

**Wheat Market Outlook and Price Report: April 9, 2018**  
By Marlene Boersch/ A.P. Temple  
Mercantile Consulting Venture Inc.

**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).

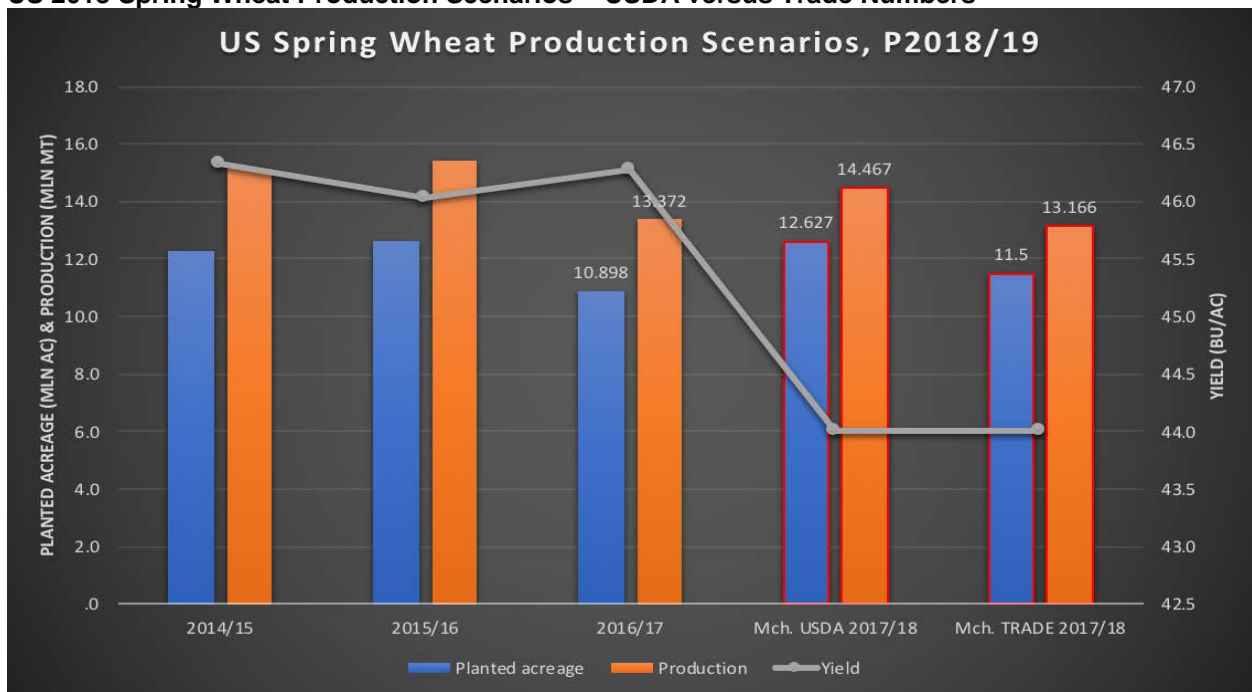
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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 2<sup>nd</sup>, 2018**

**World Wheat Overview:**

- **USDA annual Planting Intentions Report March 28, 2018 – US Spring Wheat Projections**

**US 2018 Spring Wheat Production Scenarios - USDA versus Trade Numbers**



- Getting a handle on prospective US spring wheat production is important to the Canadian spring wheat outlook
- The USDA Planting Intentions Report last week indicated that US growers plan to plant an **unexpectedly large spring wheat acreage of 12.627 million acres, 1.618 million acres larger than last year, and larger than the acreage expected by the trade of 11.5 million acres.**
- Using a yield of 44 bu/acre (slightly less than the 4-year average yield of 44.6 bu/ac) on both the USDA and the Trade's acreage number, gives us 14.5 and 13.2 mln mt of US spring wheat production, respectively.
- The USDA production number would be 1.1 mln mt bigger than last year's US spring wheat production (bearish), while the Trade number would be 200k mt smaller than last year's US spring wheat production number (slightly bullish).
- We think the USDA acreage number is too high. Given spring planting conditions to date, we will also have to watch the yield prospects this year.
- Note that the USDA report tomorrow (Apr. 10) will not address the new crop world wheat balance sheet (this does not come until May), and the 'by wheat-class' detail – as well as the amount of rationing required in the HRW balance sheet, is not published until July. This suggests there are 2-3 months of important weather news ahead. Meanwhile, downside potential looks limited.

