projected to be down by 4.7% in Germany and unchanged in France. French wheat is currently trading close to $194 US per mt for 11.5 protein while German 12.5 protein wheat is currently around $200 us per mt on the cash markets.

Black Sea wheat:

- The warm above normal temperatures that have blanketed much of the EU, have also extended eastward into the Black Sea region. These warm conditions have helped to facilitate record wheat shipments with ice not expected on the Azov Sea until mid-January. This is a longer shipping window vs normal, and last year ice occurred in November. Russian wheat remains some of the most competitive and is currently at $182 US per mt for 11.5 protein.

- **Significant purchases/ trades:**
  - Cash markets have been relatively quiet over the holidays and EU wheat shipments are not reported.
  - Jordan is stated to have bought 50k mt of wheat at $210.50 per mt.
  - GASC has purchased 180,000 mt of Russian wheat at an average price of 207.75 per mt. Russia continues to dominate the cash wheat markets.

- **Wheat Market Outlook:**

Significant events:

- The most significant event might be the recent passage off the Trump tax reform bill which is expected to boost the US economy and repatriate money that's currently deposited in off shore tax havens. While this should increase demand for US currency, the US dollar index has fallen against most of its counterparts over the past 2-3 week. This was motivated largely by concerns of a government shutdown due to debt re-financing and in advance of a US jobs report next week. It is also thought that the repatriation effect on US currency could be overstated and that most companies are already holding the bulk of foreign earnings in US currency. The Trump tax bill maybe have also been well anticipated by the currency markets.

- ***Outlook:***

- Both spring and winter wheat have been trading higher over the past several weeks, with most analysts attributing the recent rally to cold weather in the US plains and a lack of snow cover which may have sparked a round of fund short covering. Funds have been holding a near record short position in wheat for this time of year, and cold weather in the US plains combined with smaller new crop wheat acreage estimates are likely factors behind the recent rally.
- New crop wheat acreage estimates are showing some reductions for the 2018/2019 crop year and South American weather is also still a factor with some continued dryness in Argentina. In the coming weeks, the focus will begin to shift towards new crop acreages estimates for 2018/2019.
- World wheat supplies are still plentiful and the current rally may be a good selling opportunity.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 2, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar. '18 (bu.)	Mar. '18 (mt)
1 CWRS 13.5	$6.64	$243.98	1 CWRS 13.5	$6.70	$246.18
1 CWAD 13.0	$7.27	$267.13	1 CWAD 13.0	$7.32	$268.97
1 CPSR 11.5	$5.08	$186.66	1 CPSR 11.5	$5.09	$187.03
SW Sask			SW Sask		
1 CWRS 13.5	$6.60	$242.51	1 CWRS 13.5	$6.66	$244.72
1 CWAD 13.0	$7.46	$274.11	1 CWAD 13.0	$7.38	$271.17
1 CPSR 11.5	$4.80	$176.37	1 CPSR 11.5	$5.05	$185.56
NE Sask			NE Sask		
1 CWRS 13.5	$6.40	$235.16	1 CWRS 13.5	$6.42	$235.90
1 CWAD 13.0	$7.20	$264.56	1 CWAD 13.0	$7.24	$266.03
1 CPSR 11.5	$4.82	$177.11	1 CPSR 11.5	$4.80	$176.37
SE Sask			SE Sask		
1 CWRS 13.5	$6.42	$235.90	1 CWRS 13.5	$6.44	$236.63
1 CWAD 13.0	$7.34	$269.70	1 CWAD 13.0	$7.39	$271.54
1 CPSR 11.5	$4.83	$177.47	1 CPSR 11.5	$4.91	$180.41

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 Basis[1] (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

---

[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."

- 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)

➢ <u>Hard wheat price calculations:</u>
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).

➢ <u>Optional origin grain sales</u>:
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

Releveant FOB Prices and Export Basis				January 2, 2018
	FOB Prices CDA[1] (calculated)		Street Prices	Export Basis[2]
Type of Wheat	West Coast (Cdn./mt$)	Great Lakes (Cdn.$/mt)	Rosetown (Cdn.$/mt)	Basis: West Coast-Centr. SK (Cdn$/mt)
DNS 14.0	$349.92	$336.14		
HRS	$342.57			
HRW 11.5	$268.18			
SWW 12.0	$250.73			
1 CWRS 13.5[3]	$349.92		$234.43	$115.49
2 CWRS 13.0[3]	$342.57		$203.19	$139.38
3 CWRS[3]	$268.18		$157.63	$110.55
CPS[3]	$244.30		$171.59	$72.71
1 CWAD[4]		$371.04	$255.00	$116.04
Competing wheat:	US$/mt			
Russia 12.5 (Black Sea, 25k mt)	$191.00			
French 11.5 (Rouen)	$194.40			
ASW 10.5 (W Coast)	$225.00			
Argentine 12.0	$179.00			

[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

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities

Canadian Wheat - World Price Parities					January 2, 2018
Canadian Funds			**Grade**		
PNW value/Vancouver	**1CWRS13.5**	**2CWRS**	**3CWRS**	**Winter wht.**	**CPS**
Dec./Jan. delivery	$9.35	$9.15	$7.12	$6.65	$6.65
Parity Track Rosetown	$7.85	$7.65	$5.63	$5.15	$5.15
Track Bid Rosetown Area	$6.38	$5.53	$4.29	$4.67	$4.67
Gross Margin at Elevator ($/bu)*	**$1.47**	**$2.12**	**$1.34**	**$0.48**	**$0.48**
Gross Margin at Elevator ($/mt)*	**$54.08**	**$77.97**	**$49.14**	**$17.72**	**$17.72**

* to cover elevation, elevator market risk, margin