

Wheat Market Outlook and Price Report: March 13, 2017

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

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 13, 2017

2016/17 Canadian Wheat Overview:

➤ **Global Wheat Production Summary, March WASDE¹ Report:**

- Global **wheat production** increased by 2.8 million mt to 751.1 million mt, mainly due to larger crops in Argentina and Australia. Australia's 2016/17 wheat production was raised 2.0 million mt to a record-large 35.0 million mt.
- **Projected exports** were increased for both Australia and Argentina on their larger supplies, *while Canada's exports were reduced on a sluggish export pace.*
- **Global imports** were raised this month led by India, which was raised 1.8 million mt to 5.5 million mt. This would be the largest wheat import total for India since 2006/07; India stocks have successively declined since 2012/13.
- *Despite higher projected global use, driven by India, 2016/17 **global ending** stocks were increased by 1.3 million mt to 249.9 million mt.*

¹ World Agricultural Supply and Demand Estimates, USDA

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 31 were quite good. They amounted to 258k mt for the week and to 7.9 million mt year-to-date. This is still 20% or 2 million mt lower than last year-to-date.
- *Durum exports* during week 31 amounted to 48k mt and 2.5 million mt year-to-date. This is 15% or 423k mt lower than last year-to-date.

US wheat:

- US export sales were 392k mt for a season total 922 million bu, *up 37% on last year* against USDA's unchanged 32% increase.
- US wheat inspections were 536k mt for a season total 715 million bu, up 27% over last year.
- According to the USDA report March 9: U.S. wheat imports for 2016/17 are *reduced* this month by 10 million bushels to 115 million. Ending stocks are projected lower by the same amount to 1,129 million bushels. The season-average farm price is unchanged with the midpoint of the range at \$3.85/bushel.
- Apart from lowering imports by 10 million bu, which in turn took 10 million bu out of the stock number, USDA left the US wheat S&D unchanged. However, **because the bulk of the stock decline was in HRS**, Minneapolis futures managed to stay in the green, while Kansas City wheat (HRW) and Chicago wheat (SRW) closed lower. Specifically, USDA ending stocks estimates shrank 8 million bu for HRS (March 9 report), 5 million bu for SRW, and 1 million bu for HRW, while White wheat ending stocks were estimated 4 million bu larger.

EU:

- Weekly EU wheat shipments were 235k mt for a season soft wheat total 16.5 million mt, down 14% or 2.5 million mt on last year.

India:

- USDA raised Indian wheat imports by 2 million mt to 5.5 million mt (recall that when comparing USDA with official Indian numbers, India's 2016/17 year refers to plantings in 2016 and harvest in 2017).
- **Argentina:** Argentine Fob wheat values were little changed but ill-defined with no 12% protein offers declared prior to July. The Argentine domestic market was slightly lower and while farmers think the prices are low, they continue to sell.
- USDA raised the Argentine wheat crop by 1 million mt March 9th to 16 million mt. (USDA did not completely follow the Agriculture Ministry's 18.3 million mt figure released last week).
- **Australia:** USDA also raised the Australian crop by 2 million mt to 35 million mt. This is a record and is in line with ABARES' numbers. The combined Australian/Argentine crop is up by 15 million mt or 41% on last year, and these are exporters who do not particularly like holding stocks.

(CGC) Grain Handling Summary Wheat		Week 31			(to Mch. 5/17)
('000 mt)	Terminal		Bulk exports	Dom.	Disappearance
	Prod. Divrs.	Rcpts.			
Week 31	419.4	233.9	258.1		57.5
Week ago	298.4	256.3	362.3		59.5
YTD	10,498.8	10,306.9	7,872.3		1,745.8
Last YTD	11,808.8	10,457.7	9,865.9		2,040.1
YTD less Last YTD (k mt)	-1,310.0	-150.8	-1,993.6		-294.3
YTD over Last YTD (%)	89%	99%	80%		86%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum		Week 31			(to Mch. 5/17)
('000 mt)	Terminal		Bulk exports	Dom.	Disappearance
	Prod. Divrs.	Rcpts.			
Week 31	81.7	41.1	48.2		7.4
Week ago	47.8	73.6	118.2		5.4
YTD	2,940.4	3,278.3	2,480.8		197.8
Last YTD	3,308.1	4,007.4	2,903.3		253.7
YTD less Last YTD (k mt)	-367.7	-729.1	-422.5		-55.9
YTD over Last YTD (%)	89%	82%	85%		78%

