Wheat Market Outlook and Price Report: March 6, 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 March 6, 2017

2016/'17 World Wheat Overview:

- **Global Wheat Production Summary, E2015/16 – F2016/17 (AMIS[1] data):**

in million tonnes

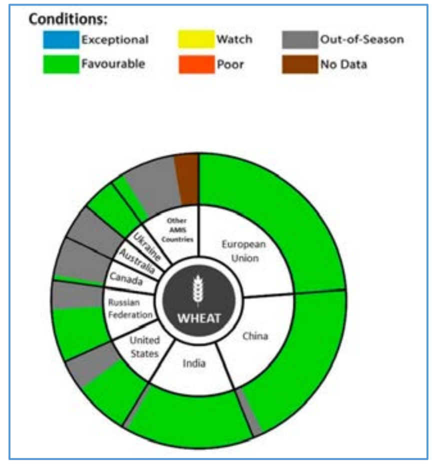
WHEAT	FAO-AMIS			USDA		IGC	
	2015/16 est.	2016/17 f'cast 2-Feb	2016/17 f'cast 2-Mar	2015/16 est.	2016/17 f'cast 9-Feb	2015/16 est.	2016/17 f'cast 23-Feb
Production	735	758	758	736	748	737	752
Supply	947	984	983	953	989	941	974
Utilization	714	736	739	712	740	720	738
Trade	167	171	172	173	179	165	169
Stocks	225	245	240	241	249	221	236

- **Wheat output** estimate for 2016 remained unchanged from February at an all-time high. *Early prospects point to a decrease in global wheat production in 2017 but still an above-average crop.*
- **Utilization** for 2016/17 was raised by 2.4 million mt, mostly reflecting upward adjustment to post-harvest loss estimates for the 2016 wheat crop in India.

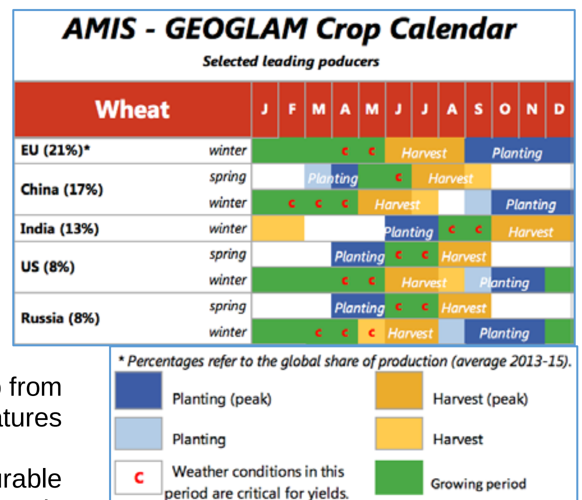
[1] Agricultural Market Information System (AMIS).

- **Trade** forecast for 2016/17 (July/June) was lifted slightly on upward adjustments to projected imports by Bangladesh and Viet Nam.
- **Stocks** (ending in 2017) were lowered by 5.4 million mt, mostly reflecting this month's downward adjustments in India and the US.

Wheat crop Conditions:



- The season is complete in the southern hemisphere. In the northern hemisphere, winter wheat is still in dormancy in most countries (with a notable exception of India) and conditions are generally favourable at this early stage of the season. Spring weather conditions will largely determine production prospects. In the US, planted area is significantly down.
- Overall winter crop conditions are favourable in the northern hemisphere at this early stage of the season and the crop is expected to break dormancy next month in most countries.
- In the **EU**, overall conditions are favourable with only limited frost damage reported despite widespread cold temperatures.
- In the **US**, conditions are favourable with warmer than usual temperatures, however planted area is down near a 100-year low.



- In **China**, winter wheat is under favourable conditions. In **India**, winter wheat is mostly in late vegetative to reproductive stages under good conditions with favourable production prospects.
- In the **Russian Federation**, conditions are favourable with adequate snow cover providing protection from low temperatures.
- Similarly, in **Ukraine**, winter wheat is under generally favourable conditions with sufficient snow cover to protect the crop from the severe frosts and the very low temperatures experienced in February.
- In **Canada,** winter wheat is under favourable conditions with some minor areas currently affected by either winter-kill or spring flooding.

Global wheat and trade:

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

Canadian wheat:

- Canadian wheat exports during shipping week 30 were quite excellent at 362k mt for the week. YTD exports total to 7.6 million mt, which still is 20% or 1.9 million mt lower than last year-to-date.
- *Durum exports* during week 30 amounted to 118k mt and 2.4 million mt year-to-date. This is 15% or 432k mt lower than last year-to-date.

