

Wheat Market Outlook and Price Report: February 27, 2017

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i) Background and Rationale for the Report

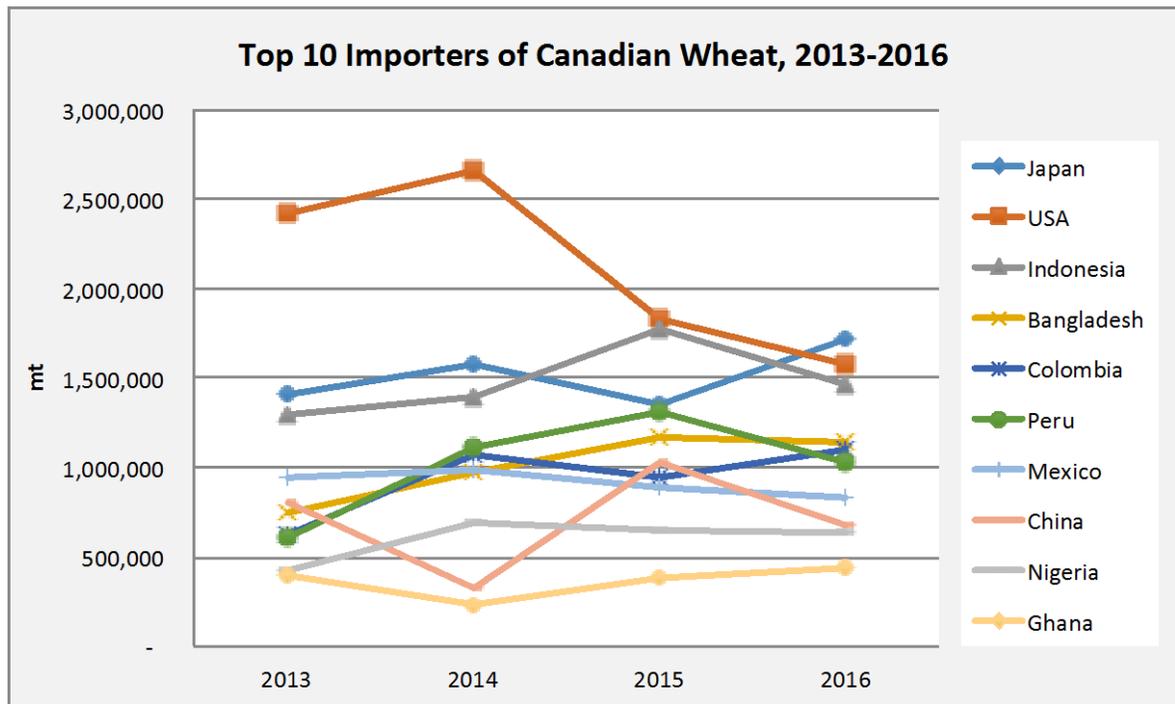
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 February 27, 2017

2016/'17 Canadian Wheat Overview:

➤ **Major Canadian Wheat Importers, 2013 – 2016:**



Top 50 Importers of Canadian Wheat, 2013-2016					
Rank	Country	Quantity: (MT) 2016	Quantity: (MT) 2015	Quantity: (MT) 2014	Quantity: (MT) 2013
Total	World	15,543,777	19,079,024	18,574,595	15,326,015
1	Japan	1,722,212	1,345,248	1,575,311	1,408,975
2	United States	1,573,198	1,832,489	2,660,944	2,424,499
3	Indonesia	1,465,387	1,776,348	1,394,543	1,293,999
4	Bangladesh	1,140,469	1,175,415	969,362	740,407
5	Colombia	1,095,297	943,623	1,071,957	625,678
6	Peru	1,026,977	1,310,108	1,106,530	607,494
7	Mexico	825,765	891,196	988,642	950,101
8	China	679,262	1,033,194	322,802	809,112
9	Nigeria	630,628	644,141	689,598	422,840
10	Ghana	433,766	386,853	233,540	389,896
11	Ecuador	433,247	544,869	346,450	341,521
12	Venezuela	409,282	841,895	770,369	688,992
13	Sri Lanka	442,701	646,535	558,476	343,562
14	United Kingdom	308,431	314,959	318,783	352,705
15	Cuba	237,603	212,516	215,843	209,884
16	United Arab Emirates	237,022	249,817	379,635	414,365
17	Korea, South	206,562	187,012	541,502	246,479
18	Chile	220,689	381,076	357,995	119,015
19	Italy	158,324	229,901	132,652	121,993
20	South Africa	160,002	261,138	133,328	21,125
21	Brazil	168,055	0	243,370	433,404
22	Malaysia	171,055	153,419	94,088	106,538
23	Cameroon	137,702	156,967	141,281	81,450
24	Kenya	124,004	87,500	111,847	87,057
25	Sudan	127,998	293,850	674,285	408,915
26	Thailand	105,113	348,564	109,184	131,092
27	Dominican Republic	108,398	149,951	67,468	0
28	Mozambique	101,835	111,259	227,548	105,201
29	Iraq	100,000	200,000	559,999	260,344
30	Oman	81,437	85,248	93,203	0
31	Costa Rica	83,104	85,694	95,046	53,381
32	Viet Nam	70,862	305,588	44,866	173,506
33	Tanzania, United Repu	63,282	50,492	85,495	100,611
34	Belgium	51,671	15,614	37,225	83
35	Saudi Arabia	68,250	438,811	568,173	120,750
36	Lebanon	55,002	23,003	0	0
37	Morocco	37,512	11,000	5,501	5,499
38	Niger	45,298	899	0	0
39	Togo	38,505	30,003	35,981	27,999
40	Guyana	38,178	23,104	13,601	23,306
41	Philippines	37,257	662,934	91,341	235,871
42	India	31,449	0	916	0
43	Haiti	25,811	11,891	0	0
44	Zimbabwe	26,666	10,000	8,413	4,001
45	Congo	23,532	0	0	0
46	Ivory Coast	22,399	27,700	15,162	23,598
47	Malawi	21,500	45,001	8,001	12,499
48	Algeria	21,060	0	0	0
49	El Salvador	21,220	0	0	0
50	Burkina Faso	19,005	10,000	0	1,000
	Other	109,793	532,199	474,339	397,268

