



Wheat Market Outlook and Price Report: February 5th, 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 Feb. 5/18

2017/18 World Wheat Overview:

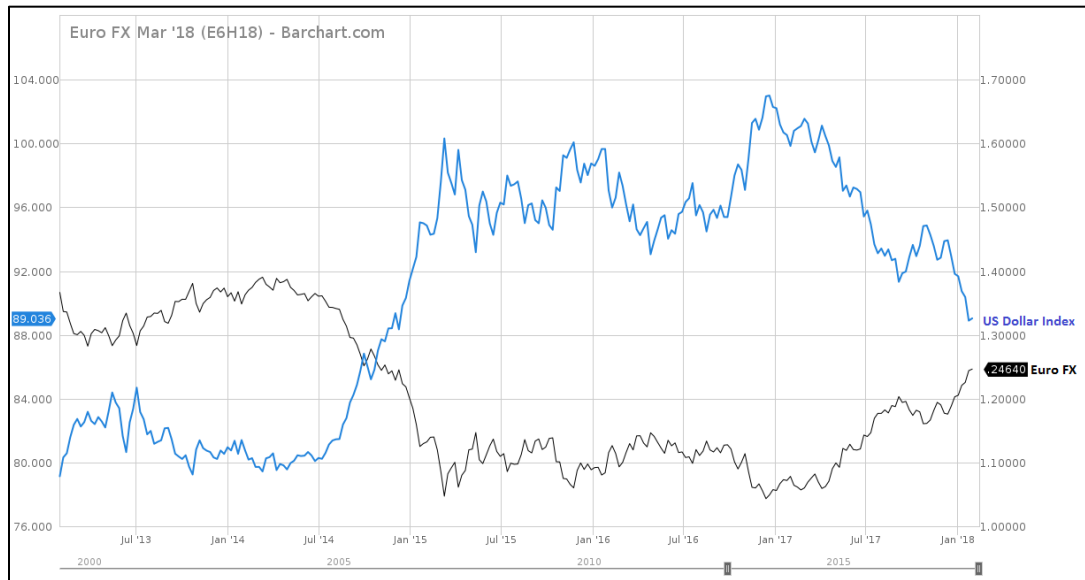
- **Agriculture Market Information System (AMIS)** came out with their February'18 report, which gives a good summary of the world's overall wheat situation. It also handily summarizes and compares the most important estimates.
- **2017 Wheat production** has been increased to 758 million mt, up from 755 million mt in the December report as production increases in Canada and the FSU offset cuts in Australia and other nations.
- **World wheat utilization** has been decreased by 6 million mt, largely on downward revisions in the FSU.
- **World ending wheat stocks** have been projected 12.6 million mt higher due to upward revisions in ending stocks for Russia and the EU.

WHEAT	in million tonnes						
	FAO-AMIS			USDA		IGC	
	2016/17	2017/18		2016/17	2017/18	2016/17	2017/18
	est.	f'cast		est.	f'cast	est.	f'cast
	7-Dec	1-Feb		12-Jan		18-Jan	
Production	761.3	754.8	757.6	750.4	757.0	754.5	757.4
Supply	985.3	999.3	1,005.7	992.1	1,009.7	978.2	998.0
Utilization	732.4	739.9	733.9	739.4	741.7	737.7	743.6
Trade	177.0	175.0	174.5	183.4	180.9	175.8	174.1
Stocks	248.1	257.2	269.8	252.7	268.0	240.6	254.4

➤ **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:** Mar'18 contract Chicago winter wheat closed the week at 446.75 which was down by 4.25 cents in Friday's trade, but up by 5.6 cents for the week. Meanwhile, Mar'18 contract Kansas hard red winter wheat closed down by 3.75 cents at 463.25 on Friday, but was up by 20.2 cents for the week. In Minneapolis, Mar'18 contract hard red spring wheat closed at 603.75, which was down by 8 cents in Fridays trade, and down by 10.6 cents for the week.
- **Funds:** Index Funds added to their long which now stands close to 100 myn in all commodity futures. We expect this long to be held as a hedge against inflation and to cover T-Bill exposure. Specs. became very nervous and between the 16th and 30th January bought in nearly 30 myn tonnes of their short. In wheat the spec funds have increased their short position by 0.8 million mt from their close on January 30th and now hold a total short position of 17.6 million mt. What they do next depends on the dollar and whether we get precipitation in the USA. We do expect them to buy more wheat.
- **Matif:** Matif wheat futures in Europe were up by €1.00/mt on Friday, but were unchanged for the week. EU exports continue to lag behind projections, while the Euro trades near 3 year highs.



