

Wheat Market Outlook and Price Report: March 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 Mar. 5/18

2017/18 World Wheat Overview:

Agriculture Market Information System (AMIS) Market Monitor Report – March 1, 2018

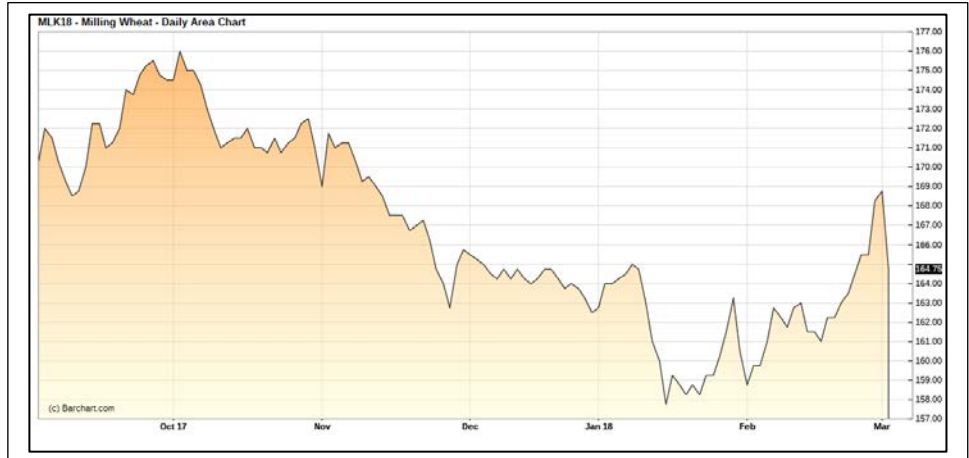
- **World Wheat Production for 2017/18** has been revised slightly downwards from 257.6 million mt last month, to 275.0 this month.
- **World ending wheat stocks** have been increased from 269.8 million mt in Feb, to 272.7 million mt due to build-ups in non-AMIS countries.
- **World wheat utilization** has been adjusted slightly lower since last month's report, but is still projected to reach an all-time high of 733.6 million mt.

WHEAT	<i>in million tonnes</i>						
	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
		1-Feb	1-Mar		8-Feb		22-Feb
Production	759.8	757.6	757.0	750.4	758.3	753.9	757.1
Supply	986.3	1,005.7	1,006.7	992.0	1,010.9	978.1	997.4
Utilization	731.8	733.9	733.6	739.4	744.8	737.9	742.9
Trade	177.4	174.5	173.5	183.3	181.7	175.7	174.1
Stocks	249.7	269.8	272.7	252.6	266.1	240.2	254.5

➤ **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:** May'18 contract Chicago winter wheat closed at 500 which was down by 15.5 cents in Friday's trade but up by 35.6 cents for the week. Meanwhile, May'18 contract Kansas hard red winter wheat closed down by 9.75 cents on Friday at 533.75, but was up by 49 cents for the week. In Minneapolis, May'18 contract hard red spring wheat closed at 620.25, which was down by 14.5 cents in Friday's trade, but up by 4 cents for the week, while Jul'18 hard red spring wheat closed at 627.75, down by 13.75 cents for the day and up by 2.6 cents for the week.
- Funds:** In the past week speculative funds are reported to have reduced their short position by 2.7 million mt, and now hold a small short position of just 6.1 million mt. Funds have become increasingly uncomfortable with their short position, and they could continue to buy and take a long position on wheat in the next week if world weather continues to be supportive of wheat values.
- Matif:** Matif wheat futures in Europe closed at €164.75 which was down by €4.00/mt on Friday, and up by €0.25 for the week.



Canadian Wheat:

- In grain shipping week 30, Canadian producer deliveries are reported at 291k mt, which is down slightly from 308k mt in week 29.
- Meanwhile, exports were reported at 250k mt, up from 245k mt in week 29. Year to date Canadian non durum wheat exports now stand at 8.896 million mt, which is up from last years 7.614 million mt, but still lagging well behind producer deliveries which stand at 10.487 million mt YTD.

