

Wheat Market Outlook and Price Report: April 23, 2018

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

i) Background and Rationale for the Report

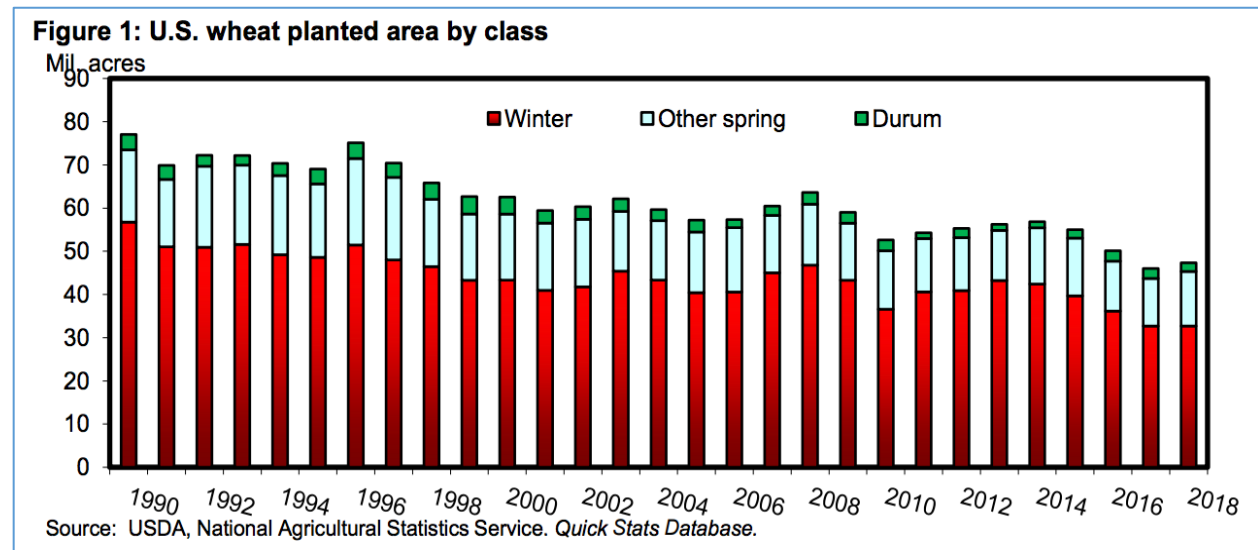
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 16, 2018

World Wheat Overview:

➤ **US Wheat Outlook for 2018**



Canada competes directly against US HRW Wheat and Spring Wheat in the export markets. Here is a closer look at the US wheat outlook for 2018/'19 by type of wheat:

- The latest USDA Prospective Plantings report showed a substantial year-to-year increase in 2018 spring wheat planting intentions. *USDA expects a 15% increase from 2017 to 12.6 million acres.* According to USDA, rising prices for spring wheat in the US have encouraged additional acres,

while more favorable returns from cotton and other grains have weakened farmer interest in planting durum. Durum planting intentions are called down 13% from last year to 2.0 million acres.

- The revised forecast for winter wheat at 32.7 million acres, is up slightly from both the January projection and the 2017 estimate.
- The all wheat planted area projection of 47.3 million acres for 2018 shows a modest recovery of wheat acres from last year.
- Of concern to Canada is that the 2017/18 US wheat ending stocks figure exceeds the 5-year average by more than 220 million bushels, though it remains below the 2016/17 figure (1,180 million bushels).
- Planting Progress: Given last US planting week's report, total HRS wheat seeded area is at only 3% planted versus a 16% average progress. 'Normally', 46% of US spring wheat has been planted by April 30th, but there is no way we will be anywhere near that percentage this year. However, there should not be any yield losses until planting dates are after May 7th. Another problem is the dates after which farmers can no longer obtain insurance for the crop. These are fast approaching in various states: May 5, 15, 20, etc. We expect that these dates will be pushed later for cereal crops.

➤ **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:** May'18 contract Chicago winter wheat closed at 463-2, down 9.2 cents for the week. Meanwhile, May'18 contract Kansas hard red winter wheat closed down 12.4 cents at 482-6, down 3.17 cents for the week. In Minneapolis, May'18 contract hard red spring wheat closed at 600-0, down 13.2 cents in today's trade and down 1.19 cents for the week.
- **Funds:** Index funds hold on to their overall long, which we continue to believe is for an inflation hedge. Specs, reduced their overall position substantially, firstly taking profits and latterly as weather forecasts suggested better growing conditions in Europe and better planting prospects for North America. They remain overall long and both hold large positions in the soy complex. IN wheat, Spec Funds are short 5.1 million mt.
- **Matif:** Matif fell €2/mt pulled between US weakness and Black Sea strength, which took EU dollar prices down \$3-4/mt, leaving German 12.5 protein wheat at a discount to Russian wheat for the first time this season.

