

Wheat Market Outlook and Price Report: March 26, 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 Dec. 11/17

2017/18 World Wheat Overview: March International Grains Council (ICG) numbers

➤ ICG World Wheat Balance Sheet – Latest estimates:

WORLD ESTIMATES					
	15/16	16/17 est.	17/18 f'cast		18/19 proj.
million tons			22.02	22.03	22.03
WHEAT					
Production	737	754	757	758	741
Trade	166	176	174	174	179
Consumption	720	738	743	742	744
Carryover stocks	224	240	254	256	253
year/year change	17	16		16	-3
Major exporters ^{b)}	66	75	76	78	66

- The IGC increased their **17/18 world ending stocks** number by 2 million mt to 256 million mt, as they added to production and trimmed consumption.
- **2018/19 world wheat production** remained at 741 million mt. This is *down 17 million mt* from last crop year, but still the third highest production on record. Ending stocks for 18/19 are seen 3 million mt lower (-1.2%) than the current year at 253 million mt.
- The IGC projects **2018/19 Russian wheat production** at 74.5 million mt (84.9 million mt in '17/18), and **Russian wheat exports** at 37.1 million mt (36.3 million mt in '17/18).
- Record shipments of wheat and corn contribute to a forecast **new peak for global trade** in 2018/19.

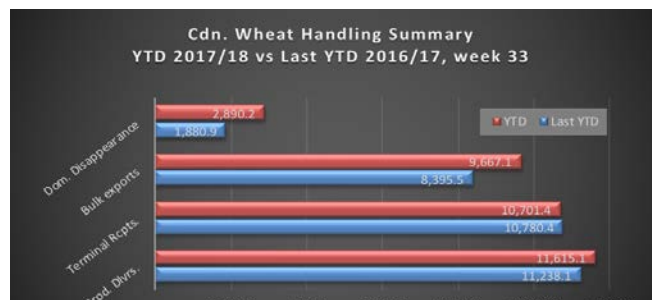
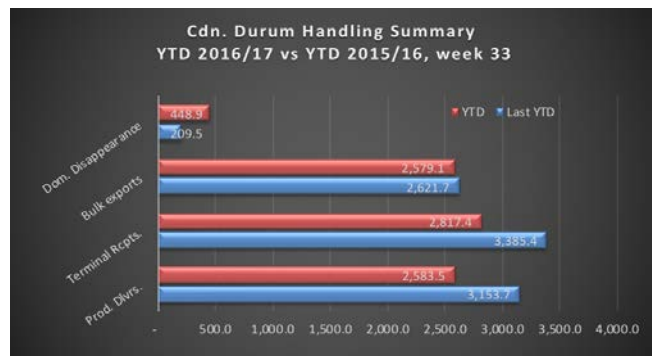
➤ **Global wheat production and trade:**

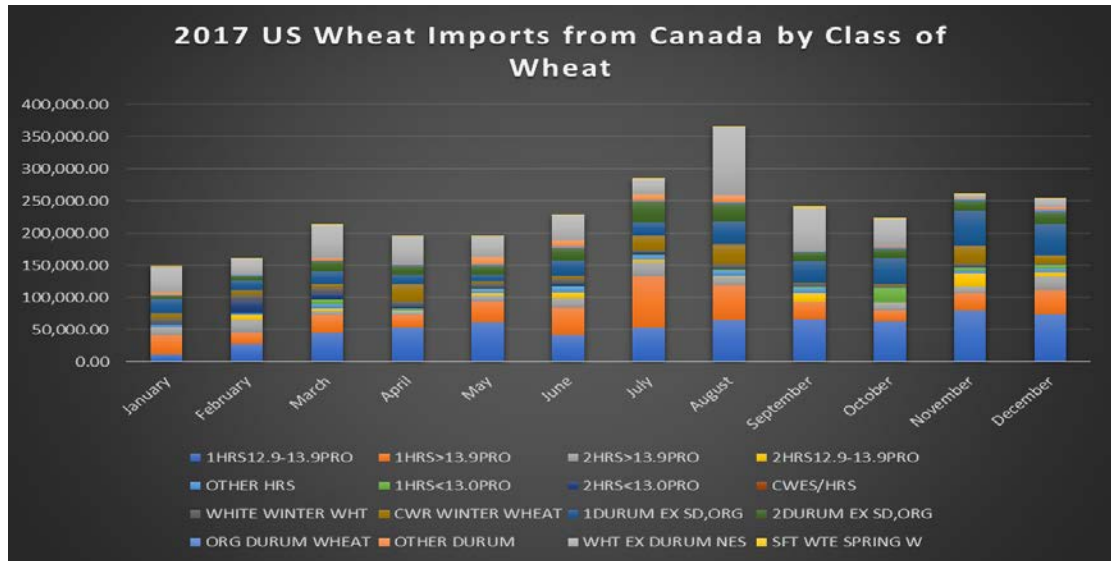
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** Following the sharp limit down of wheat on Monday, the market was able to claw back some of its losses before Friday's close. May'18 contract Chicago winter wheat closed at 460-2, which is up 4.4 cents in today's trade and down 7.8 cents for the week. Meanwhile, May'18 contract Kansas hard red winter wheat closed up 8.2 cents at 479-2 which is down 3.2 cents for the week. In Minneapolis, May'18 contract hard red spring wheat closed at 602-6, up 9.6 cents in today's trade and down 9.6 cents for the week, while Jul'18 hard red spring wheat closed at 609-2, up 3.6 cents for the day and down 9.2 cents for the week.
- **Funds:** Funds were active buyers of corn and soymeal and small sellers of wheat. The fund combined overall long is a large 165 myn tonnes, which needs to be acknowledged and is the largest position they have held in months. If we were to get poor sowing conditions in the spring for North American grains, it would be enough to start a bullish market. Weather remains a key market feature and needs to be watched closely.
- **Matif:** Matif wheat futures in Europe closed lower, struggling against a firmer Euro, US and Black Sea losses and another poor week of Brussels shipments.

