

Wheat Market Outlook and Price Report: April 24, 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 April 24, 2017

Statistics Canada 2017 Preliminary Acreage Report

Statistics Canada Field Crop Reporting Series - 3401		Seeded Acres - Wheat							
Geography	Type of crop	2013	2014	2015	2016	2017	% of 1st yr.	Δ in acres	
Canada	Wheat, durum (2)	4,965,000	4,750,000	5,820,000	6,190,000	5,145,000	83.1%	(1,045,000)	
Canada	Wheat, spring (2,34)	19,042,600	17,414,300	17,012,900	15,404,300	16,664,200	108.2%	1,259,900	
Canada	Wheat, winter remaining (2,7,31)	2,007,800	1,700,300	1,278,000	1,617,600	1,372,500	84.8%	(245,100)	
Canada	Wheat, winter seeded in previous fall	2,249,000	2,029,700	1,385,400	1,683,500	1,475,000	87.6%	(208,500)	
Canada	Total Wheat	28,264,400	25,894,300	25,496,300	24,895,400	24,656,700	99.0%	(238,700)	
Prairie provinces									
							100.0%	100.0%	-

- Statistics Canada published their first report on expected seeded acreage by crop for 2017 last Friday (April 21/17).

- Nationally, Statistics Canada expects Canadian farmers to seed 23.2 million acres of all varieties of wheat in 2017. *Total wheat acreage is virtually unchanged from last year.*
- At 22.4 million acres (*virtually unchanged from last year*), Prairie producers are expected to seed 91% of the total Canadian wheat acreage.
- Alberta anticipates wheat acreage to be up 9% to 7.4 million acres, a possible record high, but less area is expected to be dedicated to durum, down 8.5% to 1.1 million acres.
- Saskatchewan farmers expect wheat area to decrease 2.5% to 12.1 million acres. This is due to an 18.8% drop in durum acres, to an anticipated area of 4.1 million acres. Spring wheat acreage is expected to increase by 9.1% to 7.5 million acres.
- Farmers in Manitoba intend to plant 2.8 million acres of wheat, down 9.6% from 2016.

Global wheat and trade:

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

Canadian wheat:

- During week 37, 304k mt of wheat (excl. durum) were delivered into the handling system. Canada loaded 275k mt for export; 9.5 million mt year-to-date. This is 20% or 2.3 million mt lower than last year-to-date.
- Per StatsCan on Friday, Canadian acreage seeded to spring wheat is forecast to increase by 8.2% (+1.3 million acres) to 16.7 million acres (from 15.4 million acres last year).
- Producers delivered 88k mt of *durum* into the handling system. Durum *exports* during week 37 amounted to 95k mt; 3 million mt year-to-date. This is 13% or 442k mt lower than last year-to-date.
- StatsCan forecasts total Canadian acreage seeded to durum to drop by 16.9% (-1 million acres) to 5.15 million acres (from 6.2 million acres in 2016). *This was higher than expected by the Canadian and international trade.*
- Agriculture and Agri-Food Canada (AAFC) raised their total Canadian wheat stocks estimate for the 2016/17 crop year to 7.3 million mt (5.2 million mt last crop year).
- Concern is growing in the trade that ongoing cold temperatures and snow could push seeding dates in Canada well beyond 'optimum' seeding dates.

US wheat:

- US wheat inspections were 672k mt (season total 851 million bu ,up 32%). Export wheat sales were 414k mt (season total 1,016 million bu, up 41% against USDA's 32% expected increase). Wheat sales continue to run above USDA projections.
- There was speculation that US HRS acreage will be less than expected this year due to higher soybean crop insurance. In addition, year to date HRS plantings were just 13% complete against 25% last year and 21% average. Remember that HRS is the only class of US wheat to see a decline in stocks this year, which will put increased focus on Canada where snow and excess moisture could cause significant delays in seeding.
- US winter wheat ratings were up another 1% to 54% Good to Excellent against 57% a year ago, and it remains ahead of normal with 19% headed against 11% last year and 13% average.