➤ **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 futures closed the day with most CBOT and KC contracts 7 1/2 to 10 cents higher, as MPLS was 14 to 17 1/2 in the green. Nearby KC was 8.45% higher over the course of the week, with front month CBT up 4.71% and MPLS 4.97% higher. The market focus is weather, both dryness in the Panhandle area and cold and snow delaying spring wheat planting.
- **Funds:** As of last Tuesday, the maximum Spec Fund position was +61 million mt four weeks ago (all commodities); they lightened their position to ~+34 million mt ahead of USDA, now back to ~+44. This means they have buying power but with the politics going on, it is unclear how much "risk" they want to have. Wednesday to Friday Spec Funds were small buyers <+2 mln mt. Soec Funds are now long 1.2 million mt of wheat.
- **Matif:** Matif wheat closed higher helped by the US rally, the €uro and EU wheat sales to Algeria.

○ **Canadian wheat:**

- In shipping week 35, Canadian producers delivered 310.1k mt of wheat to Canadian grain handling facilities, down 64k mt from the week previous. YTD, producers have delivered 12,301.8k mt, 282.2k mt more than last year. Exports were down this week to 331.8k mt (from the previous week's 426.0k mt) for a total of 10.425mln mt YTD (9.033mln mt last year).
- The Canadian rail companies have continued to improve, with CN/CP supplying 67% of the total hopper cars being ordered in shipping week 34 being delivered. However, there is still lots of grain still waiting to be moved, and unfortunately for grain producers, the improvement has been too little too late. Grain elevators are currently estimated to be 90% full, with \$500mln worth of grain

(CGC) Grain Handling Summary Wheat				Week 35 (to Apr. 1/'18)	
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
<b>Current week</b>	310.1	349.8	331.8	69.4	
Week ago	374.1	316.3	426.0	100.2	
<b>YTD</b>	<b>12,301.8</b>	<b>11,392.7</b>	<b>10,424.9</b>	<b>3,074.2</b>	
Last YTD	12,019.6	11,292.6	9,033.3	2,001.5	
<b>YTD less Last YTD (kmt)</b>	<b>282.2</b>	<b>100.1</b>	<b>1,391.6</b>	<b>1,072.7</b>	
<b>YTD over Last YTD (%)</b>	<b>102%</b>	<b>101%</b>	<b>115%</b>	<b>154%</b>	

(CGC) Grain Handling Summary Durum				Week 35 (to Apr. 1/'18)	
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
<b>Current week</b>	74.6	61.3	50.7	15.3	
Week ago	60.4	26.6	31.6	4.1	
<b>YTD</b>	<b>2,718.4</b>	<b>2,905.3</b>	<b>2,668.5</b>	<b>468.0</b>	
Last YTD	3,377.6	3,548.7	2,806.6	227.9	
<b>YTD less Last YTD (kmt)</b>	<b>-659.2</b>	<b>-643.4</b>	<b>-138.1</b>	<b>240.1</b>	
<b>YTD over Last YTD (%)</b>	<b>80%</b>	<b>82%</b>	<b>95%</b>	<b>205%</b>	

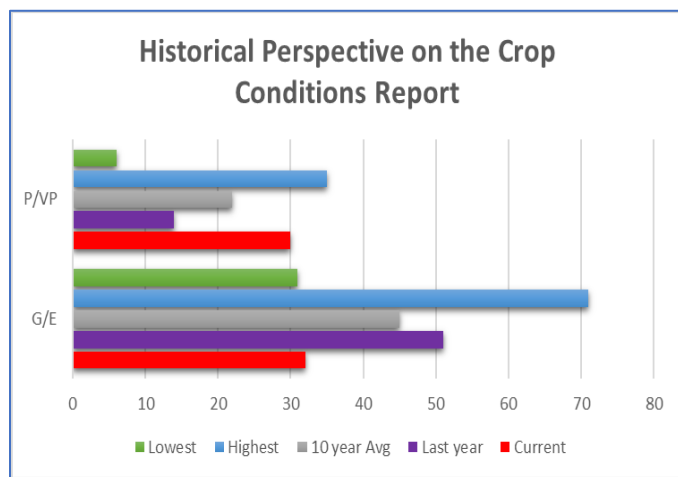
Mercantile based on weekly CGC Handling Data

waiting to get to market. One of the major reasons for the rail delays is that in an attempted to cut costs, CN trimmed its operations and so was not equipped to service the spike in demand. It is hard to be competitive on the global market when the grain can't make it to port, and, with the world watching, Canada has shown that it is not prepared to be a major player in the grain industry.