Canadian wheat:

- In week 33, 426k mt of wheat were delivered into the handling system, and 343k mt loaded for export shipment. Commercial wheat stocks exceed 3 mln mt, with 1.8 mln mt sitting in the primary elevator system.
- For durum, 94k mt of wheat were delivered into the handling system, and 79k mt loaded durum wheat stocks are at 645k mt, with 443k mt sitting in the primary elevator system.
- **Japan** purchased 127,338 mt of wheat from the US and Canada last Thursday. Of that total, 92k mt was US origin with the remaining 35k mt from Canada.
- Two major factors influencing the amount of **wheat that moves from Canada into the US** is the exchange rate, and logistics. This year, the Cdn.\$ (at only 75-80c) was favourable to exports, while transportation has been a limiting factor to the amount of wheat moving south (- rail has been especially slow servicing southern rail routes). Historically, the US imports 1.9 – 2.8 mln mt of wheat from the Canada annually. The US uses Cdn. wheat for everything from blending and milling to making kitty litter (high vomit Cdn. wheat is turned into kitty litter). The most common classes of wheat that are imported into the US from Canada are #1 HRS 12.9-13 pro, #1 HRS >13.9 pro, and durum.





- Agriculture and Agri-Food Canada (AAFC) projects Canadian wheat acres to increase by 4% over last years. An 11% decrease for winter wheat is more-than offset by a 5% increase for spring wheat. Production is projected to fall by 3% to 24.3 million mt due to a return to trend yields. Supply is forecast to fall by 2%. Exports are forecast to be the same as for 2017-18 and ending stocks are forecast to decrease by 10% to 4.5 million mt.
- AAFC forecasts the area seeded to durum to increase by 5% from 2017/18 due to lower carry-in stocks and a shift out of lentils. Production is forecast to increase by 15% to 5.7 million mt due to the higher area and a return to trend yields. Supply is expected to increase by 3%. Exports are forecast to increase by 2% from 2017/18 and ending stocks are forecast to rise by 15% to 1.5 million mt.

US wheat:

- The US Export sales report was more positive this past week. The US sold 265k mt of wheat, which was on the upper end of the estimated 100-300k mt, and a significant increase (62.9%) from last week's disappointing performance. *However, this 265k mt is still 36.6% less than last year.*
- US 2018 HRW crop: US crops ratings showed KS and TX wheat further deteriorating with good/excellent ratings falling to 11% (down 1%) and 10% (down 3%) respectively, and poor/very poor rose another to 55% (up 2%) and 60% (up 10%) respectively. OK ratings were mixed as good/excellent ratings fell to 5% (down 2 points) but poor/very poor decreased by 6% to 66%.
- Some academics are saying that below normal temperatures in the US HRW growing region during the drought has helped wheat avoid some damage. Cool temps slowed the development of the crop so that it was not demanding high amounts of water during the drought.
- The S Plains is expected to receive more rain early on in the week, however, this has been pushed to the eastern portion of the Plains and will miss the driest W KS.
- US wheat acreage forecast: According to a Bloomberg report, the average trade guess for 'other Spring wheat acres' this coming Thursday is 11.5 mln acre, up 500k acres from last year. USDA so far expects a 915k acres increase.

Australian wheat:

- Australian Fob wheat and futures values ended the week slightly lower.

Argentine wheat:

- Argentine old crop wheat continued its rally due weather concerns. It has gone and from being the world's cheapest wheat while ago when it was 'buying demand' via cheap prices across the globe, to only being sold to neighbouring Mercosur countries.
- 12% protein Argentine wheat is quoted at US\$230/mt, plus a US\$5/mt per month premium. Argentine 11.5% protein wheat is still a US\$10/mt discount y to 12% protein wheat.

