

## Wheat Market Outlook and Price Report: May 15, 2017

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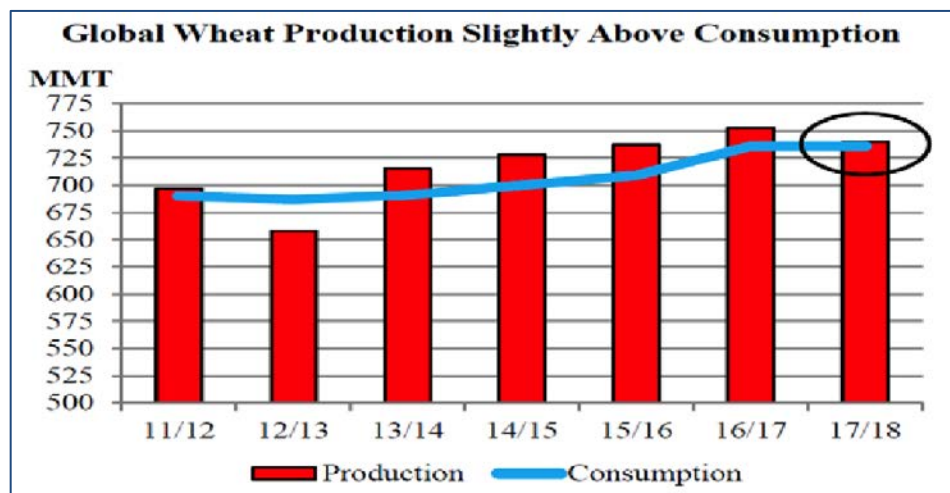
### **i) Background and Rationale for the Report**

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) Global Wheat Market Outlook May 15, 2017**

#### **2017/18 Crop World Wheat Supply-Demand Outlook Review (May USDA/ WASDE<sup>1</sup>)**

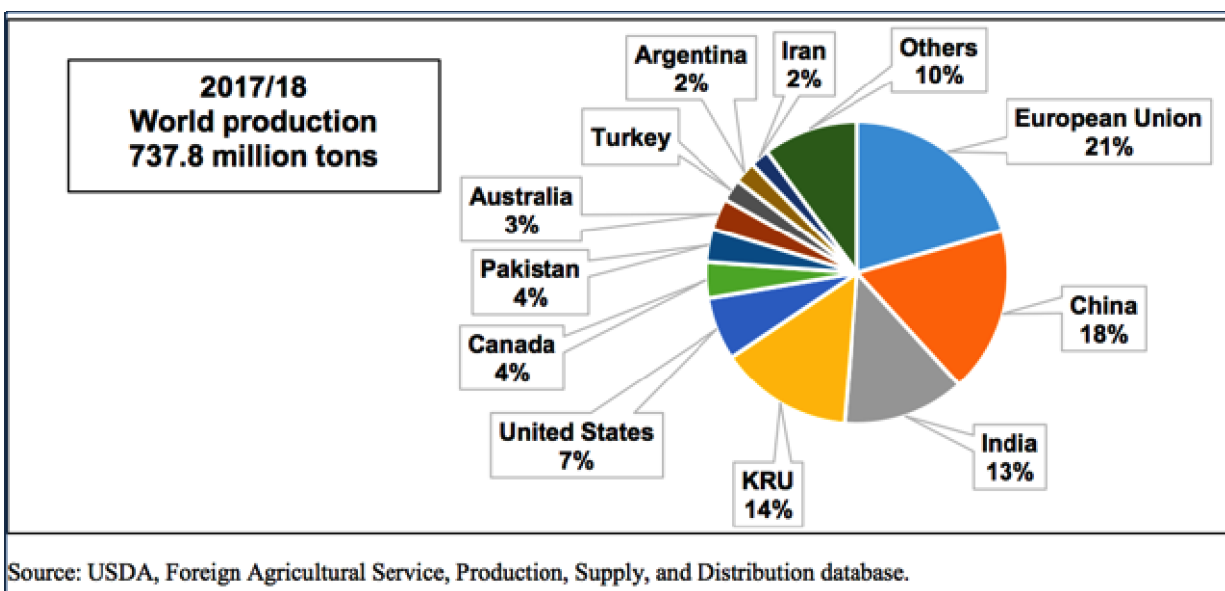


Source: USDA, May '17

- **World wheat Production:** USDA projects the 2017/18 world wheat production to drop to 737.8 million mt from last year's 753.1 million mt.
- **World wheat supply:** The 2017/18 world wheat supply is shown to drop only slightly to 993.2 million mt (995.51 million mt last year) due to the hefty carry-in this crop year of 255.35 million mt.

