

Wheat Market Outlook and Price Report: May 22, 2018
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i) Background and Rationale for the Report

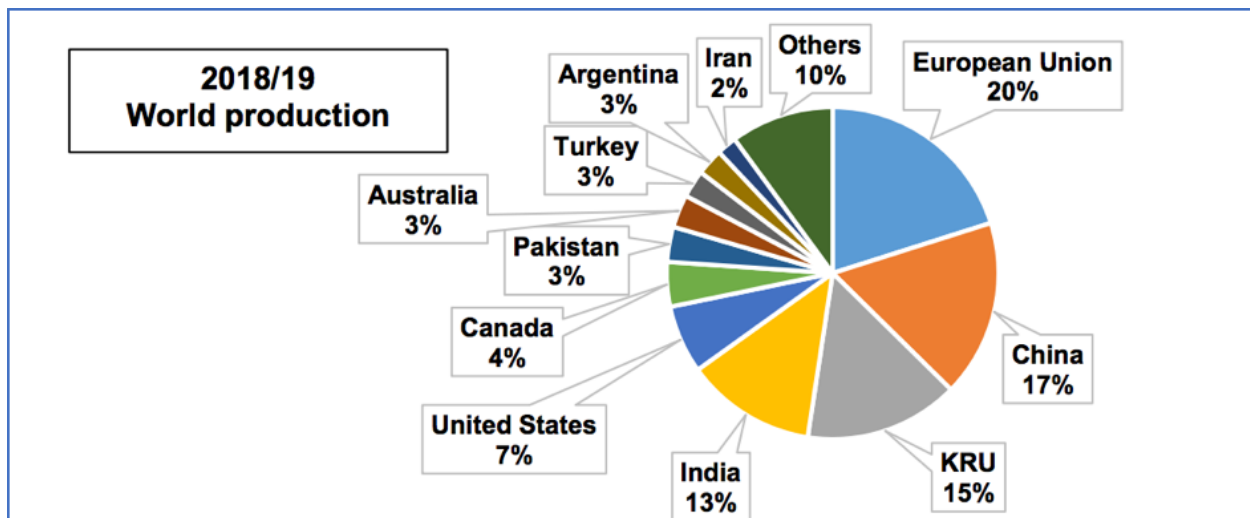
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 16, 2018

World Wheat Overview:

➤ **World Wheat Production Shares by Country (USDA-FAS)**



Source: USDA, Foreign Agricultural Service, Production, Supply and Distribution database.
Note: 2018/19 wheat output forecast is given in parentheses (*), million tons.

- Twelve countries produce almost 90 percent of the world's wheat.
- The wheat production make-up by country was stable for many years, but a shift has developed since 2000 in favor of the KRU region (Kazakhstan, Russia, and Ukraine), mainly at the expense of the United States, and has been expanding.
- The result has been a drop in the US (and North American) share of world wheat exports.

- For 2018/19, the projected decline in wheat production is mainly driven by Russia and India, though partly offsetting the drop in these two countries is higher wheat output forecast for the United States, Australia, Canada, Argentina, the North African region, and some countries of the Middle East. Most of the changes are due to projected returns to trend yields after the extremes of 2017/18.