Data source: Statistics Canada

Global wheat and trade:

Below is a brief synopsis on this week's market events in the major wheat origins.

Canadian wheat:

- o In Canada, **AAFC** (Agriculture and Agri-Food Canada) *lowered* its total all wheat acreage projection for 2017/18 to 9.15 million ha (18.7 mln acres) with a crop of 28.6 million mt against 31.7 million mt this ongoing crop year. However, on a global scale, this news this was somewhat offset by **Argentina**, which stole the headlines as their Agriculture Ministry *raised* its crop from 16.5 million mt to 18.3 million mt against USDA's estimate of 15 million mt.

AAFC Wheat Supply and Disposition, Feb. 17/17

Grain and Crop Year (a)	Area Seeded	Area Harvested	Yield	Production	Imports (b)	Total Supply	Exports (c)	Food & Industrial Use (d)	Feed, Waste & Dockage	Total Domestic Use (e)	Carry-out Stocks
	----- thousand ha -----	----- thousand ha -----	t/ha	----- thousand metric tonnes -----							
Durum											
2015-2016	2,355	2,327	2.32	5,389	13	6,367	4,542	180	302	724	1,101
2016-2017f	2,505	2,367	3.28	7,762	10	8,873	4,500	200	1,177	1,573	2,800
2017-2018f	2,010	1,970	2.79	5,500	10	6,310	4,800	200	905	1,310	2,200
Wheat Except Durum											
2015-2016	7,445	7,250	3.06	22,205	95	28,425	17,179	3,298	3,156	7,175	4,070
2016-2017f	6,915	6,511	3.68	23,967	100	28,137	16,500	3,300	3,593	7,637	4,000
2017-2018f	7,140	7,000	3.30	23,100	100	27,200	16,500	3,350	3,094	7,200	3,500
All Wheat											
2015-2016	9,800	9,577	2.88	27,594	108	34,792	21,721	3,478	3,458	7,899	5,171
2016-2017f	9,420	8,878	3.57	31,729	110	37,010	21,000	3,500	4,770	9,210	6,800
2017-2018f	9,150	8,970	3.19	28,600	110	35,510	21,300	3,550	3,999	8,510	5,700

- o Canadian wheat exports during shipping week 29 were quite modest again. They amounted to 94k mt for the week and to 7.3 million mt year-to-date. This is 20% or 1.9 million mt lower than last year-to-date.
- o *Durum exports* during week 28 amounted to 28k mt and 2.3 million mt year-to-date. This is 16% or 457k mt lower than last year-to-date.

US wheat:

- o Weekly data from the Export Sales report showed old crop sales at 451,326 mt and new crop bookings of 256,500 mt. This left total net sales 20.2% higher than last week and *45.6% above the same week a year ago*. Weekly exports also saw a boost, up 61.7% wk/wk at 629,023 mt.
- o In the USDA supply and demand table released Friday, wheat saw a decrease in yield for the 2017/18 marketing year (MY) of 5.5 bu/acre, to 47.1 bu/acre. Ending stocks are projected to decrease to 905 million bushels, causing the stocks/use ratio to be a projected 41.3% by the end of the MY.
- o **US Agriculture outlook conference:** Initial estimates: All wheat planted area is seen at 46.0 million acres by USDA vs 50.154 million last year and the baseline balance sheet putting this year's acreage at 48.5 million. Average market expectations were 46.852 million (45.6-50.0 million range). Combined corn, soybean, wheat and cotton acres are estimated at 235.5 million acres vs 237.7 million last year, while combined market estimates ahead of the conference showed total acreage ideas at 236.6 million acres. – *Importantly, due to relatively stronger values of soybeans this winter, winter wheat acres in the US have already fallen by ~ 3.2 million acres from last year, and –even more important for Canada – spring wheat acres could be down by a million acres as well!*
- o **USDA is expecting a 50 million mt wheat crop this year. This would be the smallest US wheat crop in 11 years, and would be almost 20% smaller than last year's crop.**