<sup>1</sup> World Agriculture Supply and Demand Estimate

- **Utilization:** A 5 million mt drop in world demand with demand for feed wheat down 9 million mt.
- **Trade:** There are major changes in the world export matrix compared to 2016/17: the US is projected down 1 million mt, Ukraine down 3.3 million mt, and Aussie down 5 million mt, while the EU is up 4 million mt, Canada up 2 million mt and Russia/Argentina both up 1 million mt.
- **2018 ending stocks:** Despite a 15 million mt drop in production, world stocks are forecast to rise to 258.29 million mt (from 255.35 million mt this crop year). *However, note that if you if you were to remove China from the equation, then ending stocks would actually be the lowest in four years. In addition, there is probably still much to report about the winter wheat crop in the US as we move forward in the crop year.*
- **Observation:** Excluding the Chinese and Indian wheat production, the remaining world production is down 30 million mt, stocks are down 15 million mt, and major exporter stocks are down 13 million mt. The markets do not show it, but without reaching trend yields, the world wheat market may be ill supplied next crop year.



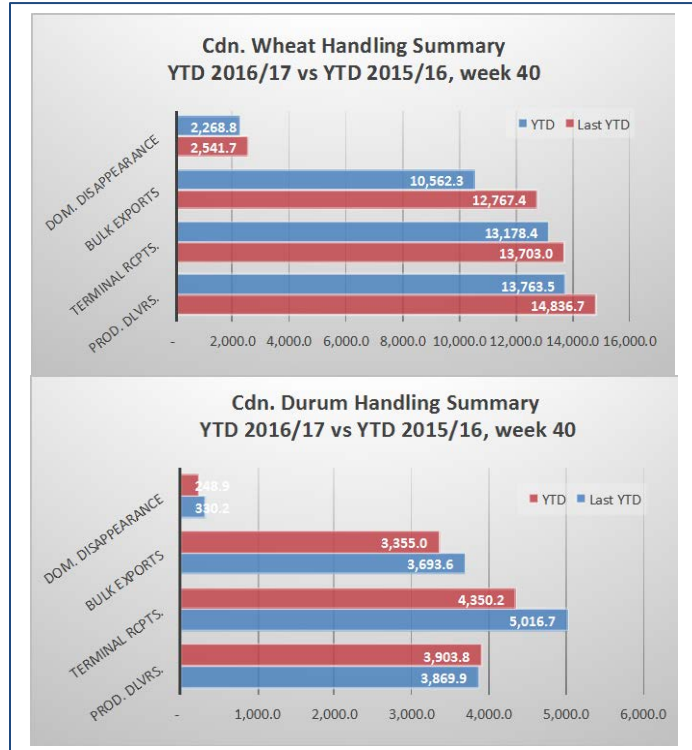
### Global wheat and trade:

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

#### Canadian wheat:

- According to the CGC, producers delivered 368,900 mt of wheat into the handling system, which is down from last week's 410,300 mt. Exports for week 40 were 306,300 mt, which is also down slightly from last week's 330,300 mt, and down 17% (-2.2 million mt) from last year's YTD exports.
- Elevator stocks are currently at 2,799,600 mt with 1,419,100 mt at primary elevators and most of the remaining inventory at port.
- The bulk of wheat inventory at port is located on the east coast with 319,400 mt at Thunder Bay, 492,700 mt at the St Lawrence, and 140,300 mt at Bay and Lakes. Meanwhile, the Pacific coast has only 319,400 mt at port which is comparatively small. There is currently 320,000 mt of Canadian wheat in transit with 31% of this being destined to the east coast and 69% destined to the pacific west coast.