Canadian wheat:

- Canadian producers delivered 374k mt of wheat in grain shipping week 26, which is down from 438k mt last week. Meanwhile, Canadian exports for week 26 were at 389k mt, up from 296k mt in week 25. Total producer deliveries to date, are reported at 9.23 million mt, which is well ahead of last year's 8.7 million mt YTD.
- Meanwhile, total Canadian exports for the current crop year are reported at 7.87 million mt, which is ahead of last years 6.7 million mt, but still well behind producer deliveries of 9.23 million mt.

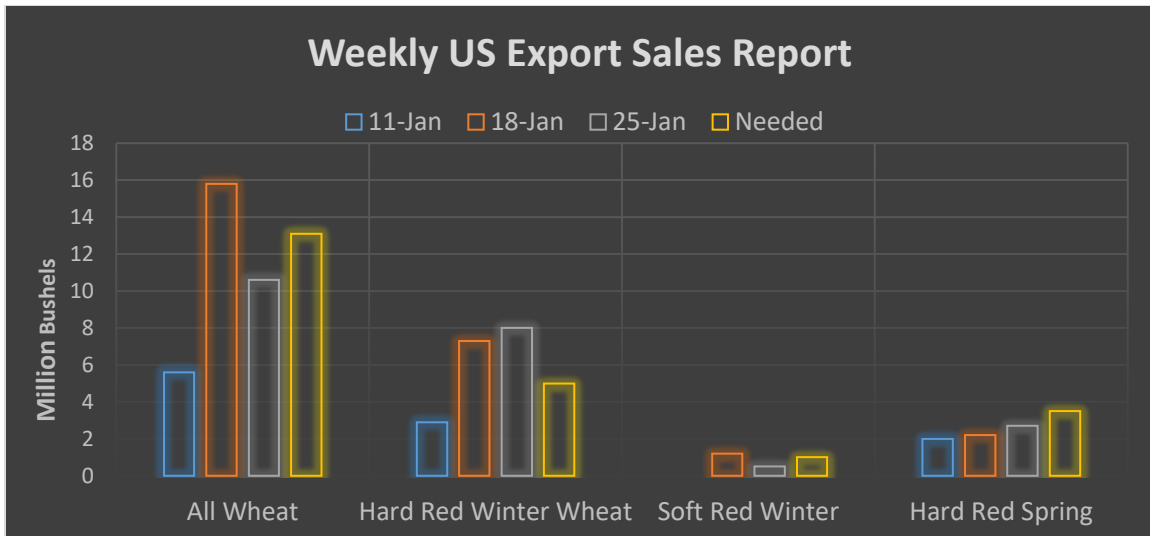
(CGC) Grain Handling Summary Wheat		Week 26		(to Jan 28/'18)
('000 mt)	Prod. Dlvsr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 26	374.4	246.1	388.6	54.6
Week ago	437.6	224.2	295.6	55.7
YTD	9,228.0	9,073.4	7,871.7	2,465.8
Last YTD	8,698.0	9,165.3	6,706.5	1,478.6
YTD less Last YTD (k mt)	530.0	-91.9	1,165.2	987.2
YTD over Last YTD (%)	106%	99%	117%	167%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum		Week 26		(to Jan 28/'18)
('000 mt)	Prod. Dlvsr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 26	127.1	58.6	16.8	1.0
Week ago	139.3	51.6	36.7	3.1
YTD	2,065.4	2,404.3	1,848.9	417.0
Last YTD	2,531.5	2,864.1	2,021.9	156.0
YTD less Last YTD (k mt)	-466.1	-459.8	-173.0	261.0
YTD over Last YTD (%)	82%	84%	91%	267%

US wheat:

- USDA **winter wheat crop ratings** have been significantly reduced in several key US wheat producing states. As of Jan 29th, 14% of the Kansas wheat crop is rated as good or excellent, which is down from 37% in December, while only 4% of the Oklahoma wheat crop is rated good/excellent, down from 15% in December. Nebraska wheat is also reduced from 64% good/excellent, to 48%, and Colorado ratings were reduced from 48% good/excellent to 37%. The downgrading in these states is somewhat offset by upgrading the winter wheat crops in Montana and North Dakota which are improved by 26% and 10% respectively.
- In the USDA **weekly export sales** report, US wheat sales are shown to be behind pace, with US all-wheat export sales reported at 10.6 million bushels, which falls behind the needed 13.1 million bushels, and is also behind the 16.6 million bushels for this same week last year. Total commitment currently stand at 750 million bushels, down from last year's 841 million bushels.
- Looking at hard red spring wheat, weekly sales for the past 3 weeks have consistently fallen below the needed 3.5 million bushels to maintain pace, with last week's export sales reported at 2.7 million bushels, up from the previous weeks 2.2 million bushels. Winter wheat crop condition ratings in the US are poor, and this combined with a smaller seeded area could result in significantly lower US production in 2018/19. Kansas produces 23% of US winter wheat, and in previous years where early crop ratings were below 40% good/excellent, final yields have normally been poor.



Australian wheat:

- There is little crop activity currently happening in Australia. However, Australian wheat futures hit their highest weekly close since Dec 1st (although they were down in US\$ terms due to exchange rate fluctuations).
- Australian Fob values have continued to rise and on the cash market Australian wheat has traded slightly higher at US\$230-\$240/ mt FOB.

Argentine wheat:

- According to reports, Argentina's major crop areas have seen about half of normal rainfall since October, which has combined with some extreme heat to reduce crop quality. Given the current outlook, we expect to see some significant production downgrades in next week's USDA report from the current numbers. There is no chance of any significant rainfall in the near-term forecast.
- On the cash market Argentine wheat is currently bid at US\$178 - \$188/ mt for 12.0 protein wheat FOB, which is up from last week's values by roughly \$6/mt.

EU wheat:

- Precipitation in Europe for the coming week is forecasted to be mainly in the Black Sea and Mediterranean coast regions, and significant rainfall is also expected to push across into N Africa. Temperatures are currently below normal in the west and above normal in the east, with all temperatures being warm enough that there is little risk of winterkill in the EU wheat crop.
- On the cash market German 12.5 protein wheat is trading at US\$205.82/mt, while French wheat is at \$202.17 for 11.5 Protein wheat FOB. EU exports have continued to lag and EU ending stocks are expected to be revised higher.

Black Sea wheat:

- In the past week Egypt is reported to have bought 180,000 mt of Russian at US\$219.50/mt for March 5 – 15th shipment. Of this, 60k mt was traded at \$202.70 (218.18 C & F), while another 60k mt traded at 204.40 (\$219.88 C & F), and the last 60k mt at \$204.80 (\$220.28 C & F). Russia has won all recent GASC tenders and Black Sea exports remain strong vs other regions of the world.
- On the cash markets the Black Sea firmed with Russian 12.5 pro at US\$197/mt and with Russian 11.5 protein wheat last reported to be is trading at US\$187/ mt. Russian wheat has risen in value over the past week, but not to the extent of Argentine wheat. This give Russian wheat a cost advantage into most export markets vs Argentine wheat.

➤ **Significant purchases/ trades:**

Cash trade was primarily concentrated on wheat business into the Middle East, where prices for Russian/FSU wheat were up a bit and trading at a US\$219.50/mt

- **Saudi Arabia** tendered last Friday for 715,000 mt of Apr-Jun arrival wheat.
- **Egypt** (GASC) bought 180,000 mt of Russian at US\$219.50/mt.
- **Korea** passed on their feed wheat tender where the cheapest offer was \$225.75.
- **USA weekly export sales** were just 289,000 mt, leaving the season total 750 mln bushels down 11% on last year against the USDA's projected 6% decline.
- **US wheat export inspections** were 580,000 mt (season total 595 mln bushels, down 4%).
- **Canadian** elevator companies have faded their bids and we don't see any bids at C\$7.00 per bushel presently.

➤ **Wheat Market Outlook:**

➤ **Significant events:**

- Specs became very nervous and between the 16th and 30th of January bought in nearly 30 mln tonnes of their short. They sold some soybeans and soy-products recently to take their net short down to 43 mln tonnes. What they do next depends on the dollar and whether we get precipitation in the USA. We do expect them to buy more wheat.
- This past week the US labor department released their jobs report, which showed that average hourly earnings in the US had risen by 2.9% vs a year earlier. This reported combined with reports of lower unemployment highlighted the current strength in the US economy and prompted speculation that the federal reserve will hike interest rates. This in turn prompted the US dollar to end the week higher and might signal the end of the declining US dollar which is been on a downtrend since November.