EU:

(CGC) Grain Handling Summary Wheat					Week 37	(to Apr. 16/17)
(000 mt)	Prod. Dlvs.	Terminal		Dom.		
		Rqpts.	Bulk exports	Disappearance		
Week 37	303.6	249.4	275.1		50.6	
Week ago	332.7	349.7	183.2		53.5	
YTD	12,663.0	11,949.9	9,510.9		2,112.5	
Last YTD	13,991.4	12,577.3	11,816.1		2,385.7	
YTD less Last YTD (k mt)	-1,328.4	-627.4	-2,305.2		-273.2	
YTD over Last YTD (%)	91%	95%	80%		89%	

Merchandise based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum					Week 37	(to Apr. 16/17)
(000 mt)	Prod. Dlvs.	Terminal		Dom.		
		Rqpts.	Bulk exports	Disappearance		
Week 37	87.9	140.0	94.5		3.0	
Week ago	110.8	123.4	104.9		4.5	
YTD	3,580.7	3,821.8	3,006.0		236.3	
Last YTD	3,758.6	4,690.0	3,447.8		296.4	
YTD less Last YTD (k mt)	-177.9	-868.2	-441.8		-60.1	
YTD over Last YTD (%)	95%	81%	87%		80%	

Merchandise based on weekly CGC Handling Data

- EU weekly soft wheat shipments were 346k mt for a season total 19.6 million mt, down 19%.
- France and the Iberian Peninsula remained dry, while central and eastern Europe was near normal precipitation with temperatures slightly below normal.

Significant purchases: Quiet market with few trades to report.

- **Korea** bought feed wheat for late August shipment at around US\$192.75 /mt; the price was US\$5.25/mt higher than last week's purchase.
- **Iraq** will try to buy wheat via direct contracts outside the tender system because of their failure to procure anything in recent tenders.
- It is now almost 6 weeks since the last Egyptian GASC tender for wheat.

Wheat Market Outlook:

➤ **Significant events this past week:**

- **Futures:** Kansas City and Chicago wheat futures fell sharply (contract lows in KC) whilst Minneapolis fared better on the planting/weather concerns for US and Canadian spring wheat.
- **Funds:** Spec funds added another 7,667 contracts to their net short position in Chicago Wheat Futures and options.
- **EU:** EU wheat futures closed down on a firm Euro, a wetter Black Sea forecast, weakening cash values in Russia and the lower CBOT.
- Consensus suggested that dryness in the west was a bigger concern than the cold in the east, and there is very little rain in the forecast. There are already some water restrictions in place in France, and concern will grow as we head into May.
- Conditions in the east, Balkans and Black Sea remain generally good however, and the real threat to France would be another year of a small crop compounded by low prices in the Black Sea. Cash premiums and port data suggests a continued improvement in shipments from the EU.
- **Argentina:** Argentine Fob values dipped by US\$3/mt with 12% protein offered for May at US\$190/mt plus US\$4/mt per month, but with bids \$5-8 lower. The 11.5% protein wheat discount remained unchanged at US\$10/mt with 11% protein a further US\$5/mt less. Farmer selling rose to 10.8 million mt against just 6 million mt last year.
- Bolsa De Cereales published their first estimate of new crop acreage at 5.5 million ha up 8% on this year, with a crop number of 17.5 million mt given normal weather. Soil moisture levels are good and new crop prices are favourable.
- **Australia:** Australian Fob values fell about US\$4/mt on the week and sowing has begun in both Western Australia and Queensland with recent rains providing generally good conditions.
- The US agriculture attaché for Australia lowered cereal exports to 22 million mt for 2016/17 and 18M in 2017/18. This means that wheat ending stocks in Australia will be greater than expected.
- **Russia:** The Black Sea was quiet with values nominally unchanged, although it remained tough to find a firm buyer in front of the US\$15/mt old crop-new crop inverse. New crop feed wheat was again the most traded item, ending the week with a bid-offer spread of

Fund Positions		
(as of Apr.21/'17)	million mt	Δ on the wk.
Spec Funds		
Wheat	-26.5	-3.0
(as of Apr.18/'17)		
Index Funds		
Wheat	19.3	-6.0

US\$159-164/mt. The harvest C&F shorts to both the EU and Asia have reached volumes which may be hard to cover.