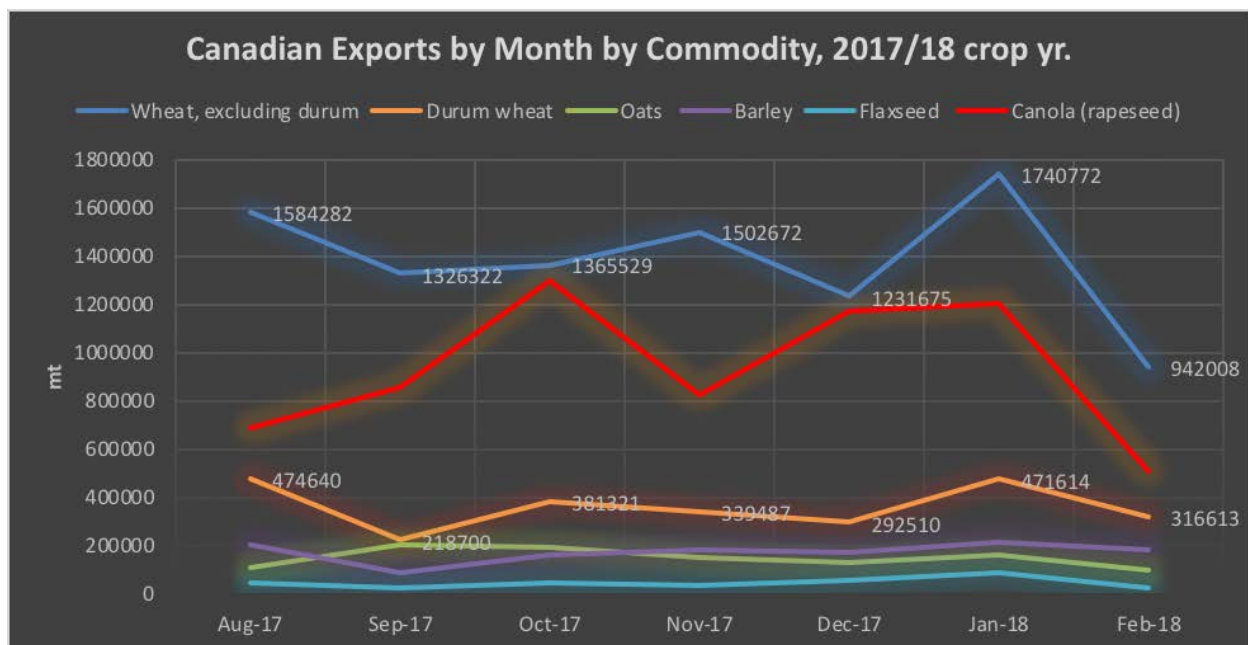
○ **Canadian wheat:**

- In shipping week 37, Canadian producers delivered 347.9k mt of wheat to Canadian grain handling facilities. YTD, producers have delivered 13,057.2k mt. Exports were down this week to 280.5k mt for a total of 11,076.8 mln mt YTD (16% higher than last year).
- Durum: Canadian producers delivered 43.8k mt of durum to licensed Canadian grain handling companies for a total of 2870.2 mln mt delivered YTD. Meanwhile, Canadian durum exports were reported at 49.9k mt, for a total of 2830.9k mt YTD (6% lower than last year's durum exports).
- Two years ago, Italy was Canada's top importer of durum, purchasing 27% of Cdn. durum exports. As of February '18, durum sales to Italy are down 36%. This has been off-set by exports into the US, which increased by 335k mt. Some of these exports to the US are replacing US durum that is being shipped to Italy.

(CGC) Grain Handling Summary Wheat				Week 37 (to Apr. 15/18)	
'000 mt)	Terminal		Dom.		
	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance	
Current week	347.9	444.5	280.5	100.5	
Week ago	404.1	357.8	361.3	122.6	
YTD	13,057.2	12,196.0	11,076.8	3,299.9	
Last YTD	12,663.0	11,949.9	9,510.9	2,112.5	
YTD less Last YTD (k mt)	394.2	246.1	1,565.9	1,187.4	
YTD over Last YTD (%)	103%	102%	116%	156%	

(CGC) Grain Handling Summary Durum				Week 37 (to Apr. 15/18)	
'000 mt)	Terminal		Dom.		
	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance	
Current week	43.8	160.2	49.9	12.5	
Week ago	102.3	123.7	108.0	23.7	
YTD	2,870.2	3,189.0	2,830.9	504.1	
Last YTD	3,580.7	3,821.8	3,006.0	236.3	
YTD less Last YTD (k mt)	-710.5	-632.8	-175.1	267.8	
YTD over Last YTD (%)	80%	83%	94%	213%	