➤ **Global wheat production and trade:**

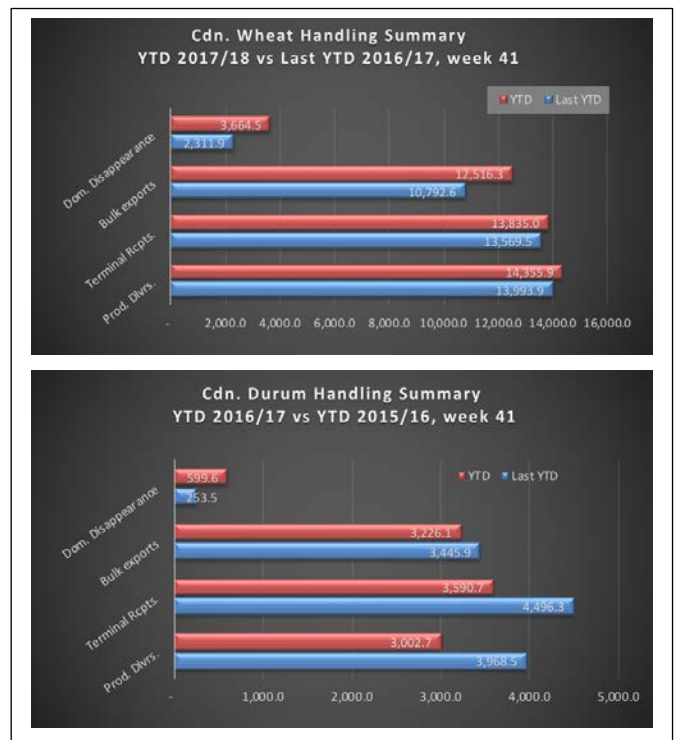
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- Futures:** Last Friday, July'18 contract Chicago winter wheat closed 518-2 up 20-6 cents in today's trade. Meanwhile, Jly'18 contract Kansas hard red winter wheat closed up 19-6 cents at 538-6. In Minneapolis, Jly'18 contract hard red spring wheat closed at 629-0, up 14-2 cents in today's trade, while Sept'18 hard red spring wheat closed at 633-2, up 12-6 cents for the day.
- The wheat rally Friday was fuelled by fund buying; the charts have turned bullish due to the very poor U.S. winter wheat crop and dryness in the Southern Plains. Positive reports on the US-China trade dispute, with China dropping their punitive import tariffs on sorghum, have also helped grain markets higher.
- Funds:** Index Funds did virtually nothing on the week. Spec Funds did very little to their overall long. However, they did alter their book somewhat selling soybeans and buying wheat.
- Matif:** Matif futures rallied to 7-month highs as the Euro fell to its lowest level since mid-December '17.

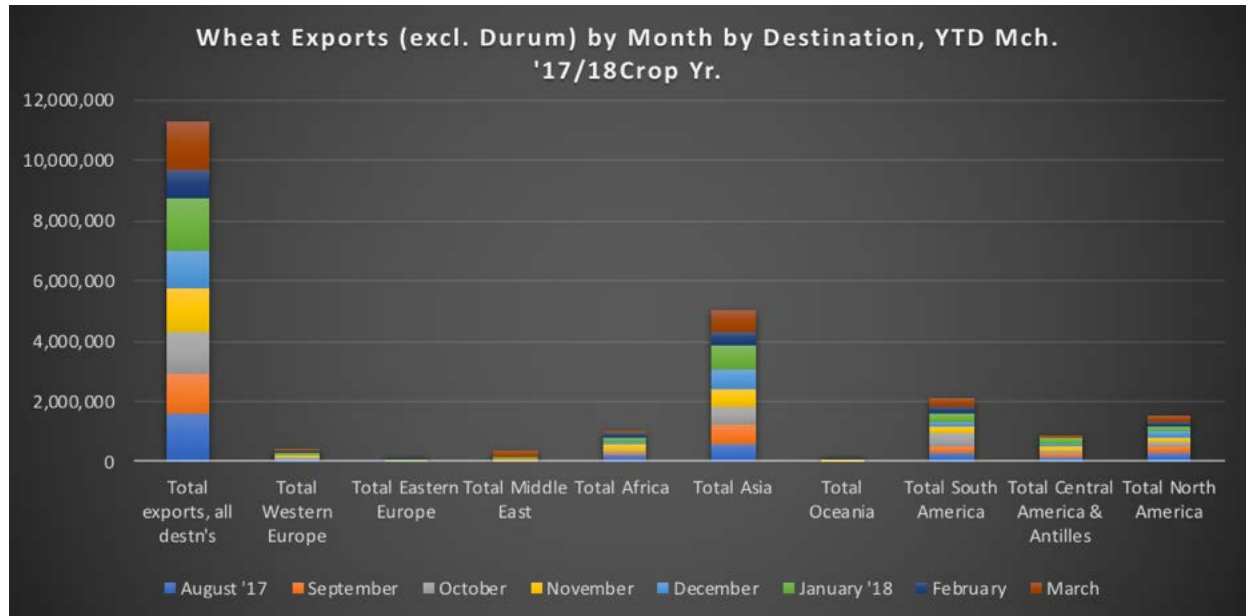
- **Canadian wheat:**

- It was disappointing that no Canadian wheat was traded to **Iraq** last week. *Not doing any of the Iraq business tells us that since the CWB went, Canada has a serious problem competing in the wheat market.*

