

Wheat Market Outlook and Price Report: June 19th, 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).

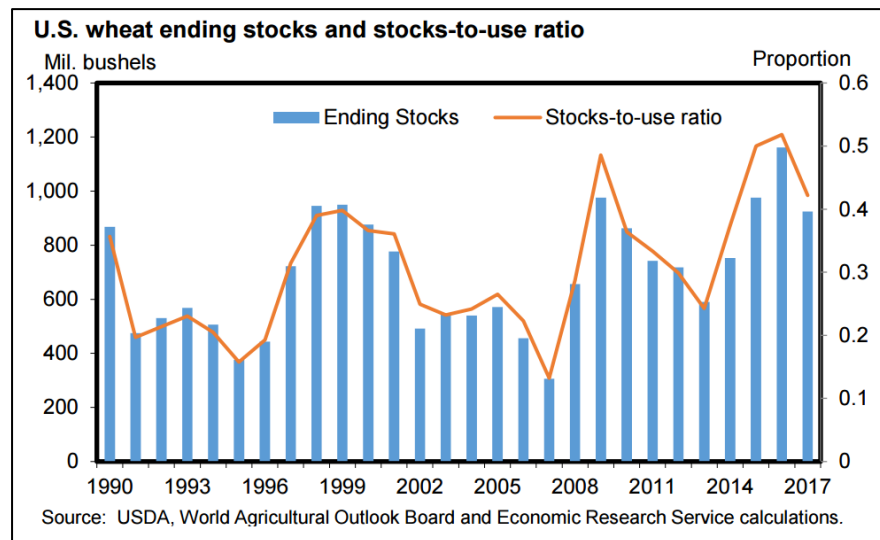
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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 June. 19/17

2017/18 World Wheat Overview:

➤ **June 13th USDA Wheat Outlook:**

- **Winter wheat yield projections** for the global 2017/18 crop are up slightly in the June 13th USDA wheat outlook report. New projections are boosting 2017/2018 estimates on projections for higher global production. Russia, Argentina, and Turkey have all increased production prospects.
- In the US, **increased carry-in** from the 2016/2017 crop year combined with expanded projected imports have resulted in the ending stock estimates for the 2017/2018 crop year being revised higher by 10.8 million bushels to 924.3 million bushels.
- The US wheat **stocks to use ratio** for the projected crop year remains lower vs the 2016/2017 crop year and close to the 5 year average of 0.39 (see graph below).



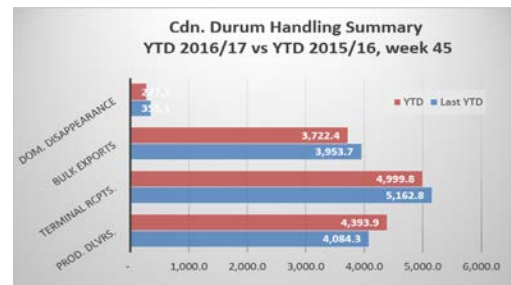
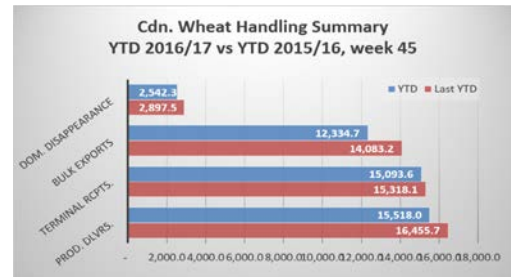
Global wheat events and trade:

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

- **Futures:** Chicago HRW wheat closed the week up 12 cents on Friday at US\$4.66 per bushel, up 20 cents for week. Spring wheat has continued to trade higher over the past week with prices climbing to unexpected levels. Minneapolis hard red spring closed up 10 cents on Fridays trade at US\$6.43 per bushel, up 35 cents for the week. The drought in the northern US plains still remains the driving factor of the recent rally. The June 19th USDA crop progress report, as well as the June 20th US drought monitor will both be heavily scrutinized in the coming week.
- **Funds:** In the past week speculative hedge funds have significantly reduced their wheat position and have bought an estimated 2.3 million mt between June 13th and 16th. This was a major driving factor in the recent price rally. However, Specs and Speculative Funds currently hold a net short position of approximately 12 million mt.
- **Matif:** EU futures started lower, but closed sharply higher on a progressively hotter and drier forecast for Western Europe, lower production forecasts France and a weaker Euro.