- Producers delivered 70k mt of **durum** into the handling system over the past week. Durum *exports* during week 40 amounted to 140k mt; 3.4 million mt year-to-date. This is 9% or 339k mt lower than last year-to-date.
- Saskatchewan's recent seeding progress report issued on May 8th shows the province to be 11% seeded, which is slightly behind the 5-year average of 16%. Alberta is also well behind schedule with 13% of the crop seeded as of May 9th, well behind the 5-year average of 33% for that date. Manitoba Agriculture's May 8th report shows seeding to be 20 – 25% completed across the province, which is comparatively normal for this time of year. Seeded spring wheat acres in Canada are



forecasted to increase by 5%, the result of lower carry in spring wheat stocks, new wheat varieties, and a shift away from winter wheat and durum. Canadian wheat yields are also forecasted to decrease by 4% from last year's yields to a more traditional average.

#### US wheat:

- USDA estimated 2017/2018 US wheat production at only 49.54 million mt, down from 62.86 million mt in '16/17. Yields were projected at 47.2 bushels per acre, which is much lower than last year's 52.6 bu/ac, but still slightly above the 5-year average.
- Approximately 55% of the winter wheat crop heading as of May 7<sup>th</sup>, and 85% of the US crop rated fair or better according to NASS statistics.
- Spring wheat planting this spring is slightly behind average across most of the northern US with 54% of the US spring wheat crop planted as of May 7<sup>th</sup>. The average YTD progress is 60%. Last year spring wheat was already 74% planted. Spring wheat emergence in the northern states is rated at 21% as of May 7<sup>th</sup>, which is behind the 2012-2016 YTD average of 29%.
- According to Informa analysts on Friday, other spring wheat acreage is estimated to reach 10.9 million acres, which would be lower than the USDA March planting intentions figure of 11.3 million acres.
- US wheat inspections were 615k mt (season total 919 million bu, up 49% from last year), but sales were a season low net negative 25k mt. *However, the cumulative 1,027 million bu is still up 36% against USDA's 34% increase.*
- Looking forward, the focus will be on weather and crop progress. NASS (USDA's National Agricultural Statistical Services) will be issuing a US crop progress report on Monday which likely impact the new crop markets as most weather has been favorable.
- Futures:** Wheat futures ended the Friday mostly 1-2 cents lower in the July contracts as May expired at US\$4.29/bu for Kansas City and at \$4.25 in Chicago. May Minneapolis expired at \$5.37/bu, as July lost 7 3/4 cent on the week. Kansas City was 2.39% lower in July with Chicago down 2.15% since last Friday.
- Funds:** The weekly Commodity Futures Trading Commission's (CTFC) Commitment of Traders Report (COT) had managed money adding 13,180 contracts to Kansas wheat

futures and options, bringing the total Net long position to 13,692 contracts. In Chicago futures and options, they were seen *lowering their net short position 16,746 contracts to a net short position of 107, 892 contracts.*

- **EU:** Matif in Europe closed unchanged and off the early week lows on the weaker Euro. Forecasts are showing a progressive return to drier warmer conditions across Northern Europe after widespread weekend rains had brought relief to much of the continent (with the notable exception of the UK).
- Support also came from FAM's revised 2016/17 French S&D, which lowered French market stocks 200k mt to 2.4 million mt (3.3 million mt last year) and put farm stocks at just 380kt against 1.7 million mt a year ago.
- **Argentina:** Argentine Fob values were yet again unchanged with 12% protein wheat offered at US\$193/mt for June, less US\$10/mt for 11.5% protein and less a further US\$5/mt for 11% protein. New crop 12% protein wheat was offered at US\$177/mt with a US\$5/mt discount for 11.5% protein.
- USDA left Argentina's 2017 crop unchanged at 16 million mt, but put the 2018 crop at 17 million mt, using trend yield and current estimates of acreage expansion.
- Argentine farmer sales of the 2017 crop stand at 12.3 million mt against 6.6 million mt last year. Export licences rose 116k mt to a season total 8.18 million mt.
- **Australia:** Aussie Fob and futures prices were little changed, but interior markets were firm with farmers concentrating on fieldwork rather than selling grain.
- **Russia:** In the Black Sea, Fob values rose nominally by US\$1/mt on both old and new crop, but with very limited activity. There was, however, volume trade in new crop Black Sea (EU) feed wheat at -18Z for September and -15.5Z basis Oct forwards (around US\$168/mt-171/mt).

**Significant purchases:**

***Again, not a lot to report here this week:***

- **Algeria** bought 470k mt at \$198.50/mt for July shipment. This looked to be around US\$180/mt FOB France, but it wasn't all French product.
- **Iraq tender:** US wheat was cheapest at US\$267.17/mt.