Mercantile based on weekly CGC Handling Data

Significant purchases: It was a big week for wheat trade; a total of 1.5 million mt of wheat were bought/tendered for:

- **Egypt:** Egypt rejected two cargoes of Russian wheat and one cargo of Argentine wheat this week at the points of origin, presumably for quality issues.
- **Turkey** bought 130,000 mt EU 14 protein wheat at US\$222-234/mt (lira equivalent) for March 15-25 shipment.
- **Jordan** bought 100,000 mt FH Aug at US\$203/mt.
- The **Philippines** bought 165,000 mt May-July feed wheat at \$207-208/mt.
- **Korea** bought 65,000 mkt June feed wheat at US\$206/mt.
- **Tunisia** bought 75,000 mt of optional-origin milling wheat at an average US\$205.49/mt C&F for April/May shipment.
- Results are awaited on **Saudi Arabia's** tender to buy 720,000 mt of optional-origin wheat for May to July arrival. The tender deadline was Friday.
- **Libya** extended the deadline for offers in its wheat, durum and corn tender to the end of March. It seeks 100,000 mt of wheat, 50,000 mt of durum and 75,000 mt of corn for April-May shipment.

Local Marketing Years:			
Wheat	Corn	Barley	Sorghum
Argentina (Dec/Nov)	Argentina (Mar/Feb)	Australia (Nov/Oct)	Argentina (Mar/Feb)
Australia (Oct/Sep)	Brazil (Mar/Feb)	Canada (Aug/Jul)	Australia (Mar/Feb)
Canada (Aug/Jul)	China (Oct/Sep)	European Union (Jul/Jun)	United States (Sep/Aug)
China (Jul/Jun)	South Africa (May/Apr)	Russia (Jul/Jun)	
European Union (Jul/Jun)	United States (Sep/Aug)	Ukraine (Jul/Jun)	
India (Apr/Mar)		United States (Jun/May)	
Kazakhstan (Jul/Jun)			
Russia (Jul/Jun)			
Turkey (Jun/May)			
Ukraine (Jul/Jun)			
United States (Jun/May)			

Local Marketing Years (LMY): LMY refers to the 12-month period at the onset of the main harvest, when the crop is marketed (i.e., consumed, traded, or stored). The year first listed begins a country's LMY for that commodity (2015/16 starts in 2015); except for summer grains in certain Southern Hemisphere countries and for rice in selected countries, where the second year begins the LMY (2015/16 starts in 2016).

Wheat Market Outlook:

- Significant events this past week:
 - **Futures:** Chicago's May soft red winter wheat closed down 3-1/2 cents at \$4.40-1/2/ bu and July down 3-1/2 at \$4.56-1/4/bu. Kansas City's May hard red winter dropped 7c/bu to \$4.55-1/2/bu, and July dropped 6-3/4 to \$4.67-1/2/bu. Spring wheat for May slipped ¼ to \$5.38-1/2 and July down ½ at \$5.45-3/4.
 - **Australia:** Australian farmers became reluctant sellers following ABARES' low 2017/18 crop number of just 24 million mt (down 32% from the current crop year) which pushed futures to 15-week highs, although seeding is still 6 weeks away.
 - **Russia:** The Rouble broke to 4-week lows on renewed losses in crude oil. And there were signs of the Russian wheat market breaking with it: April 12.5 protein was offered down US\$2/mt at US\$192/mt with a \$3/mt discount per month going forward, and it was not clear where the bids were. However, the Russian new crop bid-offer spreads were unchanged which suggests that the market was finally starting to recognise a scenario of near record stocks by selling the inverse. At the same time, the return of Saudi Arabia and Tunisia to the market and Turkey's purchase Friday supported EU futures.
 - **Argentina:** Argentina was largely considered to be the only other major supplier of good-quality milling hard wheat outside of North America. They had a lot of quality due to heavy rains during the growing season and harvest, and now it looks like they have moved most

of their good quality wheat to Brazil (per their trade agreement) and do not have a lot of quality wheat to offer to the world market.