- The CP rail strike has currently been postponed as the federal labour minister ordered employees to vote on the final offers. The date for the vote is undetermined.
- **Transportation:** Railcar applications were a little better in week 37 but remain very disappointing and reducing Canada's export potential.
- The graph below shows just how disastrous the **rail issues** were during the month of February. Exports of every single commodity dropped substantially from the previous month to an overall reduction of 46.5% (-1.8 mln mt) from January. Wheat exports were at 54% of the month prior, down 799k mt from January. Lest we think all is well now, CN and CP supplied a combined 69% of hopper cars ordered during grain week 36, the same performance as was seen last week (*leaving 31% of the orders un-serviced*) albeit the mix changed significantly. CN supplied 83% of cars ordered, *while CP supplied only 53% of cars ordered*. CN and CP combined will enter week 37 with 3,141 outstanding orders - a reduction of 9% (319 cars) as compared to their combined position entering week 36. - Where are the Canadian Minister of Agriculture and Minister of Transportation on this? Do they appreciate the damage done and being done? There is little likelihood Canada will hit any of its commodity export targets this crop year.



- **US wheat:**
 - Despite seeding concerns, wheat markets were pressured downward over **poor US export performance** and a soaking rain forecast for the S Plains. Weekly US old crop sales were reduced 66.9k mt due to net cancelations, and rain of 0.4-1" is expected to cover most of the S Plains over the weekend, offering more relief to the parched HRW region. Following this, there is another system expected to roll in mid-this-week.
 - US winter wheat conditions were again terrible: Only 31% Good to Excellent vs. 54% normal. US HRW wheat is outside the 10-year range. SRW wheat is poor, at the bottom of the 10-year range.
 - All futures markets are close to support levels. We think corn and soybeans will hold above support, while wheat -where alternative cash wheat is trading at big discount to USA replacement levels- could still come under pressure from European short hedgers. Weather looks much better and if farmers get onto the fields it will take some of the bullish sentiment out of the markets.
- **Australian wheat:**
 - The US Ag Attaché put the 2018 crop at 24 million mt against 21.5 million mt this year (up 11.6%). Some think this is too high! Australian wheat exports are expected to increase by 1 mln mt over last year's.

- Australian old crop Fob wheat was unchanged in thin markets whilst despite the ongoing dry forecast. New crop wheat futures closed A\$4/mt below the previous week's 9-month highs. Domestic cash prices were firm on increasing concern over the lack of rain.
 - **Argentine wheat:**
 - The Argentine AgMin still has made no projections for new crop wheat production.
 - Fob quotes for old crop Argentine wheat were non-existent, but the official price rose to US\$241/mt. The domestic wheat market soared to US\$230/ mt for nearby delivery (11% protein). New crop wheat values fell with the domestic market down US\$20/mt at US\$180/mt. [US\$50/mt old crop – new crop inverse!] 11.5% protein wheat was offered at US\$195/mt.
 - **EU wheat:**
 - In the EU, 18/19 production is expected to be down 3.6mln mt from last year at 147mln mt. Exports are projected to be higher however, as there is looking to be lots of wheat carrying over from the 17/18 year. Old crop exports were again revised downward as Russia has continued to steal market share.
 - German 12.5 protein wheat was offered at a discount to Russian wheat for the first time this season.
 - **Black Sea wheat:**
 - Weather and vegetation maps look good for the EU and Black Sea.
 - We estimate Russian spring wheat acreage at a~11 mln ha leaving expected 18/19 all wheat production in Russia to be down by 8 mln mt. Lower production will be largely offset by the large stocks carrying from the 17/18 year.
 - The Russian Ag Ministry reports that only 0.3% (33k ha) of Russian spring wheat has been seeded to date, down from 201k ha last year at this time.
 - Despite a slight recovery, the Ruble is still quite weak and Russian premiums remain strong. Russian 17/18 wheat exports remain 40% higher than last YTD despite smaller-than-usual weekly exports of 582k mt loaded during the week to April 11. The YTD total now stands at 31.8 mln mt. IKAR raised its forecast for Russian wheat exports to 39.5 million mt last week,
 - China is building a new grain port in Fuyuan, near the Russian border to handle about 150k mt of grain produced by Chinese businesses in Russia this year, and an additional 650k mt by the end of next year.
 - Russian 12.5% protein wheat was steady at US\$215/mt for May shipment. Despite the premium to German wheat, logistics and limited farmer selling look likely to maintain the support. The new crop bid-offer remained nominally at US\$196-200/mt.
 - Russian wheat shipments through April 17 were put at 33.8 million mt,
- **Significant purchases/ trades:**
- **Japan** bought 68k mt of US spring wheat in their weekly MOA tender. Another 60k mt spring wheat were bought from Australia/ Canada.
 - **Indonesia** reportedly bought 80,000 mt of Black Sea Jul-Aug 11.5 pro at UDS\$230/mt
 - **Jordan** bought 50,000 mt FH Aug 12.5 pro at US\$225/mt.
 - **Iraq** bought 100,000 mt Australian wheat at US\$298/mt.
 - **Tunisia** bought 5 x 25,000 mt wheat at US\$229.75-230.50/mt (O/C), and 2 new crop cargoes at US\$217.85 and US\$224/mt (N/C).
 - **Ethiopia** asked for another extension on its 400,000 mt tender.
 - **Egypt** will extend port working times from 16 to 24 hours per day in an attempt to cut costs.
 - → *Once again, no North American wheat was featured in the sales.*
 - **US inspections** were 483,000 tonnes (season total 766 myn bushels down 10%), sales were net negative 67,000 tonnes for a season total 844 myn bushels down 17% against the USDA's projected 12% decline. US new crop commitments continue to run 12% down on last year's markets.