**Wheat Market Outlook:**

**Significant events this past week:**

- USDA projected **world wheat Production** for 2017/18 to drop to 737.8 million mt from last years 753.1 million mt. Excluding the Chinese and Indian wheat production from the equation, the remaining world production is down 30 million mt, stocks are down 15 million mt, and major exporter stocks are down 13 million mt. The markets do not show it, but without reaching trend yields, the world wheat market is going to be ill supplied
- **EU:** Weekly soft wheat shipments were 250k mt for a season total 21.1 million mt, down almost 20% on last year, whilst the all-wheat cumulative at 23.3 million mt is down 17%.
- Europe saw near normal precipitation early in the week, but turned much drier in the north with warming temperatures.
- **Russia:** USDA reduced FSU 2017 wheat crop by 10 million mt basis trend yields. 6 million mt of this was in Russia (67 million mt), but USDA still raised Russia's 2017/18 export number 1 million mt from this year to 29 million mt.
- The Rouble rose 1.6% as crude bounced,
- The **Egyptian Pound** was flat; GASC's absence has been 9 weeks.
- **Australia:** USDA confirmed ABARE's 10 million mt drop in production at 25 million mt, but this number is purely based on trend yield.

➤ **Outlook:**

- It still is all about weather - in the US, Canada, Europe and Black Sea - not only on volume prospects (quantity), but also on anticipated quality. The HRW harvest is now only weeks away.
  - US precipitation and temperatures turned nearer normal. Spring wheat seeding and emergence is still significantly behind normal.
  - Canadian spring wheat seeding is still behind normal.
  - Europe saw near normal precipitation early in the week, but turned much drier in the north with warming temperatures.
  - North Africa and Turkey were dry.
  - The Middle East saw above normal rainfall.
  
- *There are various weather issues around the world, and Funds are still short. This market needs to be watched as it could develop sustained arguments for a more bullish market.*

### 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: May 15, 2017

| NW Sask            | Spot   |          | NW Sask            | Deferred      |               |
|--------------------|--------|----------|--------------------|---------------|---------------|
|                    | (bu.)  | (mt)     |                    | Oct '17 (bu.) | Oct. '17 (mt) |
| <b>1 CWRS 13.5</b> | \$6.57 | \$241.41 | <b>1 CWRS 13.5</b> | \$6.57        | \$241.41      |
| <b>1 CWAD 13.0</b> | \$6.95 | \$255.37 | <b>1 CWAD 13.0</b> | \$6.83        | \$250.96      |
| <b>1 CPSR 11.5</b> | \$4.73 | \$173.80 | <b>1 CPSR 11.5</b> | \$4.84        | \$177.84      |
| <b>SW Sask</b>     |        |          | <b>SW Sask</b>     |               |               |
| <b>1 CWRS 13.5</b> | \$6.57 | \$241.41 | <b>1 CWRS 13.5</b> | \$6.60        | \$242.51      |
| <b>1 CWAD 13.0</b> | \$7.08 | \$260.15 | <b>1 CWAD 13.0</b> | \$6.94        | \$255.00      |
| <b>1 CPSR 11.5</b> | \$4.69 | \$172.33 | <b>1 CPSR 11.5</b> | \$4.93        | \$181.15      |
| <b>NE Sask</b>     |        |          | <b>NE Sask</b>     |               |               |
| <b>1 CWRS 13.5</b> | \$6.44 | \$236.63 | <b>1 CWRS 13.5</b> | \$6.47        | \$237.73      |
| <b>1 CWAD 13.0</b> | \$6.99 | \$256.84 | <b>1 CWAD 13.0</b> | \$6.92        | \$254.27      |
| <b>1 CPSR 11.5</b> | \$4.45 | \$163.51 | <b>1 CPSR 11.5</b> | \$4.69        | \$172.33      |
| <b>SE Sask</b>     |        |          | <b>SE Sask</b>     |               |               |
| <b>1 CWRS 13.5</b> | \$6.43 | \$236.26 | <b>1 CWRS 13.5</b> | \$6.52        | \$239.57      |
| <b>1 CWAD 13.0</b> | \$7.04 | \$258.68 | <b>1 CWAD 13.0</b> | \$6.93        | \$254.64      |
| <b>1 CPSR 11.5</b> | \$4.46 | \$163.88 | <b>1 CPSR 11.5</b> | \$4.63        | \$170.12      |

