

Wheat Market Outlook and Price Report: January 9, 2016

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i) Background and Rationale for the Report

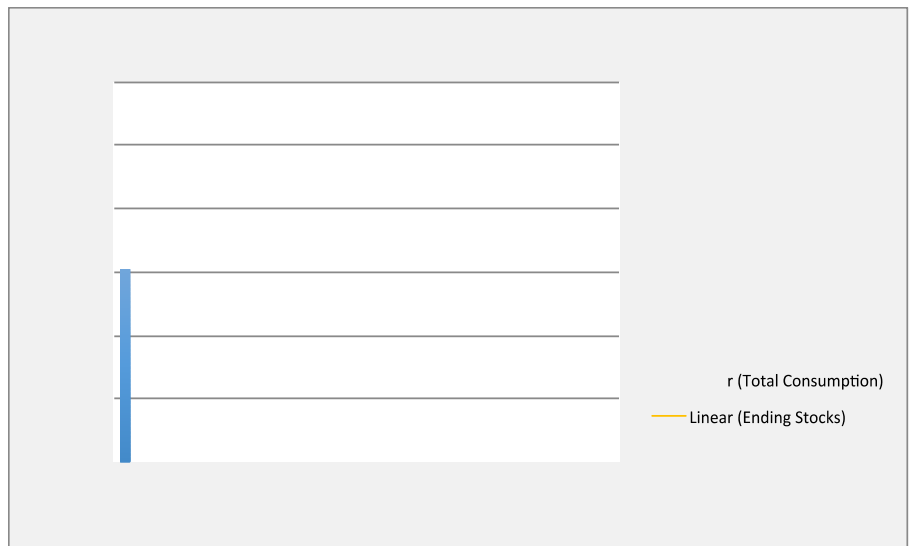
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 Nov. 21/16

2016/17 World Wheat Overview:

- **Production:** up 2% from last year
- **Consumption:** up 2% from last year
- **Trade:** up 1% from last year
- **Ending Stocks:** up 6% from last year



➤ **Global wheat and trade:**

Below is a brief synopsis on this week's market events in the major wheat origins. Trade remains slow since the holidays. Activity is not expected to pick up significantly until late January/ early February. The Chinese New Year's celebrations start on January 28th this year and the roughly 23 day long celebrations will slow trade into Asia into February.

Canadian wheat:

- The week 20 & 21 CGC Canadian Grain Handling report shows that at 5.8 million mt, this crop year's Canadian wheat exports lag last year's wheat exports to date by a significant 1.54 million mt or 21%.
- Using the same report, we note that durum exports lag last years by 221k mt or 12%.
- At the same time, US wheat exports are very significantly ahead of last year's pace. [See below].

US wheat:

- US weekly export sales were expected at 3-500k mt.
- Reported US export sales were just 184k mt for a season total 770 million bu, up 33% on last year; inspections were 395k mt for a season total 570 million bu, up 28% on last year against USDA's 26% projected increase.

EU wheat:

- France seems to have had enough time to clean up the remaining wheat crop to the extent where they can now match Algerian specs for bigger volumes.

Australia:

There were again reports of a big crop, but a lot of it is coming in with low-protein and grading feed wheat.

Argentina:

- FOB offers of Argentine 12% protein wheat were unchanged from last week. There was more talk about quality issues, though the core southern regions report better protein levels at 11-13%. In the north, yields were very good, but protein ranged only from 7-10%.

Algeria:

- Bought 475,000 mt of wheat for March shipment with one cargo at US\$198/mt from Argentina while the balance was sourced from France, the UK, Sweden and Germany and was priced at US\$201.50-202/mt

(CGC) Grain Handling Summary Wheat			Week 20 & 21 (to Jan. 01/'17)	
('000 mt)	Terminal			Dom. Disappearance
	Prod. Dhvrs.	Rcpts.	Bulk exports	
Week 20 & 21	515.4	279.3	214.5	68.7
Week ago	363.6	275.5	242.9	54.6
YTD	7,300.1	8,305.1	5,809.9	1,276.9
Last YTD	8,386.7	8,190.8	7,350.7	1,474.9
YTD less Last YTD (k mt)	-1,086.6	114.3	-1,540.8	-198.0
YTD over Last YTD (%)	87%	101%	79%	87%

(CGC) Grain Handling Summary Durum			Week 20 & 21 (to Jan. 01/'17)	
('000 mt)	Terminal			Dom. Disappearance
	Prod. Dhvrs.	Rcpts.	Bulk exports	
Week 20 & 21	162.3	120.2	58.1	1.9
Week ago	118.9	126.5	180.5	7.9
YTD	2,082.7	2,379.9	1,607.8	128.2
Last YTD	2,319.0	3,029.8	1,828.6	178.0
YTD less Last YTD (k mt)	-236.3	-649.9	-220.8	-49.8
YTD over Last YTD (%)	90%	79%	88%	72%

Mercantile based on weekly CGC Handling Data

Wheat Market Outlook:

- Significant events this past week:
 - **Futures:** Despite poor export sales, US wheat futures rose by 15¢/bu during the first week of 2017 to their highest level since mid-November. The weaker US\$ and sharp declines in crop conditions were the underlying reasons.
 - On Friday, Wheat futures settled mixed on Friday with Minneapolis 2 1/2 cents higher. Chicago March futures were 3.74% higher than a week ago, up 15 1/4 cents, with Kansa City up 15 cents from last Friday a 3.58% increase. Minneapolis futures finished 14 3/4 cents higher on the week.
 - **US Weekly Export Sales Report:** The USDA announced an export sale of 100,000 mt of HRW to unknown destinations for the 2016/17 marketing year (MY). Weekly wheat export sales through December 29 were lower than expected at 183,671 MT, only 32.3% of the previous week's sales, *but 140% larger versus the same week in 2015*. Shipments

were 11.6% smaller than the previous week, *but were 55.2% larger than the same week last year.*