➤ **Wheat Market Outlook:**

Significant events:

- Alternative cash wheat is trading at big discount to US replacement levels.
- We note Canada missed the Iraq wheat tender. We have to assume this was due to lack of transport as this tender traded at US\$298.00/ mt and was at a huge premium to alternative wheat.

➤ **Outlook:**

- The US market focus remains on Plains weather where the "Bulls" are hoping that the dry conditions have hit winter wheat yields hard.
- Global crop conditions look mostly favorable at this point, especially in the Northern Hemisphere with Black Sea wheat crops in good shape, although Russia is having a late start to their spring seeding season due to wet weather. Russian winter wheat is rate over 80% good to excellent. Can they grow another record crop?
- The EU and Black Sea have very few problems, Argentine looks much more promising but Australia remains dry. All of which will make next month's USDA new crop S & D's very interesting, particularly given this season's proof that Russia can export very close to 40 myn tonnes. This is some 10 myn tonnes above what anyone expected at the start of the season. The EU will need to export more than in 2017/18.
- It is hard to be bullish new crop wheat.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 23, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Spet. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$6.22	\$228.55	1 CWRS 13.5	\$5.93	\$217.89
1 CWAD 13.0	\$6.43	\$236.26	1 CWAD 13.0	\$6.25	\$229.65
1 CPSR 11.5	\$5.30	\$194.74	1 CPSR 11.5	\$5.17	\$189.97
SW Sask			SW Sask		
1 CWRS 13.5	\$6.69	\$245.82	1 CWRS 13.5	\$6.41	\$235.53
1 CWAD 13.0	\$7.07	\$259.78	1 CWAD 13.0	\$6.80	\$249.86
1 CPSR 11.5	\$5.22	\$191.80	1 CPSR 11.5	\$5.15	\$189.23
NE Sask			NE Sask		
1 CWRS 13.5	\$5.57	\$204.66	1 CWRS 13.5	\$6.20	\$227.81
1 CWAD 13.0	\$6.90	\$253.53	1 CWAD 13.0	\$6.74	\$247.65
1 CPSR 11.5	\$5.12	\$188.13	1 CPSR 11.5	\$4.92	\$180.78
SE Sask			SE Sask		
1 CWRS 13.5	\$6.57	\$241.41	1 CWRS 13.5	\$6.26	\$230.02
1 CWAD 13.0	\$7.03	\$258.31	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$5.21	\$191.44	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

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.”

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

Relevant FOB Prices and Export Basis				April 23, 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	\$353.67	\$343.77		
HRS	\$346.60			
HRW 11.5	\$306.99			
SWW 12.0	\$284.82			
1 CWRS 13.5³	\$353.67		\$238.47	\$115.20
2 CWRS 13.0³	\$346.60		\$216.42	\$130.17
3 CWRS³	\$306.99		\$212.75	\$94.24
CPS³	\$278.22		\$189.97	\$88.25
1 CWAD⁴		\$330.09	\$239.20	\$90.89
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$215.00			
French 11.5 (Rouen)	\$208.50			
APW 10.5 (W Coast)	\$242.50			
Argentine 12.0	\$240.00			

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						April 23, 2018
Canadian Funds				Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Mch./April. delivery	\$9.45	\$9.25	\$8.18	\$7.57	\$7.57	
Parity Track Rosetown	\$7.95	\$7.76	\$6.68	\$6.08	\$6.08	
Track Bid Rosetown Area	\$6.49	\$5.89	\$5.79	\$5.17	\$5.17	
Gross Margin at Elevator (\$/bu)*	\$1.46	\$1.87	\$0.89	\$0.91	\$0.91	
Gross Margin at Elevator (\$/mt)*	\$53.62	\$68.59	\$32.65	\$33.27	\$33.27	
* to cover elevation, elevator market risk, margin						