- *We note that railcars loadings reached new lows at 276k mt for ALL commodities for week 35.*
- In grain shipping week 34, Canadian producers delivered 74.6k mt of **durum** to licensed Canadian grain handling companies. This is back up from last week's 60.4k mt for a total of 2.905.3mln mt delivered YTD. Meanwhile, Canadian durum exports were reported at 50.7k mt, which is also up from the previous week's 31.6k mt, YTD total exports now stand at 2.6685mln mt.
- Cdn. durum prices in Canada have been falling (\$30/mt) since August. The main factors affecting the price of durum (aside from the direction of the overall wheat market) is the production in the Mediterranean (where harvest is set to begin this month) and precipitation in the in the spring durum growing areas of the US N Plains and Cdn. Prairies.

○ **US wheat:**

- Last Tuesday was the first USDA crop conditions report. The report indicated that KS wheat is 10% G/E and P/VP is 47%. In OK, 9% of the wheat crop is G/E while 46% is rated P/VP. TX wheat is rated at 15% G/E and 59% P/VP. The average ratings for the US HRW crop is 32% G/E and 30% P/VP (red). This is significantly worse than last year's 51% G/E and 14% P/VP (purple). The current rating is the worst that is has been since 2002 (green).



- The cold weather and record snow cover, plus the lowest HRW ratings in 16 years (and the 3rd lowest ever) lifted all three US markets last week.
- We expect the next USDA report tomorrow. This report will not address the new crop world wheat balance sheet, or the 'by wheat-class' detail. Instead, analysts are expecting to see a 730k mt reduction to the world ending stocks on Tuesday, with most estimates at 268.16 million mt.
- Although corn and soybeans are the main stories of the proposed Chinese tariffs, it should be noted that US hi-pro wheat was also included on the list of tariffs to be potentially imposed by China.
- Given the conditions in the US Panhandle and the cold conditions on the Northern Plains, we think there are 2-3 months of important weather news ahead. Meanwhile, downside potential looks limited.

○ **Australian wheat:**

- In Australia the focus also turned increasingly to the weather, which remains hot and dry with the planting season approaching.
- Australian wheat futures rose US\$2-3/mt, but Fob values were little changed. The export program is just about over/ completed.

○ **Argentine wheat:**

- Argentina Fob and domestic values were little changed. The rains that are slated for next week could give a considerable boost to wheat acres. But much more will be needed to get soil moisture levels back to normal after a historic 6-month drought.

○ **EU wheat:**

- We had another poor week of EU wheat shipments, which kept a lid on the rally.

- The season is rapidly drawing to a close with still much uncertainty about 2017 crop size and 17/18 end stocks.
  - **Black Sea wheat:**
- Russian 12.5% protein wheat remains US\$5-10/mt below German/Baltic wheat values and about US\$20/mt below the equivalent US HRW Fob prices.
- Russian export exporters have to go ever further inland to source more wheat, and there seems to be little reason for the Russian market to go down.

➤ **Significant purchases/ trades:**

- **Algeria** purchased 330k mt of June milling wheat at US\$229/mt CIF.
- **Japan** has increased its weekly wheat tender from 125k mt to 145k mt.
- The **Philippines** purchased 224k mt feed wheat for Jul/Aug shipment from Australia and EU/ Black Sea.
- There is no update on **Egypt's** search for 3 cargoes of wheat.
- Last week **US export sales** were 109k mt, down 69% from the week previous and well below the 200-500k mt the market was expecting. New crop (2018/19) sales were reported at 200.2k mt and actual wheat exports were 428.1k mt (up 30% from last week).