➤ **Outlook:**

Cash markets will take their lead from Egyptian (GASC) and Saudi results of the tender, while US futures will be a function of Plains weather, the US\$ and whether or not the funds extend their short covering.

US growers will be reluctant sellers of new crop until they get past the risk of winter kill and experience better precipitation. - Dryness remains a concern in the USA and Canada.

We bought in our Sept long-Kansas short Minneapolis wheat spread at \$1.33 for a 65 cent a bushel gain. We have put on a Sept long Mpls. short Kansas wheat at \$1.33 per bushel.

Overall world wheat production is expected to be lower in 2018/19 as lower US production combines with a possible return to trend line yields in countries such as Russia. However, world ending wheat stocks for 2017/18 are still high and it will take some time to clear out the current glut of wheat in the world market. Looking at the coming week, funds still hold a large short, and Argentina remains dry which leaves potential for another short covering rally. However, world stocks are high and funds recently seem comfortable with their short and could decide to hold. Weather will be the focus, as well as the Stats Canada crop stocks report which will be closely watched. Currencies could also play a role next week, as the US dollar rallied On Friday on a stronger economic report and appears to be continuing to gain on Monday. If the dollar gains significantly then this will reduce US exports and drive US wheat markets lower.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: February 5, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar. '18 (bu.)	Mar. '18 (mt)
1 CWRS 13.5	\$6.35	\$233.32	1 CWRS 13.5	\$6.38	\$234.43
1 CWAD 13.0	\$6.34	\$232.96	1 CWAD 13.0	\$6.37	\$234.06
1 CPSR 11.5	\$5.32	\$195.48	1 CPSR 11.5	\$5.37	\$197.32
SW Sask			SW Sask		
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	\$6.35	\$233.32
1 CWAD 13.0	\$7.39	\$271.54	1 CWAD 13.0	\$7.32	\$268.97
1 CPSR 11.5	\$5.03	\$184.82	1 CPSR 11.5	\$5.29	\$194.38
NE Sask			NE Sask		
1 CWRS 13.5	\$6.15	\$225.98	1 CWRS 13.5	\$6.17	\$226.71
1 CWAD 13.0	\$7.20	\$264.56	1 CWAD 13.0	\$7.22	\$265.29
1 CPSR 11.5	\$5.09	\$187.03	1 CPSR 11.5	\$5.14	\$188.86
SE Sask			SE Sask		
1 CWRS 13.5	\$6.18	\$227.08	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	\$7.36	\$270.44
1 CPSR 11.5	\$5.11	\$187.76	1 CPSR 11.5	\$5.24	\$192.54

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.

"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,

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 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

Vancouver FOB, minus the elevator bid prices representative measure of the "export" basis for grains in Western Canada."

Relevant FOB Prices and Export Basis			February 5, 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	\$342.49	\$321.67		
HRS	\$335.16			
HRW 11.5	\$288.46			
SWW 12.0	\$254.58			
1 CWRS 13.5 ³	\$342.49		\$232.22	\$110.26
2 CWRS 13.0 ³	\$335.16		\$200.99	\$134.17
3 CWRS ³	\$288.46		\$166.82	\$121.64
CPS ³	\$248.17		\$194.01	\$54.16
1 CWAD ⁴		\$334.02	\$251.33	\$82.69
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$197.00			
French 11.5 (Rouen)	\$202.17			
ASW 10.5 (W Coast)	\$235.00			
Argentine 12.0	\$183.00			
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						February 5, 2018
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$9.15	\$8.95	\$7.68	\$6.75	\$6.75	
Parity Track Rosetown	\$7.65	\$7.45	\$6.18	\$5.26	\$5.26	
Track Bid Rosetown Area	\$6.32	\$5.47	\$4.54	\$5.28	\$5.28	
Gross Margin at Elevator (\$/bu)*	\$1.33	\$1.98	\$1.64	-\$0.02	-\$0.02	
Gross Margin at Elevator (\$/mt)*	\$48.87	\$72.78	\$60.24	-\$0.83	-\$0.83	
* to cover elevation, elevator market risk, margin						