



Wheat Market Outlook and Price Report: January 29th 2018

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i) Background and Rationale for the Report

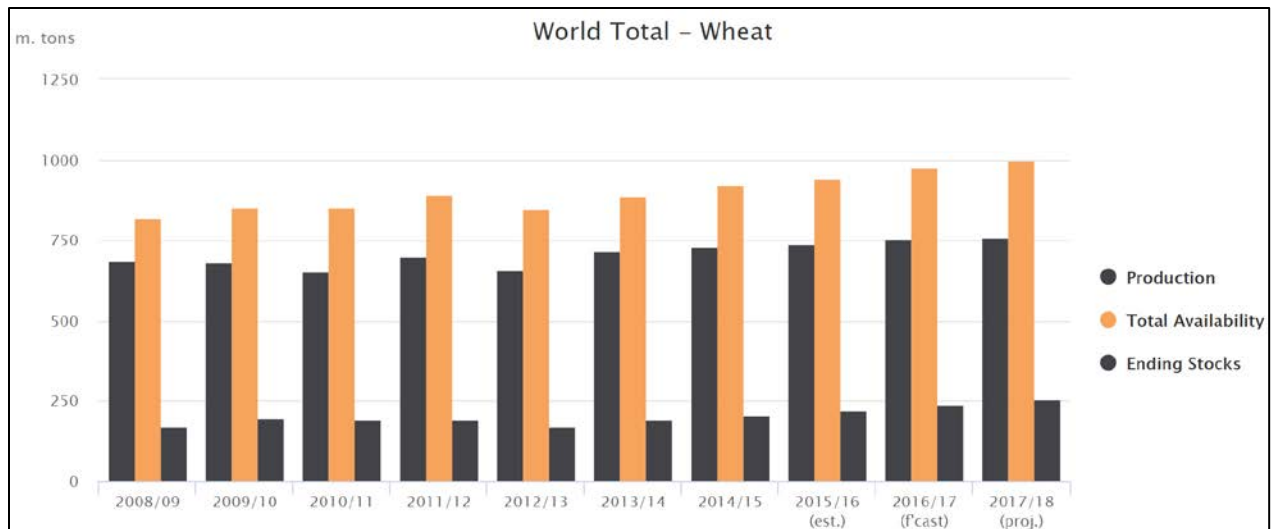
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 Jan. 29, 2018

World Wheat Overview:

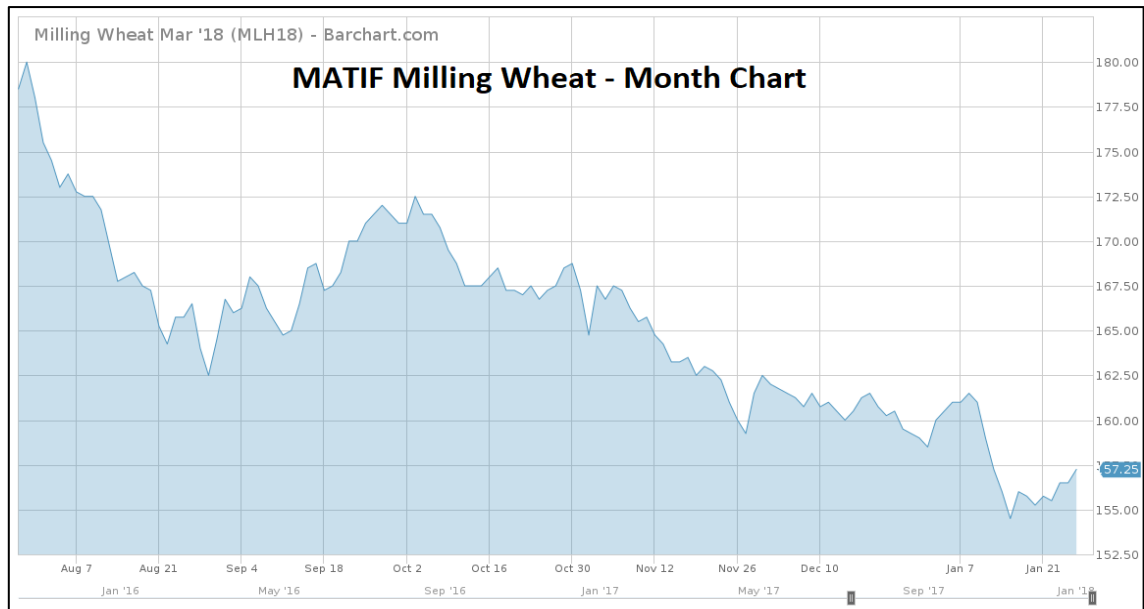
- **International Grains Council Grain Market Report – January 29th 2018**
- In their latest report, the IGC has projected world wheat production for 2017/18 at 757 million mt, which is up from their November estimate of 749 million mt.
- World wheat consumption has been adjusted 2 million mt higher to 744 million mt, but world ending wheat stocks are still 5 million mt higher vs last month and are now set at 254 million mt.
- *The IGC is **projecting world wheat production in 2018/19 to be down by 2% vs 2017/18, and it is unlikely that we will continue to set new global production records next crop year.***