(CGC) Grain Handling Summary Wheat		Week 30 (to Feb 25/'18)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 30	291.2	207.6	250.5	44.6
Week ago	308.1	195.0	244.8	29.2
YTD	10,487.0	9,960.5	8,896.4	2,672.0
Last YTD	10,080.9	10,063.3	7,614.2	1,683.5
YTD less Last YTD (k mt)	406.1	-102.8	1,282.2	988.5
YTD over Last YTD (%)	104%	99%	117%	159%

Mercantile based on weekly CGC Handling Data

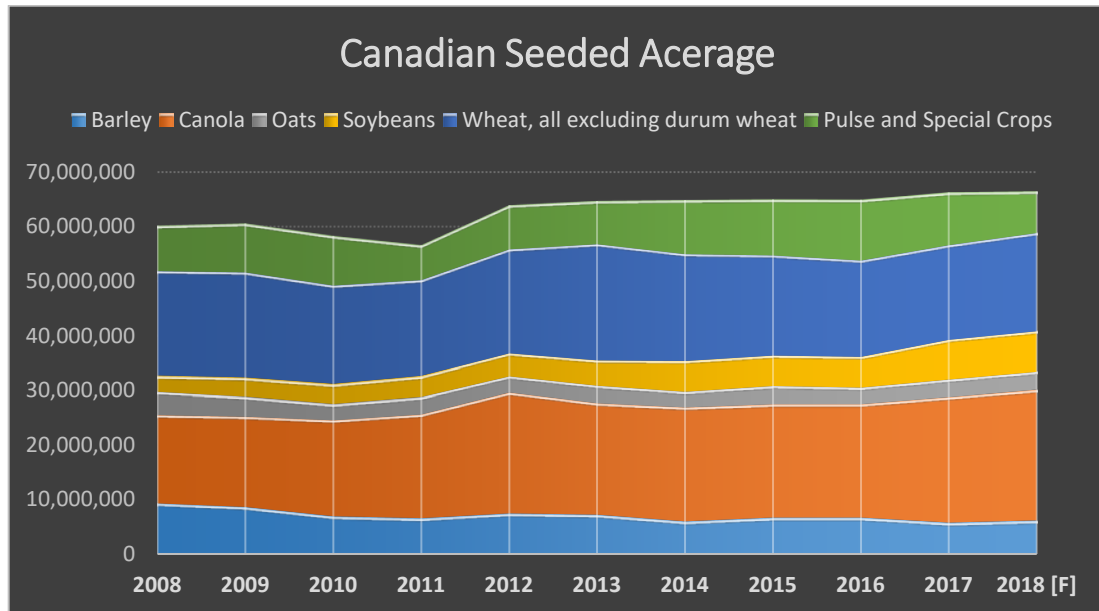
(CGC) Grain Handling Summary Durum		Week 30 (to Feb 25/'18)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 30	65.7	18.5	5.7	4.1
Week ago	58.6	56.2	29.6	2.1
YTD	2,342.1	2,606.0	2,291.1	437.9
Last YTD	2,853.4	3,237.2	2,432.6	190.3
YTD less Last YTD (k mt)	-511.3	-631.2	-141.5	247.6
YTD over Last YTD (%)	82%	81%	94%	230%

Mercantile based on weekly CGC Handling Data

- The pace of deliveries exceeds the pace of exports and Canada is on track to achieve annual exports of 16.9 million mt, while producer deliveries are on pace to achieve 18.53 million mt (annual). Overseas competition is hindering wheat sales, and weak railcar availability is*

slowing grain movement which makes it increasingly unlikely that we will achieve our annual export target of 17.2 million mt.

- According to AAFC, the Canadian wheat area in Canada (excluding durum) is expected to increase by 4% in 2018/19, which would put the seeded area at around 18 million acres.



