

**Wheat Market Outlook and Price Report: May 28, 2018**  
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**i) Background and Rationale for the Report**

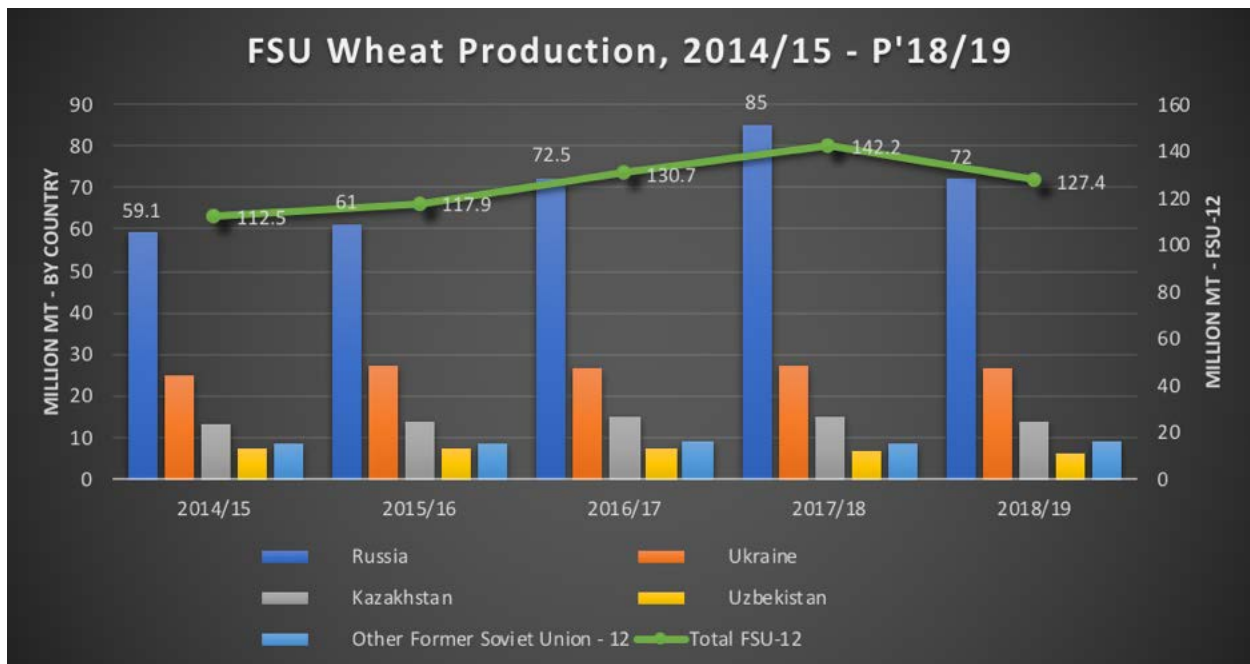
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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:**

- **FSU-12 Wheat Production, 2014/15 – P2018/19 (USDA numbers)**



- This is the time of year where new crop production numbers are at the center of most discussions about world balance sheets. Russia produced 85 mln mt of wheat in 2017/18 and has developed into the world's largest exporter of wheat (39.5 mln mt in '17/18). In their last report, USDA dropped

the Russian wheat production forecast to 72 mln mt, a 13 mln mt drop from their '17/18 production, mostly due to a return to more traditional yields. Still, even if this number proves correct (most traders think it is on the low side), the USDA wheat export projection for '18/19 is at 36.5 mln mt, down 'only' 3 mln mt from this current record export year, as Russian '17/18 wheat ending stocks are at 11.7 mln mt.

- *Reuters is reporting that Asian flour millers are set to buy record tonnages of Black Sea wheat this year (2018) due increasing demand. Over the past month, Asian millers are said to have booked up to 1 mln mt of N/C Black Sea wheat with shipments to commence in August. More trades are expected to follow. North American and Australian wheat have not been competitive.*
- Russian wheat remains the most competitive wheat internationally and keeps gaining market share in many import areas.
- The ICG increased their '18/19 world wheat production projection by 3 mln mt from the month prior to 742 mln mt.