➤ **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.

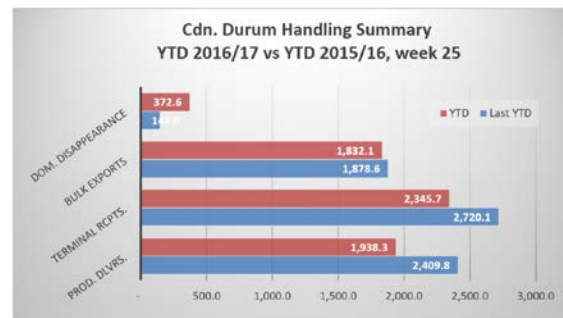
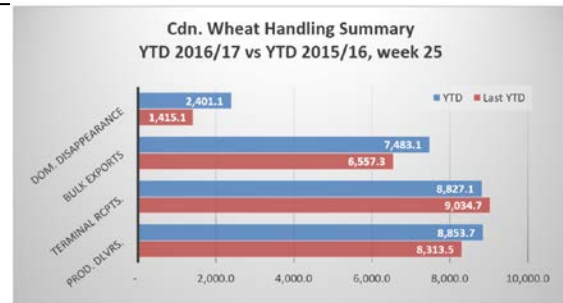
- **Futures:** Wheat moved higher this week on a fresh round of fund short covering, with Chicago wheat gaining 18.2 cents for the week, Kansas wheat gaining 15.4 cents for the week, and with Minneapolis hard red spring wheat gaining 6 cents for the week (all March Contract). On Friday, Mar'18 contract Chicago winter wheat closed at 441 which was up by 6.5 cents. Meanwhile, Mar'18 contract Kansas hard red winter wheat closed up by 8 cents at 443. In Minneapolis, Mar'18 contract hard red spring wheat closed at 614.5, which was up by 4.25 cents in Friday's trade, while May'18 hard red spring wheat closed at 624, up by 3.5 cents for the day. The spread between HRS and HRW wheat narrowed by 9.4 cents this week for the March contract.
- **Funds:** Index Funds did virtually nothing whilst Spec funds bought soybeans and reduced their overall short to 71 myn tonnes. Spec funds are still holding a large short and we expect the Spec Funds to buy wheat and corn in the coming week.
- **Matif:** Matif milling wheat futures closed at €157.25, up by €0.75/mt on Friday and up by €2.00 for the week.
- French wheat is still overvalued vs Black Sea and Argentine counterparts.