- **US wheat:** In the past week some precipitation was received in the US Midwest with snow in MI, as well as rains in IL, IN, and OH. However, the western hard red winter area remains dry and the current weather pattern is expected to hold for at least another 2 weeks. Markets have been trading on plains dryness, with HRW leading the markets.
- Weather in the western HRW wheat belt will be closely watched next week and continued dry conditions could spark further fund buying.
- In the weekly USDA export sales report, US wheat sales were reported at 191k mt, below trade expectations which ranged from 200k – 500k mt.
- **Australian wheat:** Australian wheat futures hit 5-month highs, while Fob values were little changed. Basis dropped sharply as export demand is slowly being lost to Black Sea competition.
- In the past week Australian feed wheat traded into the Philippines at US\$243/ mt.
- **Argentine wheat:** Argentine weather continues to be dry causing drought, and the current outlook is for continued hot dry conditions. However, with harvest already underway, the major damage to the wheat crop has already occurred and markets are currently more focused on the ongoing dryness in western US plains.
- On the cash markets Argentine Fob wheat traded higher over the course of last week, closing the week at US\$197/mt and up by \$5.00 per mt.
- **EU wheat:** Cold weather in the EU materialized as expected, and there is a good chance that some winterkill did occur. Crops Germany and Poland are thought to be the worst at risk, although some of the cold weather also extend into far western regions of Europe. The outlook for the coming week is warmer, and it will be sometime before the extend of any winterkill damage will be known.
- EU weekly shipment were reported at just 150k mt, while YTD total shipments are down by 20% vs last year. It seems probable that USDA export projections for the EU are 5 million mt too high.

- French and German wheat both traded lower over the course of the week, with French 11.5% protein wheat closing the week at US\$205.13/mt (down by \$1.12/mt for the week) and with German 12.5 closing the week \$0.50 lower at \$209.13/mt
- **Black Sea wheat:** In the Black Sea, wheat export logistics have been complicated due to weather and reports indicate that some exporters are having difficulty sourcing wheat from inland as inventory closer to export locations is no longer available.
- Old crop Russian 12.5% protein wheat has slowly moved higher and ended the week around US\$206/mt, and if logistics continue to struggle then we could see some Black Sea demand shift back towards the EU.
- Cold weather over the past week isn't expected to have caused damage to Black Sea crops due to adequate snow, but there has been some speculation over the past week that Black Sea spring wheat plantings could be lower in the coming year.

Significant purchases/Trades:

- **Tunisia** bought 67,000 mt of wheat for April shipment at US\$225/mt.
- **Syria** and **Jordan** both passed on their tenders due to higher offered prices.
- **South African** dryness will likely double imports this year to 2 mln mt.
- **Indian** press reports suggested the Government could raise the wheat import duty ahead of the local harvest.
- **Canadian elevators** have improved their bid; they remain below the world market/USA PNW values, but they are now above C\$7.00/bu. We hear better than \$7.25 has been paid at some Alberta locations.

➤ **Wheat Market Outlook:**

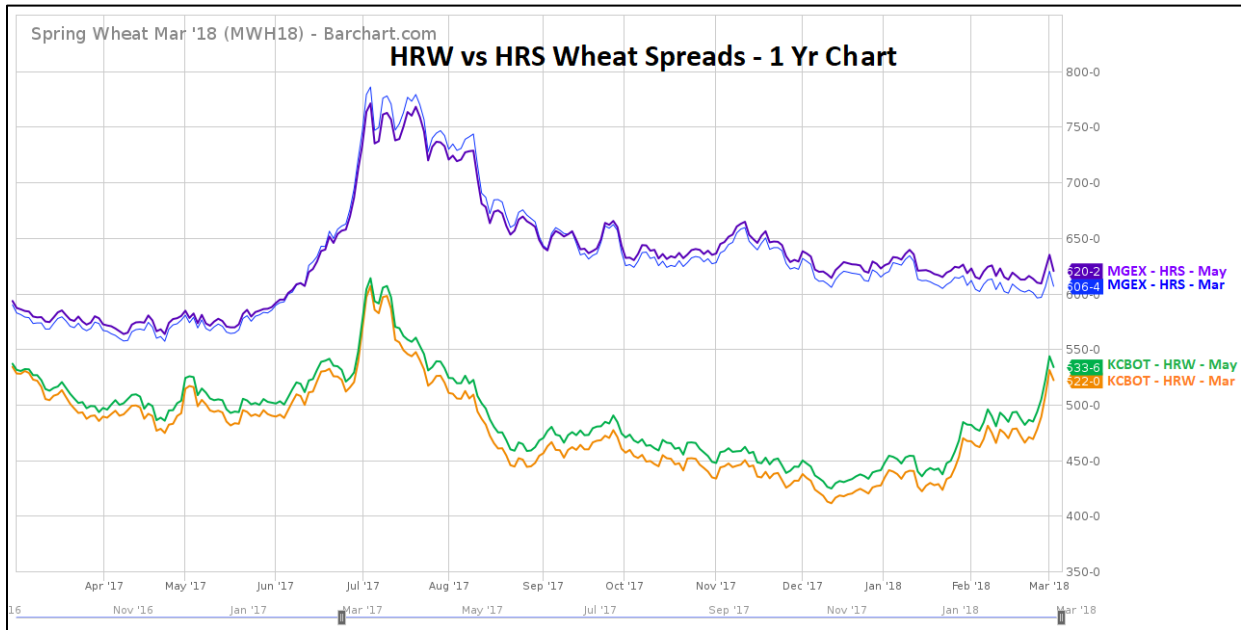
Significant events:

- **Canada:** Rail performance is again an increasing concern to exporters in Canada. CN and CP only supplied a combined 38% of hopper cars ordered in grain week 29. CN supplied 17% of cars ordered while CP supplied 66% of cars ordered. However, in this week's news CN rail has announced a replacement for their current CEO who is stepping down at the request of their board of directors. The Russian Ruble is currently down 25% vs last year, while the Canadian dollar continues to slide in value.
- **Russia:** Black Sea logistics are not easy now (remaining wheat is further inland) and old crop upside is starting to look limited against EU replacement.

➤ **Outlook:**

HRW has only minimum captive demand, but while conditions remain dry, futures should remain strong ahead of Thursday's USDA report.

We recommend old crop wheat sales at \$7.00 per bushel or better and continue to leave new crop alone for now.



iii) Primary Elevator Price Tables and Grade Spreads

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

Date: March 5, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jun. '18 (bu.)	Jun. '18 (mt)
1 CWRS 13.5	\$6.66	\$244.72	1 CWRS 13.5	\$6.69	\$245.82
1 CWAD 13.0	\$6.94	\$255.00	1 CWAD 13.0	\$6.99	\$256.84
1 CPSR 11.5	\$5.80	\$213.12	1 CPSR 11.5	\$5.84	\$214.58
SW Sask			SW Sask		
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$7.06	\$259.41
1 CPSR 11.5	\$5.64	\$207.24	1 CPSR 11.5	\$5.80	\$213.12
NE Sask			NE Sask		
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	\$6.46	\$237.37
1 CWAD 13.0	\$7.00	\$257.21	1 CWAD 13.0	\$7.04	\$258.68
1 CPSR 11.5	\$5.54	\$203.56	1 CPSR 11.5	\$5.64	\$207.24
SE Sask			SE Sask		
1 CWRS 13.5	\$6.49	\$238.47	1 CWRS 13.5	\$6.56	\$241.04
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$7.19	\$264.19
1 CPSR 11.5	\$5.61	\$206.13	1 CPSR 11.5	\$5.66	\$207.97

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) ≈ 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.

“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 MT

Relevant FOB Prices and Export Basis				March 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	\$366.56	\$342.67		
HRS	\$358.93			
HRW 11.5	\$332.24			
SWW 12.0	\$278.37			
1 CWRS 13.5 ³	\$366.56		\$235.90	\$130.66
2 CWRS 13.0 ³	\$358.93		\$205.03	\$153.90
3 CWRS ³	\$332.24		\$206.50	\$125.74
CPS ³	\$271.70		\$211.28	\$60.42
1 CWAD ⁴		\$337.24	\$245.45	\$91.79
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$206.00			
French 11.5 (Rouen)	\$205.13			
ASW 10.5 (W Coast)	\$242.50			
Argentine 12.0	\$197.00			
<p>¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency</p> <p>² Export Basis = FOB Prices CDA minus Cdn. Street Price</p> <p>³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS</p> <p>⁴ Values derived to Lakehead FOB</p>				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					March 5, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
March./Apr. delivery	\$9.79	\$9.59	\$8.86	\$7.39	\$7.39
Parity Track Rosetown	\$8.30	\$8.09	\$7.36	\$5.90	\$5.90
Track Bid Rosetown Area	\$6.42	\$5.58	\$5.62	\$5.75	\$5.75
Gross Margin at Elevator (\$/bu)*	\$1.88	\$2.51	\$1.74	\$0.15	\$0.15
Gross Margin at Elevator (\$/mt)*	\$69.00	\$92.24	\$64.08	\$5.44	\$5.44

* to cover elevation, elevator market risk, margin