- Midweek the Rouble traded below 56 against the US\$, its highest level since early July 2015.
- According to the US Ag attaché to Russia, the marketing year (MY) 2017/18 forecast for wheat production is 66 million mt, 9% (or 6.5 million mt) lower than last year, but still above the 5-year average of 56.5 million mt. Grain prices in the spring of 2017 are lower than in spring 2016, and continue to decline because of large carry-over stocks and stagnant domestic and foreign demand for grain. A rouble that is stronger than last year is also curbing grain exports from Russia. The decreasing grain prices may affect farmers' spring grains planting decisions.
- **Ukraine:** Wheat production in marketing year (MY) 2017/18 is forecast at 23.9 million mt, a decrease of about 11% from the previous season based on decreased winter crop area compared to the previous season, which is not expected to be offset by spring plantings. Exports of wheat in the new season are anticipated to reach 12.9 million mt, a 19% decrease compared to the previous MY.
- **Bangladesh:** In MY 2016/17, Bangladesh's wheat imports are estimated at 5.7 million mt, a 21% increase from MY 2015/16 due to record low prices in the international market and comparatively high prices in the local market.
- *Bangladesh's wheat imports for MY 2017/18 are forecast at 5.9 million tons* (1.35 million mt by the Government and 4.55 million mt through private commercial sales). The import forecast in MY 2017/18 is 3.5 percent higher than the previous year due to changing food consumption habits, fast urbanization, and expected lower prices in international markets. Bangladesh meets 75 percent of its wheat consumption needs through imports, sourcing lower quality wheat from Russia and Ukraine, and *higher quality wheat from Canada, Australia and the United States*. According to trade sources, during the current MY 2016/17 about 40 percent of wheat imported is sourced from Russia and 30 percent from Ukraine.
- **Vietnam:** The marketing year (MY) 2016/2017 wheat total consumption is estimated at 4.35 million mt, a considerable increase (1.675 million mt increase) compared to 2.675 million tons in MY 2015/2016. This is due mainly to the increase feed use of wheat, as feed wheat prices were competitive compared to corn in the international market.
- The MY 2017/2018 wheat consumption forecast remains high due to wheat prices, which are expected to still remain low due to larger crops in wheat producing countries in MY2016/2017. The increase in feed wheat consumption is reflective of the growth in the feed industry. At the same time, increase consumption for milling wheat is driven by the on-going demand for wheat based products in the fast food industry. The total consumption in MY 2017/2018 is smaller than in MY 2016/2017 due to smaller demand for feed wheat. The demand for milling wheat will see a slight increase.
- The increase of milling wheat use includes an increased use of top-quality wheat for higher quality wheat based products introduced by western food outlets. The demand is increasing steadily for U.S. wheat, which is considered as premium quality wheat.

➤ **Outlook:**

- There are some crop concerns developing:
 - Dryness across Western Europe
 - Late US/Canadian spring plantings
 - A potential high abandonment rate on US winter wheat (on a 100-year low acreage), and
 - A record fund short

- All come together just as the world's crops are moving into their prime growing/planting season. This likely means that downside looks limited to values from here until the crops are made. However, so far, there has been no spark to trigger fund short covering.

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: April 24, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '17 (bu.)	June '17 (mt)
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$6.88	\$252.80	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$4.20	\$154.32	1 CPSR 11.5	\$4.27	\$156.90
SW Sask			SW Sask		
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$7.00	\$257.21	1 CWAD 13.0	\$7.01	\$257.58
1 CPSR 11.5	\$4.19	\$153.96	1 CPSR 11.5	\$4.28	\$157.26
NE Sask			NE Sask		
1 CWRS 13.5	\$6.21	\$228.18	1 CWRS 13.5	\$6.19	\$227.45
1 CWAD 13.0	\$6.91	\$253.90	1 CWAD 13.0	\$6.94	\$255.00
1 CPSR 11.5	\$3.92	\$144.04	1 CPSR 11.5	\$3.92	\$144.04
SE Sask			SE Sask		
1 CWRS 13.5	\$6.19	\$227.45	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$6.94	\$255.00	1 CWAD 13.0	\$6.96	\$255.74
1 CPSR 11.5	\$3.99	\$146.61	1 CPSR 11.5	\$3.99	\$146.61

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.

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."

- 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.
 - 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				April 24, 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	\$333.09	\$300.82		
HRS	\$325.64			
HRW 11.5	\$243.74			
SWW 12.0	\$237.78			
1 CWRS 13.5 ³	\$333.09		\$228.92	\$104.17
2 CWRS 13.0 ³	\$325.64		\$212.38	\$113.26
3 CWRS ³	\$243.74		\$196.95	\$46.79
CPS ³	\$230.83		\$131.18	\$99.65
1 CWAD ⁴		\$382.23	\$256.47	\$125.76
Competing wheat:		US\$/mt		
Russia 12.5 (Black Sea, 25k mt)		\$187.00		
French 11.0 (Rouen)		\$182.86		
ASW 10.5 (W Coast)		\$186.00		
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						April 24, 2017
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$8.88	\$8.67	\$6.44	\$6.28	\$6.28	
Parity Track Rosetown	\$7.38	\$7.18	\$4.95	\$4.79	\$4.79	
Track Bid Rosetown Area	\$6.23	\$5.78	\$5.36	\$3.57	\$3.57	
Gross Margin at Elevator (\$/bu)*	\$1.15	\$1.40	-\$0.41	\$1.22	\$1.22	
Gross Margin at Elevator (\$/mt)*	\$42.24	\$51.33	-\$15.15	\$44.67	\$44.67	

* to cover elevation, elevator market risk, margin