Canadian wheat:

- In grain shipping week 25 Canadian wheat exports are reported at just 296k mt, while producer deliveries are reported at 438k mt, which is up from last week's 322k mt. Total year to date exports are reported at 7.483 million mt, which is up from last years 6.557 million mt, but is not on pace with producer deliveries which are reported at 8.853 million mt. Producer deliveries have continued to outpace exports, and with 27 shipping weeks left, exports are on pace to hit 16.144 million mt, which would fall well below the AAFC projected 17.2 million mt of Canadian non-durum wheat exports for 2017/18. Producer deliveries are on pace to reach 18.65 million mt, which leads to expectations are the Canadian ending wheat stocks will be revised higher in the coming months.

In the Canadian Outlook for Principal Field Crops, AAFC has projected Canadian wheat supply to be 7% higher for 2017/18 due to higher carry-in stocks and a 4% increase in Canadian production. Wheat exports are projected at 17.2 million mt for Canadian non-durum wheat due to strong demand for high protein wheat, but this number is too high given the current export pace.



US wheat:

- The US plains remain dry, and this has helped to fuel some of the recent market gains in wheat. In the USDA weekly grain export sales report, US wheat sales were in line with trade expectations at 427k mt, which falls within the market expectations which ranged from 200- 500k mt. This weeks reported sales are well above the previous 3 weeks sales, and indicate the US wheat sales could be making a bit of a comeback from 3 weeks of consecutive poor performance. But total YTD US wheat export sales are still well below last year's pace, with total YTD commitments reported at 739 million bushels, vs last year's 824 million bushels (a 10% decline). Currencies are playing a major role in the markets, and a weaker US dollar is the key to recent gains. However, US wheat

is relatively uncompetitive in world markets, and US exports are down significantly vs last year which points towards higher ending stocks.

- US weather will be closely watched going forward as much of the winter wheat area remains in drought with limited snow cover. The long term forecast is also calling for bitter cold weather across much of the northern US plains and into Canada, which could create fresh winterkill concerns.

Australian wheat:

- There is little new to report from Australia, the Australian harvest is now complete and there is been little news since the recent cut in ending stocks. December rainfall in Australia was reported to be above average in Eastern Vic and NSW, as well as for much of Southern Australia and in regions of the WA coast. Rainfall deficiencies remain in Pilbara in WA as well as in small regions of central eastern NSW. Australian wheat is currently trading at US\$225 - \$235 Fob Western Australia.

Argentine wheat:

- While Argentina has been dry, Brazil is reported to have received 0.2 - .6 inches of rain across a large portion of the growing region yesterday, with the outlook being for continued steady rains in much of Brazil. However, the outlook for Argentina is currently negative, with a continuation of the current hot dry conditions forecasted for the foreseeable future. Argentine 12.0 protein wheat is currently at \$176 - \$181 US per mt Fob.

EU wheat:

- Most of the EU continues to have a warm winter with above average temperatures in most regions. A lack of snow cover leaves much of the crop susceptible to winterkill should a cold snap present itself, but to date this has not yet occurred. Reports indicate that weekly EU all wheat shipments were a total of 365k mt, which brings the EU's YTD total to 13 million mt (a 18% decrease from last year and on pace to achieve 21.5 – 22.5 million mt vs the USDA's projected 27 – 27.4 million mt). EU ending stocks are likely to be increased in coming reports. On the cash markets, German 12.5 protein wheat is currently at \$205.24 Fob, while French 11.5 protein wheat is at US \$201.60 per mt.

Black Sea wheat:

- Black sea exports continue to be strong, but even at 35 million mt of wheat exports, Russian wheat ending stocks are projected to increase by roughly 6 million mt over last year to 16.33 million mt (almost as large as all of Argentine total wheat production). - *Some traders now think it possible that Russian wheat exports will reach 36-37 mln mt.*
- Russian wheat is currently trading at US\$194-196/ mt, which is up slightly from last week. Russian wheat values are being pushed higher by a firming Russian Ruble and due to favorable weather, which has extended the Russian shipping season. The Ruble made its highest weekly close since July 2015 on the back of crude strength and US\$ weakness.
- 11.5% protein Russian wheat was reported trading at US\$188/mt for March (at~US\$8 discount to 12.5 protein); March feed wheat traded at US\$185/mt.
- The Aug new crop 2018 Russian wheat bid-offer spread widened to US\$183-188 with Oct-Nov at US\$185-191//mt.