➤ **Wheat Market Outlook:**

**Significant events:**

- US hi-protein wheat was included in the list of products from the US that China was proposing a 25% tariff on. The implementation date of the tariffs has been left open so far, as negotiations continue.
- Wheat is continuing to find support from seeding delays in the Midwest and continued dryness in the S Plains. The outlook for the S Plains remains dry for the next 30 days and higher than average temperatures are adding to the stress.
- The Canadian Prairies and Midwest US are experiencing below average temperatures, with these expected to continue well into April.
- The Russian gov't has said that it will not reinstate export duties on Russian wheat. Since the Tariffs were removed in September 2016, Russia has become a major player in the global wheat market.

➤ **Outlook:**

- We have a USDA report this week, but we do not expect much from it. The USDA does not address the new crop world balance sheet until May, and the 'by wheat-class' detail – as well as the amount of rationing required in the HRW balance sheet, does not appear until July.
- Dryness in the S Hemisphere and possibly late spring wheat plantings in N America suggest there are 2-3 months of important weather news ahead.
- *Meanwhile, downside potential looks limited.*

### iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 9, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '18 (bu.)	July '18 (mt.)
<b>1 CWRS 13.5</b>	\$6.74	\$247.65	<b>1 CWRS 13.5</b>	\$6.68	\$245.45
<b>1 CWAD 13.0</b>	\$6.98	\$256.47	<b>1 CWAD 13.0</b>	\$6.98	\$256.47
<b>1 CPSR 11.5</b>	\$5.54	\$203.56	<b>1 CPSR 11.5</b>	\$5.50	\$202.09
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$6.72	\$246.92	<b>1 CWRS 13.5</b>	\$6.65	\$244.35
<b>1 CWAD 13.0</b>	\$7.19	\$264.19	<b>1 CWAD 13.0</b>	\$7.09	\$260.51
<b>1 CPSR 11.5</b>	\$5.39	\$198.05	<b>1 CPSR 11.5</b>	\$5.49	\$201.72
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.55	\$240.67	<b>1 CWRS 13.5</b>	\$6.51	\$239.20
<b>1 CWAD 13.0</b>	\$7.04	\$258.68	<b>1 CWAD 13.0</b>	\$7.06	\$259.41
<b>1 CPSR 11.5</b>	\$5.35	\$196.58	<b>1 CPSR 11.5</b>	\$5.29	\$194.38
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.57	\$241.41	<b>1 CWRS 13.5</b>	\$6.55	\$240.67
<b>1 CWAD 13.0</b>	\$7.17	\$263.45	<b>1 CWAD 13.0</b>	\$7.19	\$264.19
<b>1 CPSR 11.5</b>	\$5.32	\$195.48	<b>1 CPSR 11.5</b>	\$5.32	\$195.48

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.20)	(7.35)
<b>1 CWRS 12.5</b>	(0.37)	(13.60)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.03	1.10
<b>2 CWAD 13.0</b>	(0.79)	(29.03)
<b>2 CWAD 12.5</b>	(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 Basis<sup>1</sup> (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.

---

<sup>1</sup> 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.”

- 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 9, 2018
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$364.78	\$343.35		
HRS	\$341.96			
HRW 11.5	\$322.39			
SWW 12.0	\$284.65			
1 CWRS 13.5 <sup>3</sup>	\$364.78		\$248.02	\$116.76
2 CWRS 13.0 <sup>3</sup>	\$341.96		\$216.42	\$125.53
3 CWRS <sup>3</sup>	\$322.39		\$212.75	\$109.64
CPS <sup>3</sup>	\$278.13		\$207.60	\$70.53
1 CWAD <sup>4</sup>		\$336.83	\$247.29	\$89.54
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			

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB

## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					April 9, 2018
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Mch./April. delivery	\$9.75	\$9.13	\$8.60	\$7.57	\$7.57
Parity Track Rosetown	\$8.25	\$7.63	\$7.10	\$6.07	\$6.07
Track Bid Rosetown Area	\$6.75	\$5.89	\$5.79	\$5.65	\$5.65
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$1.50</b>	<b>\$1.74</b>	<b>\$1.31</b>	<b>\$0.42</b>	<b>\$0.42</b>
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$55.26</b>	<b>\$64.03</b>	<b>\$48.13</b>	<b>\$15.54</b>	<b>\$15.54</b>

\* to cover elevation, elevator market risk, margin