

Wheat Market Outlook and Price Report: April 2nd, 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.

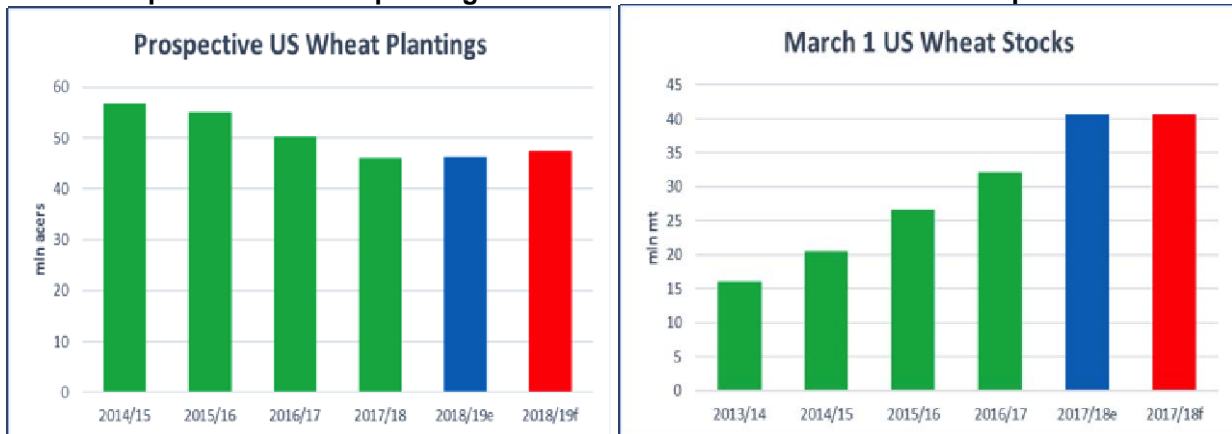
ii) Wheat Market Outlook April 2nd, 2018

World Wheat Overview:

➤ **USDA annual Planting Intentions Report – March 28, 2018**

- The USDA Planting Intentions Report last Thursday indicated that US growers plan to plant 47.339 million acres of all wheat. The report saw 32.708 million for winter wheat, *up 99,000 acres from January. **The big surprise came from other spring acreage at 12.627 million acres, which is 1.618 million acres larger than last year.***
- Durum acreage is expected at 2.004 million acres, 303,000 below last year and likely shifting to spring wheat.
- The quarterly USDA Grain Stocks report showed March 1 US wheat stocks in line with expectations at 1.494 billion bushels, 167 million bu lower than last year.

USDA Prospective US wheat plantings and March 1 Wheat stocks VS Market Expectations



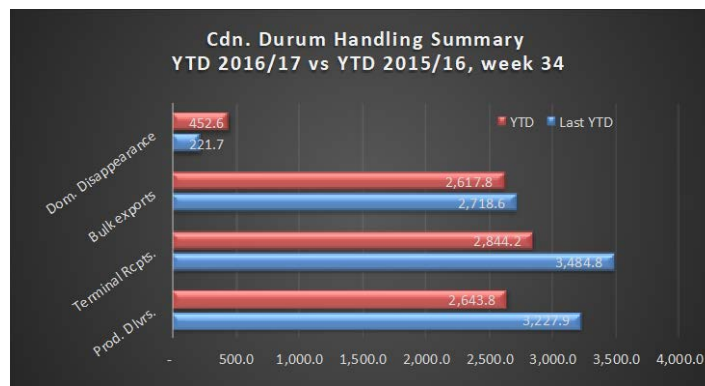
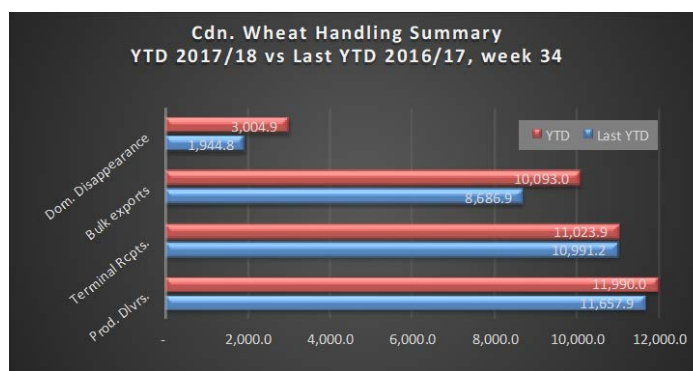
➤ **Global wheat production and trade:**