➤ **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:** July'18 contract Chicago winter wheat closed 543-0, up 12-6 cents in Friday's trade and 24-6 for the week. Meanwhile, July'18 contract Kansas hard red winter wheat closed up 15.0 cents at 564-0 (up 25-2 for the week). In Minneapolis, July'18 contract hard red spring wheat closed at 644-2, up 9-4 cents in today's trade (15-2 for the week), while Sept'18 hard red spring wheat closed at 648-6, up 9-0 cents for the day and 15-4 for the week.
- 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 dollar, and the ongoing unfavourable price spreads against competing origins in the export market.
- **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 wheat futures hit 10-month highs due to adverse weather, the US futures rally and due to the 6-month low in the Euro. MARS cut the EU soft wheat yield to 6.19 mt/ ha (previously 6.23 mt/ha).

○ **Canadian wheat:**

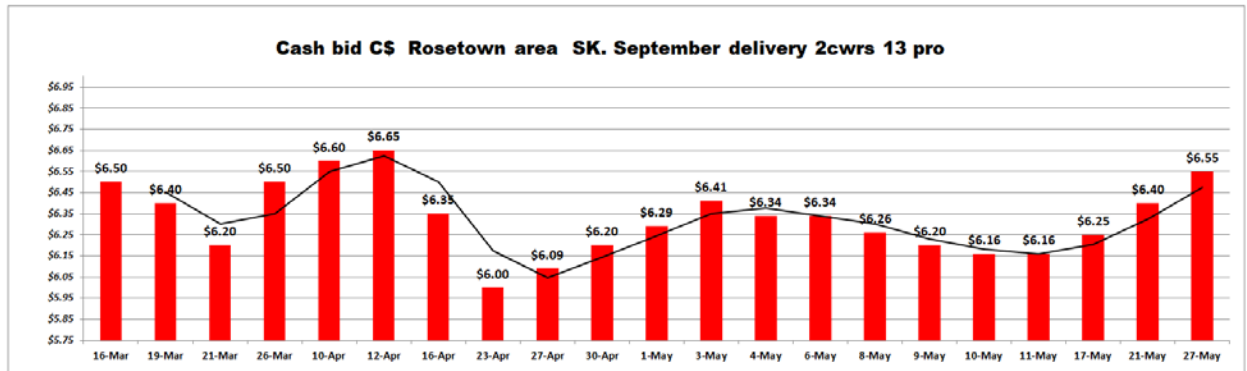
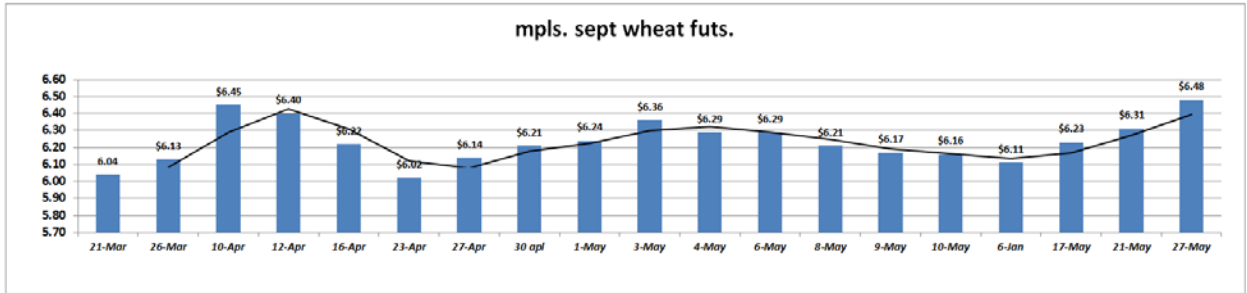
- In **shipping week 42**, Canadian **wheat** producers delivered 185.7k mt of wheat to Canadian grain handling facilities. YTD, producers have delivered 14,542.8k mt. Exports were 455.2k mt for a total of 12,973.7k mt YTD. YTD grower deliveries of wheat as of week 42 are at 102% of last year's volume, YTD exports are at 115% of last year's volume, and YTD domestic use of wheat is at 160% of last year's volume.
- Canadian **durum** producers delivered 28.0k mt of durum to licensed Canadian grain handling companies for a total of 3,675.2k mt YTD. Meanwhile, Canadian durum exports were reported at 17.0k mt, for a total of 3,295.8k mt durum as of week 42 are at 75% of last year's volume, YTD exports are at 94% of last year's volume, and YTD domestic use of wheat is at 240% of last year's volume.