Black Sea:

- USDA is expecting that the area planted to grains in Russia and the Ukraine will increase by 5-10% over the coming decade.

India:

- India's imports will shortly end as the Indian Govt. will insist on Methyl Bromide fumigation at origin April 1 forward - a gas that is banned in Europe, Canada and the Black Sea.
- There are rumours that India 'could' increase its import tax for wheat back to 25%. This would also be negative to imports.
- **Argentina:** The Argentine Agriculture Ministry raised its crop from 16.5 million mt to 18.3 million mt against USDA's estimate of 15 million mt. The changes came from higher harvested acres at 5.56 million ha (against 5.34 million ha planted in the January report) and a yield of 3.3 mt/ha against 3.1 mt/ha previously, and 2.95 mt/ha last year. *If correct, this implies an additional 3 million mt exportable surplus. When added to last week's Australian ABARE revision to the Australian crop, this would put the combined Argentine & Australian production up almost by 18 million mt or exactly 50% over last year.*

Russia:

- The late week Russian holiday kept the Black Sea Fob market quiet, but the nearby positions continued to rally. Jordan's purchase compared to the bid-offer on Russian 12.5 pro at US\$176-180/mt. The 11.5 protein discount remained at US\$3-5/mt, while feed wheat ended at US\$179-183/mt.

Significant purchases:

- **Egypt:** For the 2nd time in a week, GASC bought 360kt Russian/Ukrainian wheat at new highs of US\$210/mt C&F Egypt:

GASC Tender Purchases Feb. 17/17	GASC Tender Purchases Feb. 22/17
60kt <u>Russian</u> @ \$194.00 fob + \$9.25 ocean freight = US\$203.25/mt C&F	60kt <u>Russian</u> @ US\$195.00/mt + US\$9.85 freight = US\$204.85/mt C & F
60kt <u>Russian</u> @ \$195.00 + \$9.85 = \$204.85	60kt <u>Russian</u> @ \$196.50 + \$11.25 = \$207.75
60kt <u>Russian</u> @ \$192.25 + \$11.20 = \$203.45	60kt <u>Russian</u> @ \$196.00 + \$9.85 = \$205.85
60kt <u>Russian</u> @ \$196.00 + \$9.85 = \$205.85	60kt <u>Ukrainian</u> @ \$195.90 + \$12.55 = \$208.45
60kt <u>Russian</u> @ \$192.70 + \$11.20 = \$203.90	60kt <u>Russian</u> @ \$196.00 + \$11.60 = \$207.60
60kt <u>Russian</u> @ \$196.00 + \$11.60 = \$207.60	60kt <u>Russian</u> @ \$196.95 + \$11.25 = \$208.20
110kt <u>Russian</u> @ \$192.00 + \$12.32 = \$204.32	60kt <u>Ukrainian</u> @ \$195.50 + \$12.60 = \$208.10
60kt <u>Ukrainian</u> @ \$195.50 + \$12.60 = \$208.10	60kt <u>Russian</u> @ \$197.00 + \$11.25 = \$208.25
60kt <u>Russian</u> @ \$192.74 + \$11.20 = \$203.84	60kt <u>Romanian</u> @ \$197.50 + \$10.85 = \$208.35
60kt <u>Romanian</u> @ \$197.50 + \$10.85 = \$208.35	60kt <u>Russian</u> @ \$198.25 + \$10.85 = \$209.10
60kt <u>Russian</u> @ \$192.75 + \$11.79 = \$204.54	60kt <u>Russian</u> @ \$197.00 + \$11.60 = \$208.60
60kt <u>Russian</u> @ \$197.00 + \$11.60 = \$208.60	60kt <u>Russian</u> @ \$199.30 + \$10.85 = \$210.15

- **Tunisia** bought 100k mt at US\$199.50-\$204.50/mt.
- **Ethiopia** finally bought 400k mt at US\$225-228/mt.
- **Jordan** bought 100k mt new crop at US\$202/mt C&F.
- **Oman** bought 30k mt Russian at US\$205/mt for LH May shipment.
- **Taiwan:** Taiwan purchased 103k mt of US wheat last Wednesday.
- **Jordan** and **Tunisia** both purchased 100,000 mt of optional origin wheat.
- **Libya** again put back its milling/durum tender this time to Feb 28/17.