US wheat:

- US inspections were 538k mt (season total 695 million bu up 28%), sales were 353k mt for a season total 909 million bu, up 37% from last year (USDA projected up 32%).
- US wheat saw a week of mixed and very limited input. There was spill over volatility from the corn and bean markets on the biofuel confusion, and the size of GASC purchases had the market wondering if the pace would continue. There was some focus on the expanding dryness in the Plains given the projected record low US wheat acres.

Black Sea:

- In the Black Sea, nearby Russian 12.5 protein wheat ended around US$192/mt with 11.5 protein around US$186/mt whilst feed was US$177/mt fob. New crop 12.5 protein wheat was priced at US$175-180/mt.

EU:

- Wheat on the Matif futures exchange wheat began the week lower on a much improved (wetter) EU weather outlook, but then progressively rose to season highs Thursday, *mostly due to the GASC purchase of French wheat*. At US$197/mt FOB [see table below], French was the cheapest Fob offer to GASC and just US$4/mt over the nominal replacement for French 'standard' wheat, but most traders did not expect it to work given the freight spreads. However, GASC took 2 French cargoes, and with 1.25 million mt purchased in just 2 weeks, the debate over whether or not this would continue flourished.
- As part of the Economic Partnership Agreement between the European Union and the Southern African Development Community (SADC), duty-free tariff quota access was granted for 300 000 tonnes of European wheat into members of the Southern African Customs Union (SACU). Tariff quota imports started on 1 February will run until 30 November 2017, and are being channeled through designated South African and Namibian ports of entry.

India:

- On 15 February, the Ministry of Consumer Affairs, Food and Public Distribution of India established a wheat procurement target of 33 million mt to be met by the Food Corporation of India during the 2017- 18 Rabi marketing year, which represents a substantial increase to replenish public stocks compared to the 22.96 million mt set for the previous year.
- **Argentina**: Argentine Fob wheat markets were again little changed, with base price offers at US$190/mt for 12 protein for March shipment, plus US$5/mt per month less US$5/mt per half %age of protein.
- **Brazil:**
- The Bank of Brazil will provide financial support to wheat producers from the Southern provinces, which incurred debts from the 2016/2017 wheat crop. The loan repayment is due within six months and the interest rate is set at 8.75 percent per annum, similar to the rural credit scheme.
- **Australia:** Australian Fob wheat prices rose by US$3-6/mt with futures up A$3/mt as domestic consumers began pushing prices higher and the market talked increasingly about heat, dryness and El Nino. However, in reality their 35 million mt crop provides a significant cushion for any weather issues.

Significant purchases:

GASC Wheat Purchases Feb. 28//'17

Tonnage ('000 mt)	Origin	FOB Px	Ocean Freight	US$ C&F Px
60	Russia	$197.80	$10.85	$208.65
60	Russia	$197.89	$11.40	$209.29
60	Russia	$198.85	$11.24	$210.09
60	Russia	$198.70	$11.64	$210.34
60	France	$197.00	$14.12	$211.12
55	Russia	$198.75	$12.90	$211.65
60	Romania	$200.50	$11.25	$211.75
60	Ukraine	$199.50	$13.00	$212.50
60	France	$199.00	$14.12	$213.12
535k mt				

- **Egypt:** GASC (Egyptian buying agency) bought 535k mt at US$209-213/mt (a 15-month high value). This was the biggest GASC purchase in over 3 years and their first purchase of French wheat in 13 months. Egypt bought 120,000 mt of Romanian wheat, 235,000 of Russian, 120,000 French and 60,000 mt of Ukrainian wheat. The purchase is for April 1-10/'17 shipment. *U.S. hard red winter wheat was offered at a competitive price, but the higher freight cost from the U.S. put it out of contention*.

Wheat Market Outlook:

- Significant events this past week:
  - **Futures:** Chicago futures closed a little higher while Minneapolis wheat was 3 to 5 cents lower. Fund buying was noted in the SRW wheat where the May contract settled at the 20-day moving average. Kansas City (HRW) for May rose a little to finish above key moving averages, while Minneapolis spring wheat for May dropped to a one-month low and below the 20- and 50-day averages.
  - **Iran:** Iran talked of exporting 3 million mt of flour from 9 million mt of wheat stocks, but such stocks look implausible at the end of their season.
  - **India:** India could impose a 25% import tax on wheat by the middle of March, reinstating the tariff after a gap of nearly three months in response to recent large purchases from overseas. India, the world's second-biggest wheat producer, lowered the import tax on the grain to 10 percent from 25 percent in September 2016 and scrapped the duty on Dec. 8 last year.
  - **Turkey** tenders March 8 for 130k mt of EU wheat for shipment March 15-25/'17.