(CGC) Grain Handling Summary Wheat				Week 42 (to May 20/18)	
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Current week	185.7	403.3	455.2	131.5	
Week ago	242.2	378.3	368.0	84.4	
<b>YTD</b>	<b>14,542.8</b>	<b>14,238.2</b>	<b>12,973.7</b>	<b>3,797.3</b>	
Last YTD	14,233.9	13,943.3	11,244.8	2,370.1	
<b>YTD less Last YTD (k mt)</b>	<b>308.9</b>	<b>294.9</b>	<b>1,728.9</b>	<b>1,427.2</b>	
<b>YTD over Last YTD (%)</b>	<b>102%</b>	<b>102%</b>	<b>115%</b>	<b>160%</b>	

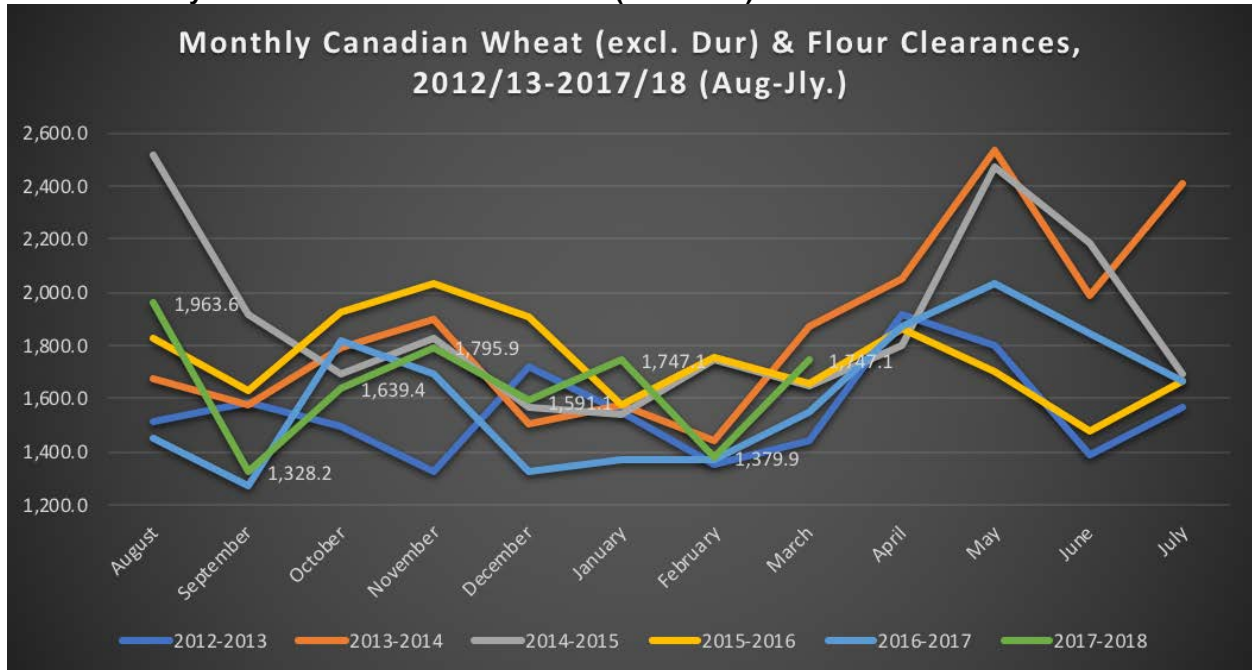
  

(CGC) Grain Handling Summary Durum				Week 42 (to May 20/18)	
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Current week	28.0	84.6	52.8	22.7	
Week ago	21.6	63.2	119.9	10.0	
<b>YTD</b>	<b>3,034.7</b>	<b>3,675.2</b>	<b>3,295.8</b>	<b>626.7</b>	
Last YTD	4,031.4	4,590.9	3,499.7	261.1	
<b>YTD less Last YTD (k mt)</b>	<b>-996.7</b>	<b>-915.7</b>	<b>-203.9</b>	<b>365.6</b>	
<b>YTD over Last YTD (%)</b>	<b>75%</b>	<b>80%</b>	<b>94%</b>	<b>240%</b>	

- 2018/19 **global durum production** is forecast to increase 1.2mtn mt. This increase is supposed to be largely offset by lower carry-in stocks and higher usage.
- Hard wheat futures and cash bids for Canadian wheat have climbed with Chicago as can be seen for the following charts.