- **EU:** Temperatures were much below normal and this is an issue due to the lack of snow cover. A shift in the jet stream brought polar air into central Europe, the Balkans and western Ukraine with extreme cold and some heavy snow, which is expected to continue for at least a week.
- **Australian** weather looked much wetter late last week, but harvest is close to done. Australian wheat futures were slightly higher Friday morning and made their highest weekly close in two months.
- The **Black Sea** wheat market was extremely quiet with very few participants and just one trade reported for Russian 12.5 pro at US\$183.50/mt.
- **Argentine wheat:** Rain will continue to haunt southern Brazil and central Argentina, but northern Argentina should see some respite. The south however remains dry and some extreme heat sits over Paraguay and much of Argentina.
- Meanwhile, Argentine FOB values were virtually unchanged and the Buenos Aires Grain Exchange (BAGE) put the harvest at 95% complete with production so far at 14.2 million mt and a total crop projection of 15 million mt.
- According to Informa (a US analyst Co.), Argentine wheat production is projected to be at 15 million mt, up 2 million mt from their previous estimate of 13 million mt.
- **North Africa/ Middle East:** The eastern Maghreb continues to experience showers, while the Middle East remains completely dry.
- **Egypt:** While no details were announced, Egypt's Government will now pay domestic new crop wheat at a "world price" linked to the GASC tenders, rather than a fixed price as was previously expected.
- **Funds:** As of Tuesday, Dec. 27, managed money accounts were shown continuing to add to their net long in KC wheat with the position growing by more than 25% week over week.
- **Exchange rates:** Currencies continue to be volatile thus affecting domestic prices of exporting countries and the buying power of importers. The *Russian Ruble* hit 18-month highs, the *Turkish Lira* hit more all-time lows, and the *Egyptian Pound* was stable.

➤ **Outlook:**

- We have a fairly neutral attitude towards the wheat market right now. On the one hand, big wheat stocks and expanding acres are keeping a ceiling on the market, while weather, changes in Fund positions and shorts create a floor to the market.

Forward cash markets will be driven by:

- Weather: Cold temperatures in Europe and rain in South America
- Fund buying of wheat contracts. (Fund Specs bought 2 million mt of wheat last week; it seems that the Spec is liquidating their wheat and oilseed positions)
- Finish to the south America wheat harvest: Final tonnage and quality
- On January 12th the USDA will release a series of major reports with the regular monthly supply and demand report, quarterly stocks, and winter wheat planted acreage.

- **We do not expect wheat prices to improve too much in 2017, but there will be short-term rallies that should prove profitable. This signifies producers should be selling into price increases and ensure to make incremental sales as the price goes up.**

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 8, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '17 (bu.)	Mch.'17 (mt)
1 CWRS 13.5	\$6.47	\$237.73	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$7.97	\$292.85	1 CWAD 13.0	\$8.23	\$302.40
1 CPSR 11.5	\$4.58	\$168.29	1 CPSR 11.5	\$4.74	\$174.17
SW Sask			SW Sask		
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	\$6.59	\$242.14
1 CWAD 13.0	\$7.95	\$292.11	1 CWAD 13.0	\$8.17	\$300.20
1 CPSR 11.5	\$4.48	\$164.61	1 CPSR 11.5	\$4.65	\$170.86
NE Sask			NE Sask		
1 CWRS 13.5	\$6.25	\$229.65	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.83	\$287.71	1 CWAD 13.0	\$7.98	\$293.22
1 CPSR 11.5	\$4.35	\$159.84	1 CPSR 11.5	\$4.35	\$159.84
SE Sask			SE Sask		
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.85	\$288.44	1 CWAD 13.0	\$7.99	\$293.58
1 CPSR 11.5	\$4.28	\$157.26	1 CPSR 11.5	\$4.45	\$163.51

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 Wheat); CPS (Canada Prairie Spring Wheat); CWAD (Canadian Western Amber Durum Wheat)
- Hard wheat price calculations:

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."

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				Jan. 8, 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	\$332.51	\$311.12		
HRS	\$325.22			
HRW 11.5	\$259.11			
SWW 12.0	\$230.42			
1 CWRS 13.5 ³	\$332.51		\$231.85	\$100.66
2 CWRS 13.0 ³	\$325.22		\$211.28	\$113.94
3 CWRS ³	\$259.11		\$199.89	\$59.22
CPS ³	\$223.62		\$166.45	\$57.17
1 CWAD ⁴		\$405.92	\$296.16	\$109.76
Competing wheat:		US\$/mt		
Russia 12.5 (Black Sea, 25k mt)		\$181.00		
French 11.0 (Rouen)		\$190.31		
ASW 10.5 (W Coast) Jan.		\$187.00		
Argentine 12.0		\$172-177		

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					Jan. 8, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$8.86	\$8.67	\$6.87	\$6.09	\$6.09
Parity Track Rosetown	\$7.37	\$7.17	\$5.37	\$4.59	\$4.59
Track Bid Rosetown Area	\$6.31	\$5.75	\$5.44	\$4.53	\$4.53
Gross Margin at Elevator (\$/bu)*	\$1.06	\$1.42	-\$0.07	\$0.06	\$0.06
Gross Margin at Elevator (\$/mt)*	\$38.87	\$52.15	-\$2.57	\$2.18	\$2.18

* to cover elevation, elevator market risk, margin