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT**

| Avg. Grade Spread/<br>Pro Discounts | Cdn\$/bu.  | Cdn.\$/mt  |
|-------------------------------------|------------|------------|
| <b>1 CWRS 13.5</b>                  | Base Grade | Base Grade |
| <b>2 CWRS 13.5</b>                  | (0.20)     | (7.35)     |
| <b>1 CWRS 12.5</b>                  | (0.37)     | (13.60)    |
| <b>1 CWAD 13.0</b>                  | Base Grade | Base Grade |
| <b>1 CWAD 13.5</b>                  | 0.03       | 1.10       |
| <b>2 CWAD 13.0</b>                  | (0.79)     | (29.03)    |
| <b>2 CWAD 12.5</b>                  | (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<sup>2</sup> (see *Export*

<sup>2</sup> 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."

*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:  
 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   |  |                         |                      | May 15, 2017                           |
|--|--|-------------------------|----------------------|--|
| Type of Wheat                          | FOB Prices CDA <sup>1</sup> (calculated) |                         | Street Prices        | Export Basis <sup>2</sup>              |
|  | West Coast (Cdn./mt\$)                   | Great Lakes (Cdn.\$/mt) | Rosetown (Cdn.\$/mt) | Basis: West Coast-Centr. SK (Cdn\$/mt) |
| <b>DNS 14.0</b>                        | \$341.28                                 | \$311.21                |                      |  |
| <b>HRS</b>                             | \$333.76                                 |                         |                      |  |
| <b>HRW 11.5</b>                        | \$256.59                                 |                         |                      |  |
| <b>SWW 12.0</b>                        | \$249.07                                 |                         |                      |  |
| <b>1 CWRS 13.5<sup>3</sup></b>         | \$341.28                                 |                         | \$235.16             | \$106.12                               |
| <b>2 CWRS 13.0<sup>3</sup></b>         | \$333.76                                 |                         | \$218.63             | \$115.14                               |
| <b>3 CWRS<sup>3</sup></b>              | \$256.59                                 |                         | \$203.19             | \$53.39                                |
| <b>CPS<sup>3</sup></b>                 | \$242.05                                 |                         | \$153.22             | \$88.83                                |
| <b>1 CWAD<sup>4</sup></b>              |  | \$385.88                | \$258.31             | \$127.57                               |
| <b>Competing wheat:</b>                | <b>US\$/mt</b>                           |                         |                      |  |
| <b>Russia 12.5 (Black Sea, 25k mt)</b> | \$183.00                                 |                         |                      |  |
| <b>French 11.0 (Rouen)</b>             | \$188.16                                 |                         |                      |  |
| <b>ASW 10.5 (W Coast)</b>              | \$202.00                                 |                         |                      |  |
| <b>Argentine 12.0</b>                  | \$188-\$193.00                           |                         |                      |  |

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB

## ADDENDUM



**Futures Driven Basis Calculation, Canadian Dollars per MT**

| <b>Canadian Wheat - World Price Parities</b> |                  |               |               |                    | May 15, 2017  |
|--|------------------|---------------|---------------|--------------------|---------------|
| <b>Canadian Funds</b>                        |                  |               | <b>Grade</b>  |                    |               |
| <b>PNW value/Vancouver</b>                   | <b>1CWRS13.5</b> | <b>2CWRS</b>  | <b>3CWRS</b>  | <b>Winter wht.</b> | <b>CPS</b>    |
| <b>Dec./Jan. delivery</b>                    | \$9.10           | \$8.89        | \$6.79        | \$6.59             | \$6.59        |
| <b>Parity Track Rosetown</b>                 | \$7.60           | \$7.40        | \$5.30        | \$5.09             | \$5.09        |
| <b>Track Bid Rosetown Area</b>               | <b>\$6.40</b>    | <b>\$5.95</b> | <b>\$5.53</b> | <b>\$4.17</b>      | <b>\$4.17</b> |
| <b>Gross Margin at Elevator (\$/bu)*</b>     | \$1.20           | \$1.45        | -\$0.23       | \$0.92             | \$0.92        |
| <b>Gross Margin at Elevator (\$/mt)*</b>     | \$44.12          | \$53.14       | -\$8.61       | \$33.85            | \$33.85       |

\* to cover elevation, elevator market risk, margin