• **Monthly Cdn. Wheat & Flour Clearances (CGC data)**



- **Seasonality:** The above graph shows monthly Cdn. wheat & flour port clearances for August through to July for 2012/13 through to 2017/18 (2017/18 only to Mch'18). Traditionally, August has been a heavy shipment month, but this has lessened with Black Sea grain coming on to the markets earlier and cheaper than North American grain. November generally is the peak fall shipping month

for wheat, with a second, higher peak in May. After May, shipments tend to fall off again as markets move towards new crop European/ eastern European grains again. Total Cdn. annual volumes varied for the period shown from 18.7 mln mt ('12/13) to 22.6 mln mt in '14/15. YTD wheat clearances (July '17 to end March '18) amount to 13.2 mln mt.

○ **US wheat:**

- US wheat exports during the week of May 17 were at only 362k mt, only half of the same time last year. With just 2 weeks left in the 17/18 MY, wheat exports are at only 88% of the USDA projection, with the average pace at 95%.
- 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). The winter wheat crop was 61% headed last Sunday vs. 64% on average.
- **Spring wheat seeding** in the US has caught up, with 79% of the crop now in the ground, nearly matching the five-year average of 80%. N Dakota 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.
- Spot No. 1 Northern/Dark Northern Spring Wheat 12 to 15 pro wheat was mixed, 5.5 cents lower to 9.5 cents higher from 7.09-8.44. The Spring Wheat basis was steady to 15 cents lower.

○ **Australian wheat:**

- Western Australia got some rain late week, but the east and south remained dry. Rainfall in the west was less than expected.
- Australian wheat continues to lose Asian demand to Black Sea wheat with equivalent quality showing a US\$35-40/mt price spread. [See comments p. 2].

○ **Argentine wheat:**

- Argentina was dry with some frosts occurring.
- The market is concerned about a possible return to Argentine export taxes, which may or may not impact wheat acreage, which for now is expected to rise by 4-6%.
- Argentine old crop 11.5% protein wheat Fob was unchanged at around US\$278/mt. The only place Argentine wheat can go at this price is to Brazil.
- New crop wheat remained priced ~US\$202/mt for 12% protein wheat, and US\$197 for 11.5% protein wheat.

○ **EU wheat:**

- Western Europe saw near normal rainfall.

○ **Black Sea wheat:**

- Eastern Europe, the Balkans and Black Sea were all mostly dry. In the Black Sea region, Apr-May precipitation is ~50% below last year's and roughly the lowest in 5 years.
- Russia's spring wheat plantings remained well behind normal due to ongoing cold wet conditions. The concern over slow Russian spring wheat seeding is growing; the forecast is for continued cold wet conditions; so far only some 55% of intended wheat acreage is seeded.
- In the Black Sea, the bid-offer spread for July/August shipment wheat ended at US\$200-204/mt, with a \$3 per month carry charges.

➤ **Significant purchases/ trades:**

- **Algeria** paid US\$228/mt for 675,000 tonnes of August wheat.
- **Japan** bought 97k mt of US and Canadian hard wheat in their weekly tender.
- **Pakistan** sold another 150,000 tonnes of subsidized exports.
- **India** raised its wheat import tax from 20% to 30%.
- Not much cash interest around this past week. North American wheat remains uncompetitive into the Middle East.

➤ **Wheat Market Outlook:**

**Significant events:**

- Reuters is reporting that **Asian flour millers** are set to buy record tonnages of Black Sea wheat this year (2018) due increasing demand. Over the past month, Asian millers are said to have booked up to 1 mln mt of N/C Black Sea wheat with shipments to commence in August. More trades are expected to follow. North American wheat has not been competitive.
- The market is concerned about a possible return to **Argentine export taxes**, which may or may not impact wheat acreage, which for now is expected to rise by 4-6%.
- So far only ~55% of intended wheat acreage has been seeded in **Russia**.
- There are a number **of potential weather issues** looming for the wheat markets in both the southern and northern hemisphere. We will need to watch how crops develop in both regions.
- Russian wheat remains the world's cheapest wheat.