- Canadian **wheat shipments** were decent during wheat 41, with 368k mt of wheat loaded for export. Canadian wheat exports are 16% ahead of last year's pace.
- In grain shipping week 41, Canadian producers delivered 22k mt of **durum** elevators for a YTD total of 3 mln mt. Durum exports were reported at 120k mt, for a total 3.2 mln mt YTD. Durum exports are 6% behind last year's pace.
- Total durum exports for the year should end up at about 4.3 to 4.5 mln mt.
- StatsCan published final **exports by destination for March '18** Friday morning. Wheat exports (excl. durum) to the end of March '18 reached 11.3 mln mt, which leaves 5.9 mln mt (34%) to be done by July 31 to reach the AAFC export target of 17.2 mln mt. The top three destination areas have been Asia with 44.6% of total shipments (5 mln mt), followed by South America with 18.4% of total (2.1 mln mt), followed by North America with 13.6% of total exports (1.54 mln mt). Exports to Asia, S. America and N. America combined comprised 76.6% (8.7 mln mt) of total exports to date. In addition, Africa has taken 9.1% (1 mln mt) of exports, while the Middle East has taken



3.3% (377k mt) of Cdn. wheat exports excl. durum. *Western Europe has fallen to only 3% of total, or 338k mt crop year to date.*



- If weather is normal, we have lots of old and new crop wheat chasing markets. Canada will continue to see sales restricted by transport issues.
 - **US wheat:**
 - In spite of the rally in beans and several other ag markets due to the easing of US-China trade tensions, US wheat futures began the week with losses of 5-12¢ on a mix of weekend rain in the Plains, new highs in the US\$, and the ongoing unfavorable price spreads against competing origins in the export market.
 - US weekly export inspections were 341k mt for a season total 847 mln bu, down 13% on last year (USDA down 14%).
 - The **weekly US crop update** showed winter wheat ratings unchanged at 36% GD/EX (52% last year), with 61% heading (71% last year; 74% average).
 - Spring wheat seeding in the US has caught up, with 79% of the crop in the ground now (77% expected), up 21 points since the previous Sunday and nearly matching the five-year average of 80%. N Dakota now is 78% planted (52% last week), ahead of avg of 71%. S Dakota is in line with avg progress of 94% planted. Montana spring wheat planting is still delayed at 66% planted vs. 86% avg.
 - **Australian wheat:**
 - Undesirable dryness persists in Australia.
 - USDA put the 2018 wheat crop at 24 mln mt (same as ABARE), but the local trade is talking of a decline to this year's 21.5 mln mt if it doesn't rain in the next 2 weeks. There currently is nothing in the forecast.
 - Old crop Fob Australian wheat prices increased by ~US\$5/mt.
 - **Argentine wheat:**
 - The weather remains favorable for planting, and due to good current prices for wheat many expect an acreage expansion in Argentina.
 - Fob values eased to US\$200/mt for 12% protein wheat and US\$195/mt for 11.5% protein. Old crop wheat was quoted for 11.5% protein at around US\$265/mt basis interior replacement.

- The Argentine Peso slumped to more all-time lows. Farmer sales of the current crop rose to 13 mln mt (12.6 mln mt last year).
 - **Brazil wheat:**
- In Brazil, the drought that has hit the Safrinha corn crop, is also posing real problems for wheat planting despite domestic prices hitting 5-year highs.
 - **EU wheat:**
- In France, the old crop marketing campaign is now essentially over.
- German premiums were unchanged despite German Co-ops lowering the 2018 crop by 300k mt to 24 mln mt versus 24.5 mln mt last year (a 2% production decline against a projected 5% drop in acreage).
 - **Black Sea wheat:**
- European weather maps eliminated much of the rainfall out of the forecast for the east and Black Sea for the next 2 weeks. Temperatures are only slightly above average, but the soil moisture maps start to give cause for concern.
- However, Russian wheat remains the world's cheapest wheat.
- Russian old crop 12.5% protein wheat traded down US\$3/mt to US\$210/mt, but this is still a sizeable inverse against Jul-Aug at ~US\$199/mt.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 60k mt of Ukrainian wheat at US\$220/mt Fob (US\$235/mt C&F).
- **Tunisia** bought 100k mt wheat for Jul-Aug at US\$216- 218.
- **Jordan** bought 60k mt FH Sep wheat at US\$224.50.
- **Iraq** bought 50k mt Australian wheat at US\$312/mt plus 50k mt US wheat at US\$320/mt. (No Canadian wheat was sold here).
- **Japan** bought 89,937 mt of hard wheat from Australia and the US.
- **Algeria** (OAIC) is tendering for min. 50k mt of wheat for Aug. shipment today; offers were due today
- US weekly export inspections were 341k mt for a season total 847 mln bu, down 13% on last year (USDA down 14%).