Wheat Market Outlook:

- Significant events this past week:
 - **Futures:** Wheat futures were mostly in the red on Friday, despite a somewhat positive export sales report. Chicago is the weakest, down 7 1/4 cents, followed by KC, down 5 cents. Minneapolis is the strongest, despite being down a penny in the March 17 contract.
 - **Australia:** Australian Fob and futures values were little changed though some traders are already flagging the hot dry conditions and low soil moisture situation. However, seeding does not start for another 6 weeks.
 - **Russia:** Black Sea crops look generally good, and beginning stocks will be sharply higher than last year.
 - **EU:** There will likely be increased competition again from EU crops this year.
 - **Argentina & Australia:** Given the announcements by the Argentine & Australian statistics agencies, the combined Argentine & Australian wheat production this crop year is up by almost 18 million mt or 50% over last year. This adds to the exportable surplus in both countries.
 - **USA:** Winter wheat acres are the lowest level in 100 years in the U.S., spring wheat planting intentions will be released at the end of March by USDA.

- *Outlook:*
 - **Spec Funds** covered another 2.4 million mt of wheat last week.
 - The **Southern Hemisphere** crop seemingly gets bigger each month, and **Northern Hemisphere** conditions remain generally favourable.
 - **Brazil** will receive above normal precipitation this week, with temperatures below normal.
 - **USA:** The US winter wheat acreage is already down by 3.2 million acres this year. Given that return per acre calculations in the US still favour soybeans and corn over wheat, we think we may also lose 1 million acres of spring wheat in the northern US especially to soybeans. This would be very good news to Canadian spring wheat growers. Yields, of course, can be highly variable so it's too early in our view to have a definitive opinion on next year's Supply/Demand today.

- There is plenty of wheat against tepid demand, except for high quality product.
- There is still an old crop wheat surplus and new crop wheat so far looks good.
- **However, the fact that the US could lose more spring wheat acres may be a break for Canadian spring wheat growers for next crop year.**
- **Our marketing ideas remain the same: Sell old crop wheat and 30 percent of 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, (PDQ data)

Date: 27-Feb-17

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '17 (bu.)	May '17 (mt)
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$7.08	\$260.15	1 CWAD 13.0	\$7.22	\$265.29
1 CPSR 11.5	\$4.54	\$166.82	1 CPSR 11.5	\$4.89	\$179.68
SW Sask			SW Sask		
1 CWRS 13.5	\$6.21	\$228.18	1 CWRS 13.5	\$6.49	\$238.47
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$7.27	\$267.13
1 CPSR 11.5	\$4.46	\$163.88	1 CPSR 11.5	\$4.80	\$176.37
NE Sask			NE Sask		
1 CWRS 13.5	\$6.03	\$221.57	1 CWRS 13.5	\$6.34	\$232.96
1 CWAD 13.0	\$7.07	\$259.78	1 CWAD 13.0	\$7.18	\$263.82
1 CPSR 11.5	\$4.26	\$156.53	1 CPSR 11.5	\$4.63	\$170.12
SE Sask			SE Sask		
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	\$6.39	\$234.79
1 CWAD 13.0	\$7.06	\$259.41	1 CWAD 13.0	\$7.19	\$264.19
1 CPSR 11.5	\$4.27	\$156.90	1 CPSR 11.5	\$4.63	\$170.12

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)
- 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

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."

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				Feb. 27, 2017
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	\$335.57	\$306.24		
HRS	\$327.87			
HRW 11.5	\$263.45			
SWW 12.0	\$240.86			
1 CWRS 13.5 ³	\$335.57		\$229.28	\$106.28
2 CWRS 13.0 ³	\$327.87		\$212.75	\$115.13
3 CWRS ³	\$263.45		\$197.32	\$66.14
CPS ³	\$234.13		\$159.84	\$74.29
1 CWAD ⁴		\$401.43	\$253.90	\$147.53
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$193.00			
French 11.0 (Rouen)	\$191.76			
ASW 10.5 (W Coast)	\$189.00			
Argentine 12.0	\$185-\$190.00			

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					Feb. 27, 2017
Canadian Funds					
PNW value/Vancouver	1CWRS13.5	2CWRS	Grade 3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$8.95	\$8.74	\$6.99	\$6.37	\$6.37
Parity Track Rosetown	\$7.45	\$7.24	\$5.49	\$4.88	\$4.88
Track Bid Rosetown Area	\$6.24	\$5.79	\$5.37	\$4.35	\$4.35
Gross Margin at Elevator (\$/bu)*	\$1.21	\$1.45	\$0.12	\$0.53	\$0.53
Gross Margin at Elevator (\$/mt)*	\$44.57	\$53.41	\$4.42	\$19.31	\$19.31
* to cover elevation, elevator market risk, margin					