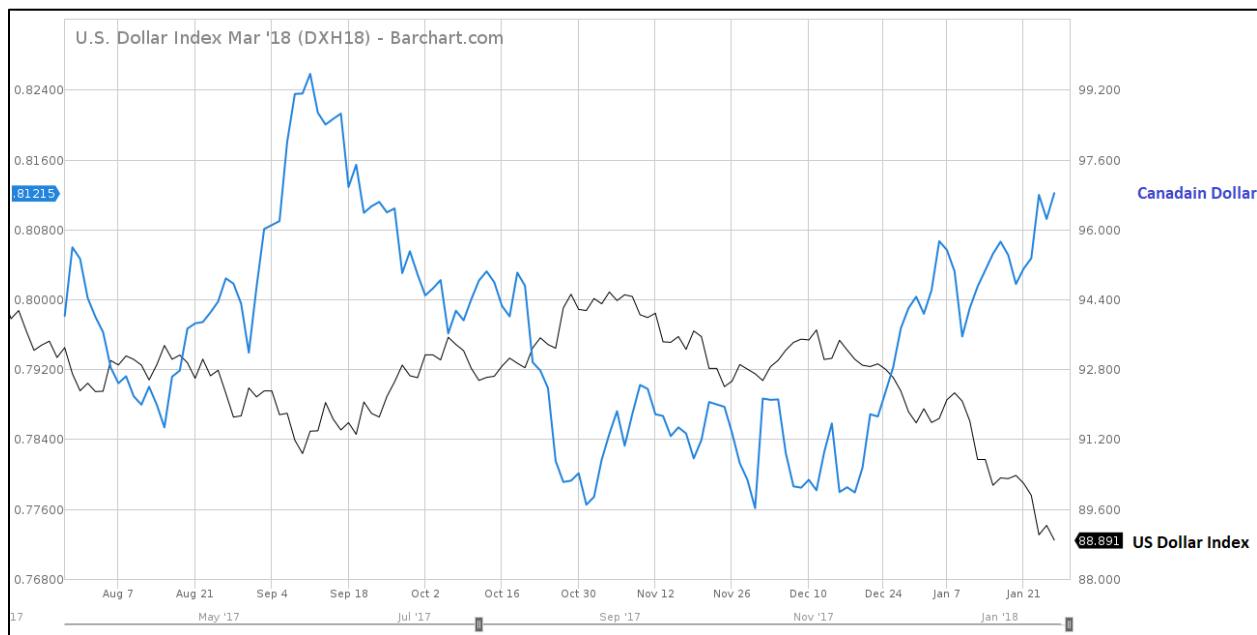
➤ **Significant purchases/ trades:**

- **Jordan** tendered Thursday for 100k mt of wheat for July/August, but results of this tender are still not known.
- **Tunisia** bought 100kt durum wheat at \$309-311. This is another US\$/mt better priced than the Algerian durum purchase last week.
- **Algeria** purchased 500k mt of wheat at US\$219 - \$220 C & F from an unknown origin.
- **Argentine** wheat continues to be the cheapest on a Fob basis, and this is buying some demand into Algeria and parts of Asia.

➤ **Wheat Market Outlook:**

Significant events:

- The biggest change in the past week, is the decline of the **US dollar** vs other currencies. The US dollar index closed the week at 88.891 which was down by 0.336 on Friday, and down by 1.497 for the week – close to a 3 year low that was seen in January of 2015. Meanwhile, other currencies are rallying against the dollar, which is putting competitive exports at more of a disadvantage to the US.
- **Iraq's** Ag Min is discussing higher grain imports due to crop losses amounting to 1 mln mt due to their second consecutive year of drought.
- The state of **Jordan** is ending of bread subsidies (starting Saturday), which will raise prices by 60-100%.