Canadian wheat:

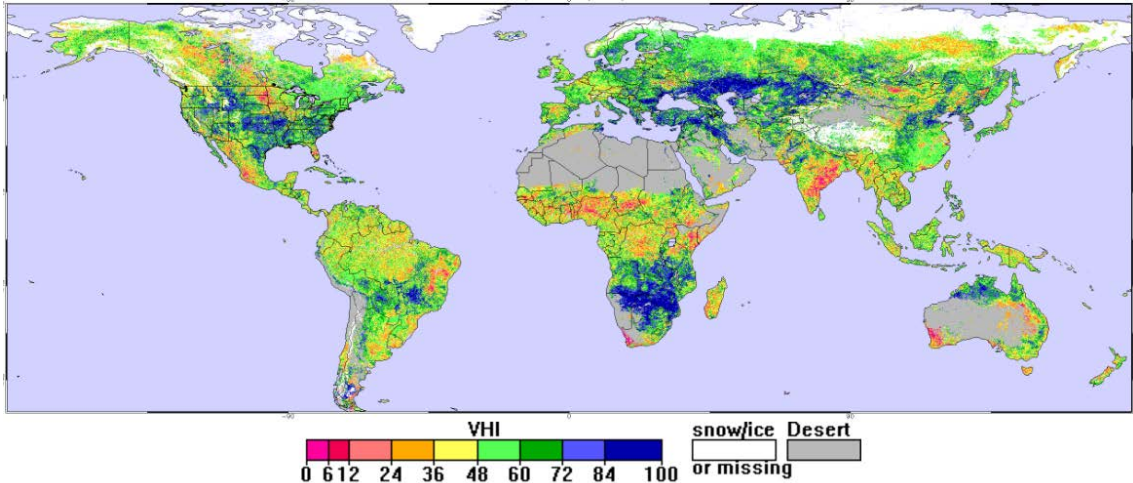
- According to the CGC, producers delivered 525.2 mt of wheat into the handling system, which is up from last week's 490.5 mt. Exports for week 45 were 334k mt, up from last week's 244k mt, and down 12.41% (-1.748 million mt) from last year's YTD exports.
- Elevator stocks are currently at 2.6 million mt with 1.3 million 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 280k mt at Thunder Bay, 546k mt at the St Lawrence, and 110k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 263k mt at port, which is comparatively small.
- Producers delivered 123k mt of **durum** into the handling system over the past week. Durum *exports* during week 45 amounted to 119k mt; 3.7 million mt year-to-date. This is 5.9% or 131k mt lower than last year-to-date.
- The June 13th Alberta crop progress report which was released on June 16th, indicates that most of the province received at least 10 mm of rain with some regions receiving 20 - 30 mm. Wheat seeding in Alberta is now estimated at 96% complete with approximately 86% of crops emerged. Provincially, crop growing conditions are now rated as 80% good to excellent which is above the 5 – year average of 73%.
- Saskatchewan spring wheat was reported to be 75% in good to excellent condition, 22% fair condition, and 3% poor condition. 22% of Saskatchewan spring cereals are reported at normal crop development, 5% ahead of normal, but 33% behind normal.
- Crop conditions in Manitoba have improved significantly over the past week with many of the dryer regions of the province receiving much needed rainfall. The north-western region of the province continues to lag due to wetter spring conditions and later planting, but most crops are now emerged and weed control is wrapping up in most regions. Cool wet conditions have prevailed over much of the province in the past week and the forecast indicates that this trend might continue into next week.



Global wheat production and trade:

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

World Vegetation Health Index (June 5th – June 11, US NOAA)

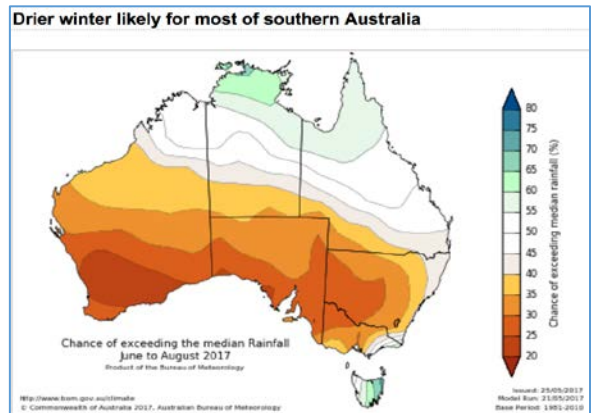


US wheat:

- The weekly USDA crop progress report on June 12th rated the US winter wheat crop at 92% headed. Exactly 50% of the US winter wheat crop is now rated as good or excellent, which is down by 1% from last week and down by 11% from last year's YTD estimates. Winter wheat yield gains have been reported in Colorado and Kansas, up 3 and 2 bushels per acre respectively. Overall US winter wheat yields are estimated at 48.9 bushels per acre, which is up slightly from the 48.8 bushels forecasted in May. Spring wheat in the US is now rated as 95% emerged, which is ahead of the 5-year average of 92%. *Only 45% of the US spring wheat crop is now rated as good or excellent, which is down significantly from last week's estimates of 55% good/excellent, mostly due to drought in the northern US plains.*

Australian wheat:

- Dry weather continues across much of Australia which is further reducing topsoil moisture and negatively impacting the outlook for winter grain crops. The most affected regions appear to be in Western Australia which is a major wheat growing region, while most of southern Australia, Victoria, and New South Wales appear to be unaffected.
- However, for now, ABARE (Australian Stats agency) actually raised the Aussie crop 200k mt to 24.2 million mt.