- *Outlook:*
  Wheat markets require caution. Several developments make this market interesting:

  - **EU supplies** are running low just as Egypt (GASC) seems prepared to pay a premium for French wheat.
    - But for next crop year, the **European Commission** pegged its first forecast for usable soft wheat production in the EU for 2017/18 at 143.0 million mt. This would be a *6.5% increase* from the current season, although some 800,000 mt behind early estimates from Stratégie Grain. (This rebound is mainly due to French wheat production returning to normal levels, with the EU Commission calling for a 26% increase in production for France.)
    - The EU Commission forecast combined soft wheat and **durum** planted area at 26.3m hectares, down 1.8% year on year.
  - **Algeria** and **Saudi Arabia** are expected to return to the market for EU (German) and Baltic old crop wheat.
  - No one wants to short **Russian wheat**, because their farmers are still firm holders of their wheat.
  - Further **GASC purchases** will drive Russian prices for the rest of the season.
  - In the **USA**,
    - the Plains are reported to be dry,
    - seeded winter wheat acreage is at a record low this year (down by 3.2 million acres this year), and
    - wheat remains the one commodity where **funds** are still short.

- *Of all the markets, there seem to be more positive views on wheat. Markets should be a little firmer this week as the Funds continue to cover their wheat futures short, which we think is a selling opportunity.*
- *We think Minneapolis Dec wheat at $5.75+ a bushels is a good sale. We also like long Kansas City Dec against short Nov soybeans.*

- ***As a rule of thumb, we can consider minimum wheat values to be about $200 USFMT FOB; that's C$268/mt FOB Vancouver/St. Lawrence. This is not a bad price.***

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: 6-Mar-17

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '17 (bu.)	May '17 (mt)
1 CWRS 13.5	$6.37	$234.06	1 CWRS 13.5	$6.49	$238.47
1 CWAD 13.0	$7.15	$262.72	1 CWAD 13.0	$7.23	$265.66
1 CPSR 11.5	$4.85	$178.21	1 CPSR 11.5	$5.01	$184.09
SW Sask			SW Sask		
1 CWRS 13.5	$6.40	$235.16	1 CWRS 13.5	$6.52	$239.57
1 CWAD 13.0	$7.21	$264.92	1 CWAD 13.0	$7.28	$267.50
1 CPSR 11.5	$4.80	$176.37	1 CPSR 11.5	$4.92	$180.78
NE Sask			NE Sask		
1 CWRS 13.5	$6.24	$229.28	1 CWRS 13.5	$6.39	$234.79
1 CWAD 13.0	$7.18	$263.82	1 CWAD 13.0	$7.20	$264.56
1 CPSR 11.5	$4.58	$168.29	1 CPSR 11.5	$4.76	$174.90
SE Sask			SE Sask		
1 CWRS 13.5	$6.30	$231.49	1 CWRS 13.5	$6.44	$236.63
1 CWAD 13.0	$7.18	$263.82	1 CWAD 13.0	$7.21	$264.92
1 CPSR 11.5	$4.63	$170.12	1 CPSR 11.5	$4.77	$175.27

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 Basis[2] (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:

[2] 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."

- 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

Releveant FOB Prices and Export Basis				Mch. 06, 2017
	FOB Prices CDA[1] (calculated)		Street Prices	Export Basis[2]
Type of Wheat	West Coast (Cdn./mt$)	Great Lakes (Cdn.$/mt)	Rosetown (Cdn.$/mt)	Basis: West Coast-Centr. SK (Cdn$/mt)
DNS 14.0	$341.87	$311.33		
HRS	$334.48			
HRW 11.5	$277.83			
SWW 12.0	$248.28			
1 CWRS 13.5[3]	$341.87		$231.49	$110.39
2 CWRS 13.0[3]	$334.48		$214.95	$119.53
3 CWRS[3]	$277.83		$199.52	$78.31
CPS[3]	$241.38		$167.55	$73.83
1 CWAD[4]		$411.33	$263.82	$147.51
Competing wheat:	US$/mt			
Russia 12.5 (Black Sea, 25k mt)	$192.00			
French 11.0 (Rouen)	$192.10			
ASW 10.5 (W Coast)	$195.00			
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					Mch. 06, 2017
Canadian Funds			**Grade**		
PNW value/Vancouver	**1CWRS13.5**	**2CWRS**	**3CWRS**	**Winter wht.**	**CPS**
Dec./Jan. delivery	$9.12	$8.92	$7.37	$6.57	$6.57
Parity Track Rosetown	$7.62	$7.42	$5.88	$5.07	$5.07
Track Bid Rosetown Area	$6.30	$5.85	$5.43	$4.56	$4.56
Gross Margin at Elevator ($/bu)*	**$1.32**	**$1.57**	**$0.45**	**$0.51**	**$0.51**
Gross Margin at Elevator ($/mt)*	**$48.50**	**$57.65**	**$16.43**	**$18.84**	**$18.84**

* to cover elevation, elevator market risk, margin