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:** Despite the bearish USDA acreage and stock report for wheat, Chicago and Kansas wheat closed higher Thursday, following corn and soybeans. This Monday morning, wheat futures are currently 3 to 4 cents higher in the Chicago SRW contracts. KC HRW is a little firmer (+7c) on extended dryness, while MPLS spring wheat is unchanged to 2c higher because of the intended expansion in spring wheat acreage.
- **Funds:** An interesting week with very large Spec Fund selling ahead of the USDA report: -17 million mt, of which 2.7 million mt were wheat. Spec Funds remain short wheat: -7.5 million mt. Index Funds remain long wheat: +25.8 million mt.
- **Matif:** Matif wheat futures closed down €0.50/mt in thin volume ahead of the long weekend. Matif will not re-open until Tuesday morning.
- French premiums were again unchanged on both old and new crop, but German old crop continued to firm despite another week of thin shipments.

Canadian wheat:

- During week 34, 374k mt of **wheat** were delivered into the handling system, and a very good 426k mt loaded for export shipment. Commercial wheat stocks are just under 3 mln mt, with 1.7 mln mt sitting in the primary elevator system.
- For **durum**, 60k mt of wheat were delivered into the handling system, and 32k mt loaded onto vessels. Durum wheat stocks are at 638k mt, with 433k mt sitting in the primary elevator system.
- While wheat has received the best railcar allocations among Cdn. commodities over the past several weeks, overall rail allocations remain pitifully small at 317k mt for all commodities during week 34. 120k mt of wheat and 40k mt of durum were loaded to railcars during week 34.
- Growers must insist that rail issues must be addressed by our Minister of Agriculture, and that that some long solutions be found.



US wheat:

- According to the USDA's seeding intentions report for 2018, US growers intend to plant 12.6 million acres of spring wheat other than durum in 2018, up 15% from 2017. Of the total, about 12.1 million acres are Hard Red Spring wheat.
- Compared with last year, acreage increases are expected in Colorado, Idaho, Minnesota, North Dakota, South Dakota, and Washington. Acreage decreases are expected in Nevada, Oregon, and Utah. Growers in Montana intend to plant the same amount of acres as they did in 2017.
- The USDA reported that 353,760 mt in all US wheat old crop export sales during the week of March 22nd. That was a jump of 33.4% from the week prior, but down from last year. *Commitments for wheat exports are now lagging this time a year ago by 12.9%.*
- Moisture: Eastern Kansas received 0.25" of rain while 0.50-1.5" fell in the eastern half of OK. There was also more rain in the Midwest and Delta, but the W Plains continued dry for the week. There is however, a chance of more rain falling in the S Plains by the end of this

week. Excessive moisture in the Midwest and Delta is looking like it may somewhat delay spring wheat planting.

- National crop ratings are expected tomorrow, and some are suggesting that it will be positive for PNW white wheat due to above normal winter precipitation. Crop ratings show that the US HRW crop responded to last week's rains. KS GD/EX ratings improved by 2% to 13% and poor/V poor is down 6% to 49%. OK GD/EX ratings are up 4% to 9% and poor/V poor decreased 12% to 54%.

Australian wheat:

- Eastern Australia still looks dry ahead of planting, and while the West has had a few showers, soil moisture maps show significant shortfalls.
- Fob vales are little changed: US\$235.00/mt FOB Western Australia.

Argentine wheat:

- There is still almost no rain in the Argentine forecast, and any wheat that does get planted will have a hard time getting properly established.
- In spite of the dryness, new crop 12% protein Argentine wheat was again reported offered at US\$215/mt FOB, which is a US\$10/mt discount to current old crop quotes.