Argentine wheat:

- Dry weather in Argentina has supported corn and oilseed harvesting in most major production areas.
- Argentine Fob prices rose US\$3/mt on the rapid pace of exports and higher world market, whilst BAGE (Buenos Aires Grain Exchange) put plantings at 37% complete, up 15% on the week and well ahead of last year's 30%. This is despite the higher expected total area. Farmer sales of the current crop rose to 13.6 million mt against just 7.5 million mt last year

EU wheat:

- Drought continues across much of central and southern Spain while other regions of Europe experienced favorable widespread rain and near normal temperatures.

- EU cash premiums were little changed. However, the EU was still looking for additional export demand, despite the 1.2 million mt sold to Algeria and Saudi Arabia [see below]. There is no way the EU will meet the USDA's 27 million mt export number, and FAM raised the French 16/17 ending stocks by 250k mt. The German Co-ops raised their crop number to 25.2 million mt (now up 3% from last year's 24.4 million mt), leaving the market struggling between the current 7-day hot and dry forecast against the 8-15 day cooler and wetter outlook.
- French wheat was US\$10/mt off the pace at the GASC tender, whilst Saudi's purchase looked like German/Baltic replacement was discounted by US\$3-5.
- **Black Sea wheat:**
- Russian wheat continued to firm with LH July readily bid by GASC shorts at US\$185/mt in Black Sea ports against reported offers at US\$189/mt. August delivery wheat was bid the same price and despite recent higher production estimates, the lack of farmer selling and ongoing VAT problem continued to push Russian cash prices higher. And at US\$15/mt below German wheat or US\$25/mt below HRW, Russian wheat still does look cheap.

Significant purchases:

We had a very good week in the markets:

- **Saudi Arabia** bought 805,000 mt wheat for Aug-Oct'17 shipment.
- **Egypt** (GASC) bought 300,000 mt Black Sea wheat for July 15-25 shipment at US\$205.50-207/mt.
- **Tunisia** bought just 25,000 mt of its 92, 000 mt tender at US\$189.95/mt.
- **Israel** bought 30,000 mt of wheat.

Wheat Market Outlook:

- Significant events:
 - Weather continues to be a concern. Now dry conditions in Western Europe with some extreme heat and no rains are expected for the coming week. The long term forecast still has hot dry conditions in the Black Sea in July-August and prolonged dryness in Australia is causing increasing worry. The HRS S&D is becoming untenably tight and US HRW is struggling to find protein.

- Outlook:
 - There are potential significant changes coming to the world trade matrix, with much hinging on the quality that Germany and the Baltics eventually produce.
 - In our view, while weather concerns continue, 2C WRS 12.5% protein should be worth C\$7.50 per bushel in Sask.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: June 19, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$7.41	\$272.27	1 CWRS 13.5	\$7.22	\$265.29
1 CWAD 13.0	\$7.04	\$258.68	1 CWAD 13.0	\$6.77	\$248.76
1 CPSR 11.5	\$5.08	\$186.66	1 CPSR 11.5	\$5.17	\$189.97
SW Sask			SW Sask		
1 CWRS 13.5	\$7.45	\$273.74	1 CWRS 13.5	\$7.23	\$265.66
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$5.05	\$185.56	1 CPSR 11.5	\$5.13	\$188.50
NE Sask			NE Sask		
1 CWRS 13.5	\$7.27	\$267.13	1 CWRS 13.5	\$7.01	\$257.58
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$6.85	\$251.70
1 CPSR 11.5	\$4.88	\$179.31	1 CPSR 11.5	\$4.93	\$181.15
SE Sask			SE Sask		
1 CWRS 13.5	\$7.31	\$268.60	1 CWRS 13.5	\$7.13	\$261.98
1 CWAD 13.0	\$7.25	\$266.39	1 CWAD 13.0	\$6.97	\$256.11
1 CPSR 11.5	\$4.90	\$180.05	1 CPSR 11.5	\$4.95	\$181.88

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)

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."

- 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				June 19, 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	\$377.11	\$345.12		
HRS	\$369.84			
HRW 11.5	\$284.04			
SWW 12.0	\$253.51			
1 CWRS 13.5³	\$377.11		\$273.01	\$104.10
2 CWRS 13.0³	\$369.84		\$254.64	\$115.20
3 CWRS³	\$284.04		\$224.14	\$59.91
CPS³	\$246.72		\$184.45	\$62.27
1 CWAD⁴		\$385.35	\$260.15	\$125.20
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$184.00			
French 11.0 (Rouen)	\$184.69			
ASW 10.5 (W Coast)	\$214.00			
Argentine 12.0	\$188-193			

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						June 19, 2017
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$10.08	\$9.88	\$7.55	\$6.71	\$6.71	
Parity Track Rosetown	\$8.58	\$8.38	\$6.05	\$5.22	\$5.22	
Track Bid Rosetown Area	\$7.43	\$6.93	\$6.10	\$5.02	\$5.02	
Gross Margin at Elevator (\$/bu)*	\$1.15	\$1.45	-\$0.05	\$0.20	\$0.20	
Gross Margin at Elevator (\$/mt)*	\$42.33	\$53.43	-\$1.86	\$7.28	\$7.28	

* to cover elevation, elevator market risk, margin