EU wheat:

- The French rail strike has now started. It remains to be seen how much it will interrupt exports.
- Exports are still way behind last years.
- EU wheat values are struggling against a firmer Euro.

Black Sea wheat:

- Russia's AgMinistry put exports as of March 21 at 29.4 million mt, which is up 43% on last year, and calculates to an annualised 39 million mt (USDA's projection is at 37.5 million mt).
- The Russian Weather Bureau rated only 3-5% of the winter crop as poor.
- Note, however, that the weather outlook shows potential concern for FSU spring crops, with Russian spring plantings reaching just 1/4 of the acreage planted this time last year.
- New crop offers eased this week with the Aug 12.5% protein bid-offer at US\$194-198/mt FOB.

➤ **Significant purchases/ trades:**

- **Japan** purchased 127,338 mt of spring wheat from the US and Canada last Thursday. Of that total, 35k mt were sold from Canada.
- **Korea** bought June feed wheat at US\$232.50/mt CIF.
- **Tunisia** bought 50,000 mt of durum at US\$289/mt CIF and 50,000 mt of Apr-May soft wheat at US\$227/mt.
- **Algeria** bought 150,000 mt of durum at US\$295/mt.
- → *These durum trades are equal to about C\$7.25/bu ex elevator Saskatchewan.*

➤ **Wheat Market Outlook:**

Significant events:

- Good rain in the **US HRW** areas the weekend before last, but little since then.
- **India's** Government dropped a plan to double import taxes on wheat, which along with the US Ag Attaché's 94 million mt crop estimate (against the Government's 98.5 mln mt), suggests that the recent very hot dry conditions have taken their toll on India's crop. Recall that USDA currently has India's domestic demand at 98 million mt.
- **Russian spring wheat plantings** are reaching just one quarter of the acreage planted this time last year, although it is still very early.

➤ **Outlook:**

Concern persists over US HRW prospects; Southern Hemisphere dryness is now a real concern and is increasing values, while Former Soviet Union (FSU) spring plantings are running a bit late. *However, world stocks do provide a 16 million mt cushion for the 2018 crop before total supplies drop below this years and Funds see this as a reason to sell or spread wheat.*

We continue to recommend old crop wheat sales at \$7.00 per bushel or better and continue to leave new crop alone for now. There is very little on the horizon that will support the current prices and there is potential for it to move down.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: March 26, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '18 (bu.)	June '18 (mt.)
1 CWRS 13.5	\$6.63	\$243.61	1 CWRS 13.5	\$6.60	\$242.51
1 CWAD 13.0	\$6.94	\$255.00	1 CWAD 13.0	\$6.98	\$256.47
1 CPSR 11.5	\$5.10	\$187.39	1 CPSR 11.5	\$5.17	\$189.97
SW Sask			SW Sask		
1 CWRS 13.5	\$6.53	\$239.79	1 CWRS 13.5	\$6.52	\$239.57
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$7.08	\$260.15
1 CPSR 11.5	\$5.00	\$183.72	1 CPSR 11.5	\$5.12	\$188.13
NE Sask			NE Sask		
1 CWRS 13.5	\$6.45	\$237.00	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.03	\$258.31	1 CWAD 13.0	\$7.07	\$259.78
1 CPSR 11.5	\$4.84	\$177.84	1 CPSR 11.5	\$4.97	\$182.62
SE Sask			SE Sask		
1 CWRS 13.5	\$6.74	\$247.65	1 CWRS 13.5	\$6.45	\$237.00
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$7.20	\$264.56
1 CPSR 11.5	\$4.94	\$181.52	1 CPSR 11.5	\$5.04	\$185.19

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.

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."

- 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				March 26, 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	\$350.82	\$347.99		
HRS	\$357.90			
HRW 11.5	\$300.30			
SWW 12.0	\$275.75			
1 CWRS 13.5³	\$350.82		\$244.72	\$106.10
2 CWRS 13.0³	\$357.90		\$213.48	\$144.42
3 CWRS³	\$300.30		\$209.81	\$90.49
CPS³	\$269.13		\$189.23	\$79.90
1 CWAD⁴		\$341.38	\$252.06	\$89.31
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$193.00			
French 11.5 (Rouen)	\$194.79			
APW 10.5 (W Coast)	\$225.00			
Argentine 12.0	\$174-179.00			

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					March 26, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Mch./April. delivery	\$9.37	\$9.56	\$7.99	\$7.32	\$7.32
Parity Track Rosetown	\$7.87	\$8.06	\$6.50	\$5.83	\$5.83
Track Bid Rosetown Area	\$6.66	\$5.81	\$5.71	\$5.15	\$5.15
Gross Margin at Elevator (\$/bu)*	\$1.21	\$2.25	\$0.79	\$0.68	\$0.68
Gross Margin at Elevator (\$/mt)*	\$44.51	\$82.82	\$28.89	\$24.92	\$24.92

* to cover elevation, elevator market risk, margin