➤ **Outlook:**

Fridays rally in wheat was supported by a weak US dollar, which is close to a 3-year low, as well as continued dry weather conditions in Argentina combined with a large fund short. These factors have combined with a technical breakout, which has spurred a round of fund short covering. Going forward, the outlook is for continued dryness in most of Argentina, and the US plains also remain dry, which is lending additional support to the markets. Funds remain short and there is the potential for further gains if the US dollar fluctuates or if weather prompts additional fund short covering. However, US wheat is still relatively uncompetitive in world markets, and US exports are down significantly vs last year. US weather will be closely watched going forward as much of the winter wheat area remains in drought with limited snow cover. The long-term forecast is also calling for bitter cold weather across much of the northern US plains, which could create fresh winterkill concerns, and there is potential for the current rally to continue for several more days into the coming week.

- **Russian wheat still remains very competitive despite the recent rally.**
- **US wheat continues to struggle between uncompetitive export prices and growing concern over the Plains drought.**
- **Currencies are taking an increasingly important role in the markets.**

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 29, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar. '18 (bu.)	Mar. '18 (mt)
1 CWRS 13.5	\$6.51	\$239.20	1 CWRS 13.5	\$6.51	\$239.20
1 CWAD 13.0	\$6.37	\$234.06	1 CWAD 13.0	\$6.43	\$236.26
1 CPSR 11.5	\$5.18	\$190.33	1 CPSR 11.5	\$5.25	\$192.91
SW Sask			SW Sask		
1 CWRS 13.5	\$6.47	\$237.73	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$7.42	\$272.64	1 CWAD 13.0	\$7.38	\$271.17
1 CPSR 11.5	\$4.86	\$178.58	1 CPSR 11.5	\$5.18	\$190.33
NE Sask			NE Sask		
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	\$6.25	\$229.65
1 CWAD 13.0	\$7.21	\$264.92	1 CWAD 13.0	\$7.25	\$266.39
1 CPSR 11.5	\$4.94	\$181.52	1 CPSR 11.5	\$5.00	\$183.72
SE Sask			SE Sask		
1 CWRS 13.5	\$6.35	\$233.32	1 CWRS 13.5	\$6.29	\$231.12
1 CWAD 13.0	\$7.36	\$270.44	1 CWAD 13.0	\$7.39	\$271.54
1 CPSR 11.5	\$5.00	\$183.72	1 CPSR 11.5	\$5.15	\$189.23

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 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:

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.”

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				January 29, 2018
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	\$344.70	\$320.69		
HRS	\$337.45			
HRW 11.5	\$281.29			
SWW 12.0	\$250.94			
1 CWRS 13.5 ³	\$344.70		\$236.26	\$108.44
2 CWRS 13.0 ³	\$337.45		\$201.36	\$136.10
3 CWRS ³	\$281.29		\$161.67	\$119.61
CPS ³	\$244.60		\$184.09	\$60.51
1 CWAD ⁴		#VALUE!	\$255.00	#VALUE!
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$195.00			
French 11.5 (Rouen)	\$201.60			
ASW 10.5 (W Coast)	\$230.00			
Argentine 12.0	\$181.00			
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 29, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.21	\$9.01	\$7.48	\$6.66	\$6.66
Parity Track Rosetown	\$7.71	\$7.51	\$5.99	\$5.16	\$5.16
Track Bid Rosetown Area	\$6.43	\$5.48	\$4.40	\$5.01	\$5.01
Gross Margin at Elevator (\$/bu)*	\$1.28	\$2.03	\$1.59	\$0.15	\$0.15
Gross Margin at Elevator (\$/mt)*	\$47.11	\$74.77	\$58.29	\$5.53	\$5.53

* to cover elevation, elevator market risk, margin