➤ **Outlook:**

- The world wheat market has not had such an array of potential weather issues for some time and until much more is known about the crops in both the north and Southern Hemisphere, farmers will be tough sellers.
- Russia's crop is not in the bin, and the planting of Canadian, Argentine and Aussie crops are not complete. Russian winter wheat soil moisture levels are in sharp decline and spring wheat plantings are struggling.
- *Russia old crop remains the world's cheapest wheat, with August 12.5% protein wheat US\$15/mt below German wheat, and \$45 below HRW, while 11.5% protein wheat is US\$15/mt below French wheat and US\$35/mt below SRW wheat.*
- Russian growers are not aggressive sellers of any new crop wheat, which means there are few European short hedges going into futures markets.
- It is a short week in the US as they celebrate Memorial Day. We expect the futures markets to try and take out resistance levels, so we suggest growers refrain from selling.
- Those of you that like selling futures, we consider sales of Kansas later in the week will represent good values to be short.

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

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

Date: May 28, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
<b>1 CWRS 13.5</b>	\$6.75	\$248.02	<b>1 CWRS 13.5</b>	\$6.54	\$240.31
<b>1 CWAD 13.0</b>	\$6.49	\$238.47	<b>1 CWAD 13.0</b>	\$6.30	\$231.49
<b>1 CPSR 11.5</b>	\$6.33	\$232.59	<b>1 CPSR 11.5</b>	\$6.08	\$223.40
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$7.18	\$263.82	<b>1 CWRS 13.5</b>	\$6.96	\$255.74
<b>1 CWAD 13.0</b>	\$7.23	\$265.66	<b>1 CWAD 13.0</b>	\$6.86	\$252.06
<b>1 CPSR 11.5</b>	\$6.20	\$227.81	<b>1 CPSR 11.5</b>	\$6.11	\$224.51
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$7.13	\$261.98	<b>1 CWRS 13.5</b>	\$6.88	\$252.80
<b>1 CWAD 13.0</b>	\$7.09	\$260.51	<b>1 CWAD 13.0</b>	\$6.88	\$252.80
<b>1 CPSR 11.5</b>	\$6.20	\$227.81	<b>1 CPSR 11.5</b>	\$5.91	\$217.16
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$7.18	\$263.82	<b>1 CWRS 13.5</b>	\$6.93	\$254.64
<b>1 CWAD 13.0</b>	\$7.19	\$264.19	<b>1 CWAD 13.0</b>	\$7.00	\$257.21
<b>1 CPSR 11.5</b>	\$6.19	\$227.45	<b>1 CPSR 11.5</b>	\$5.93	\$217.89

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 14.0</b>	0.11	4.15
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.18)	(6.61)
<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.

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<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				May 28, 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	\$386.10	\$357.43		
HRS	\$378.93			
HRW 11.5	\$340.70			
SWW 12.0	\$298.18			
<b>1 CWRS 13.5<sup>3</sup></b>	\$386.10		\$261.98	\$124.12
<b>2 CWRS 13.0<sup>3</sup></b>	\$378.93		\$239.94	\$138.99
<b>3 CWRS<sup>3</sup></b>	\$340.70		\$236.26	\$104.44
<b>CPS<sup>3</sup></b>	\$291.49		\$228.92	\$62.57
<b>1 CWAD<sup>4</sup></b>		\$334.49	\$239.20	\$95.29
<b>Competing wheat:</b>	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$210.00			
French 11.5 (Rouen)	\$211.86			
APW 10.5 (W Coast)	\$252.50			
Argentine 12.0				

<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					May 28, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$10.33	\$10.13	\$9.09	\$7.93	\$7.93
Parity Track Rosetown	\$8.83	\$8.63	\$7.59	\$6.44	\$6.44
Track Bid Rosetown Area	\$7.13	\$6.53	\$6.43	\$6.23	\$6.23
Gross Margin at Elevator (\$/bu)*	\$1.70	\$2.10	\$1.16	\$0.21	\$0.21
Gross Margin at Elevator (\$/mt)*	\$62.44	\$77.32	\$42.77	\$7.59	\$7.59

\* to cover elevation, elevator market risk, margin