- **China:** According to a Reuters report, Chinese wheat imports are expected to rise to 4.5 million mt in the year to June 2017, up from 3.48 million mt previously. This is due lower production and a demand boost due to the poor quality of the domestic crop. Wheat production in China, the world's top consumer of the grain, is estimated to decline to 129 million mt during the year from 130.19 million in the prior period. There is demand for quality wheat as the local crop has more feed grade than normal. Therefore, higher imports than the USDA forecast are expected. USDA has estimated China's wheat imports during the year at 4 million mt.
- **Outlook:**
- Given the WASDE report last week, world wheat stocks are up by over 1 million mt on the month, by 10 million mt on the year and by 55 million mt since the start of the 2014/15 season. Production increases continue to exceed demand increases and without a major weather issue, bull markets in wheat will remain tough to create. However, HRS stock in the US continued to decline, suggesting that there is a divide between hard wheat and soft wheat stocks.
 - **US Hard red winter wheat** across the southern and central Plains is off to a rough start because much-above-normal temperatures brought the crop out of dormancy very early, and dry and windy conditions are adding to the stress level. The only thing keeping Kansas City wheat prices in check is a forecast for rains starting around March 20th. Those rains are needed, and the crop will be damaged last long if they do not materialize.
 - **Argentine** Fob prices for wheat rose by US\$3/mt and from being the world's cheapest wheat a few weeks ago, Argentine 12 protein wheat is now only surpassed by HRW 11.5 and 12 protein wheat (excluding spring wheat). It has picked up business into Egypt and Algeria despite the freight spreads.
 - **EU:** There will likely be increased competition again from EU wheat crops this year.
- Overall, production increases continue to exceed demand increases.
 - Without a major weather issue, bull markets in wheat will remain difficult to develop in spite of the fact that the Plains and Western FSU remain dry.
 - Australia is concerned about its 2017/18 crop (which isn't even seeded yet).
 - The Funds increased their short, but both the Northern and Southern Hemispheres have significant cushions of old crop stocks and it still looks like it will take a much more significant weather issue to turn this market around.
 - **Short term, expect futures to stay reasonably strong while there seems to be good cash demand and a lack of cheap offers from the FSU.**
 - **Longer term, we see wheat following corn lower while weather remains benign and we get closer to the European new crop harvest. It should be kept in mind that, given Minneapolis December futures and cash premiums in the PNW, the December value of PNW/Vancouver No. 2 CWRS is equal to C\$9.03 per bushel at the coast.**

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: 13-Mar-17

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '17 (bu.)	May '17 (mt)
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	\$6.45	\$237.00
1 CWAD 13.0	\$7.15	\$262.72	1 CWAD 13.0	\$7.23	\$265.66
1 CPSR 11.5	\$4.68	\$171.96	1 CPSR 11.5	\$4.84	\$177.84
SW Sask			SW Sask		
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.21	\$264.92	1 CWAD 13.0	\$7.29	\$267.86
1 CPSR 11.5	\$4.63	\$170.12	1 CPSR 11.5	\$4.75	\$174.53
NE Sask			NE Sask		
1 CWRS 13.5	\$6.21	\$228.18	1 CWRS 13.5	\$6.34	\$232.96
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.20	\$264.56
1 CPSR 11.5	\$4.40	\$161.67	1 CPSR 11.5	\$4.59	\$168.65
SE Sask			SE Sask		
1 CWRS 13.5	\$6.23	\$228.92	1 CWRS 13.5	\$6.35	\$233.32
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.22	\$265.29
1 CPSR 11.5	\$4.46	\$163.88	1 CPSR 11.5	\$4.60	\$169.02

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 Basis² (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:

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."

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				Mch. 13, 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	\$336.48	\$307.87		
HRS	\$328.59			
HRW 11.5	\$263.95			
SWW 12.0	\$244.71			
1 CWRS 13.5 ³	\$336.48		\$231.85	\$104.63
2 CWRS 13.0 ³	\$328.59		\$215.32	\$113.27
3 CWRS ³	\$263.95		\$192.54	\$71.42
CPS ³	\$237.81		\$154.32	\$83.48
1 CWAD ⁴		\$411.97	\$263.82	\$148.15
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$191.00			
French 11.0 (Rouen)	\$193.03			
ASW 10.5 (W Coast)	\$195.00			
Argentine 12.0	\$188-\$198.00			

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. 13, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$8.97	\$8.75	\$7.00	\$6.47	\$6.47
Parity Track Rosetown	\$7.47	\$7.26	\$5.50	\$4.98	\$4.98
Track Bid Rosetown Area	\$6.31	\$5.86	\$5.24	\$4.20	\$4.20
Gross Margin at Elevator (\$/bu)*	\$1.16	\$1.40	\$0.26	\$0.78	\$0.78
Gross Margin at Elevator (\$/mt)*	\$42.73	\$51.37	\$9.52	\$28.50	\$28.50
* to cover elevation, elevator market risk, margin					