➤ **Wheat Market Outlook:**

Significant events:

- **US** weekly export inspections were 341k mt for a season total 847 mln bu, down 13% on last year (USDA down 14%).
- The weekly US crop update showed winter wheat ratings unchanged at 36% GD/EX (52% last year), with 61% heading (71% last year; 74% average).
- Spring wheat seeding in the US has caught up.
- Undesirable dryness persists in **Australia**.
- The weather remains favorable for planting, and due to good current prices for wheat many expect an acreage expansion in **Argentina**.
- **European** weather maps eliminated much of the rainfall out of the forecast for the east and **Black Sea** for the next 2 weeks. Temperatures are only slightly above average, but the soil moisture maps start to give cause for concern.
- There seemed to be general agreement that the USDA number for the **Russian wheat crop** number of 72 mln mt was too low given normal weather. However, rainfall has been well below normal so far this season and the coming weeks will be critical for yields.
- Russian wheat remains the world's cheapest wheat.

➤ **Outlook:**

- Speculators will use all the bullish arguments to get wheat higher and currently they are using the long-term maps that suggest possible drought conditions for the Black Sea this summer. Australian dryness is also clearly an issue, and currencies, energy and fertilizer costs are changing the landscape for both farmers and importers around the world. So, we do expect markets to remain strong, while there are weather issues.
- On the counter side, we see these high prices attracting early sale by Russian/FSU sellers and very little room for sales of North American grain in the first 4 month of the new crop year.
- If weather is normal, we have lots of old and new crop wheat chasing markets. Canada will continue to see sales restricted by transport issues. ***Not doing any of the Iraq business tells us that since the CWB went, Canada has a serious problem competing in the wheat market.***

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: May 22, 2018					
NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Sept. '18 {bu.}	Sept. '18 {mt.}
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	\$6.23	\$228.92
1 CWAD 13.0	\$6.46	\$237.37	1 CWAD 13.0	\$6.30	\$231.49
1 CPSR 11.5	\$5.85	\$214.95	1 CPSR 11.5	\$5.61	\$206.13
SW Sask			SW Sask		
1 CWRS 13.5	\$6.93	\$254.64	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.06	\$259.41	1 CWAD 13.0	\$6.85	\$251.70
1 CPSR 11.5	\$5.82	\$213.85	1 CPSR 11.5	\$5.48	\$201.36
NE Sask			NE Sask		
1 CWRS 13.5	\$6.80	\$249.86	1 CWRS 13.5	\$6.55	\$240.67
1 CWAD 13.0	\$7.08	\$260.15	1 CWAD 13.0	\$6.87	\$252.43
1 CPSR 11.5	\$5.66	\$207.97	1 CPSR 11.5	\$5.41	\$198.79
SE Sask			SE Sask		
1 CWRS 13.5	\$6.81	\$250.23	1 CWRS 13.5	\$6.60	\$242.51
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$6.99	\$256.84
1 CPSR 11.5	\$5.73	\$210.54	1 CPSR 11.5	\$5.48	\$201.36

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn\$/mt
1 CWRS 14.0	0.11	4.15
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.18)	(6.61)
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				May 22, 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	\$376.05	\$351.17		
HRS	\$369.01			
HRW 11.5	\$327.70			
SWW 12.0	\$289.20			
1 CWRS 13.5³	\$376.05		\$253.53	\$122.52
2 CWRS 13.0³	\$369.01		\$231.49	\$137.53
3 CWRS³	\$327.70		\$227.81	\$99.89
CPS³	\$282.63		\$216.79	\$65.84
1 CWAD⁴		\$328.64	\$239.20	\$89.43
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$210.00			
French 11.5 (Rouen)	\$210.96			
APW 10.5 (W Coast)	\$252.50			
Argentine 12.0				

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						May 22, 2018
Canadian Funds				Grade		
PNW value/Vancouver		1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery		\$10.06	\$9.86	\$8.74	\$7.69	\$7.69
Parity Track Rosetown		\$8.56	\$8.37	\$7.24	\$6.20	\$6.20
Track Bid Rosetown Area		\$6.90	\$6.30	\$6.20	\$5.90	\$5.90
Gross Margin at Elevator (\$/bu)*		\$1.66	\$2.07	\$1.04	\$0.30	\$0.30
Gross Margin at Elevator (\$/mt)*		\$60.96	\$75.97	\$38.33	\$10.85	\$10.85
* to cover elevation, elevator market risk, margin						