EU wheat:

- The railway worker strike in France helped increase cash premiums by 50¢ to €1.00, with truck rates up by 35-40% in some areas. But new crop futures didn't reflect any real concern over the ongoing cold wet conditions across the continent, or over late season frosts in Poland and the Baltic States.

Black Sea wheat:

- In the Black Sea, logistics, winter crop development and spring plantings are the potential issues.
- 11.5% protein Russian wheat was offered at US\$203.00/mt for April.

➤ **Significant purchases/ trades:**

- Export markets have turned quieter as trading moves closer towards European new crop months.
- **Egypt (GASC)** purchased another 355k mt of Russian wheat plus 120k mt Romanian wheat last Thursday at US\$233.18-US\$235.50/mt CIF Egypt. The top price is US\$1.54/mt higher than for the previous Mch. 15 purchase.
- **Jordan** bought 50k mt of Russian 12.5% protein wheat at US\$222.50/mt CIF for LH August shipment.
- **Jordan** returns April 3rd to purchase 100k mt wheat for Aug-Sep. shipment.

➤ **Wheat Market Outlook:**

Significant events:

- The most watched event last week was the **USDA Planting Intentions Report**. It indicated that US growers plan to plant 47.339 million acres of all wheat. The report saw 32.708 million for winter wheat, up 99,000 acres from January. The big surprise came from other spring acreage at 12.627 million acres, which is 1.618 million acres larger than last year.
- The **quarterly US grain stocks report** showed March 1 US wheat stocks in line with expectations at 1.494 billion bushels, 167 million bu lower than last year.
- There is a chance of more rain falling in the southern Plains **HRW areas** by the end of this week. Excessive moisture in the Midwest and Delta is looking like it may somewhat delay spring wheat planting.

➤ **Outlook:**

Logistics, winter crop development and late spring plantings are the potential issues in Europe and the Black Sea.

Dryness is the concern in the US Plains and in the Southern Hemisphere (Argentina).

Trade wars and inflation fears make for a very difficult trading environment going forward.

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: April 2, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '18 (bu.)	July '18 (mt.)
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	\$6.36	\$233.69
1 CWAD 13.0	\$6.95	\$255.37	1 CWAD 13.0	\$6.97	\$256.11
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	\$6.52	\$239.57
1 CWAD 13.0	\$7.05	\$259.05	1 CWAD 13.0	\$7.08	\$260.15
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
NE Sask			NE Sask		
1 CWRS 13.5	\$6.22	\$228.55	1 CWRS 13.5	\$6.16	\$226.34
1 CWAD 13.0	\$7.04	\$258.68	1 CWAD 13.0	\$7.06	\$259.41
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$6.26	\$230.02	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$7.17	\$263.45	1 CWAD 13.0	\$7.20	\$264.56
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a

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)

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."

- 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

Relevant FOB Prices and Export Basis				April 2, 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	\$340.85	\$349.38		
HRS	\$333.73			
HRW 11.5	\$300.08			
SWW 12.0	\$281.59			
1 CWRS 13.5 ³	\$340.85		\$227.81	\$113.03
2 CWRS 13.0 ³	\$333.73		\$195.85	\$137.89
3 CWRS ³	\$300.08		\$192.17	\$107.91
CPS ³	\$274.95		\$184.45	\$90.50
1 CWAD ⁴		\$342.74	\$247.29	\$95.45
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

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						April 2, 2018
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Mch./April. delivery	\$9.10	\$8.90	\$7.99	\$7.48	\$7.48	
Parity Track Rosetown	\$7.60	\$7.41	\$6.49	\$5.99	\$5.99	
Track Bid Rosetown Area	\$6.20	\$5.33	\$5.23	\$5.02	\$5.02	
Gross Margin at Elevator (\$/bu)*	\$1.40	\$2.08	\$1.26	\$0.97	\$0.97	
Gross Margin at Elevator (\$/mt)*	\$51.41	\$76.27	\$46.28	\$35.51	\$35.51	

* to cover elevation, elevator market risk, margin