

Wheat Market Outlook and Price Report: October 2nd, 2017
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i) Background and Rationale for the Report

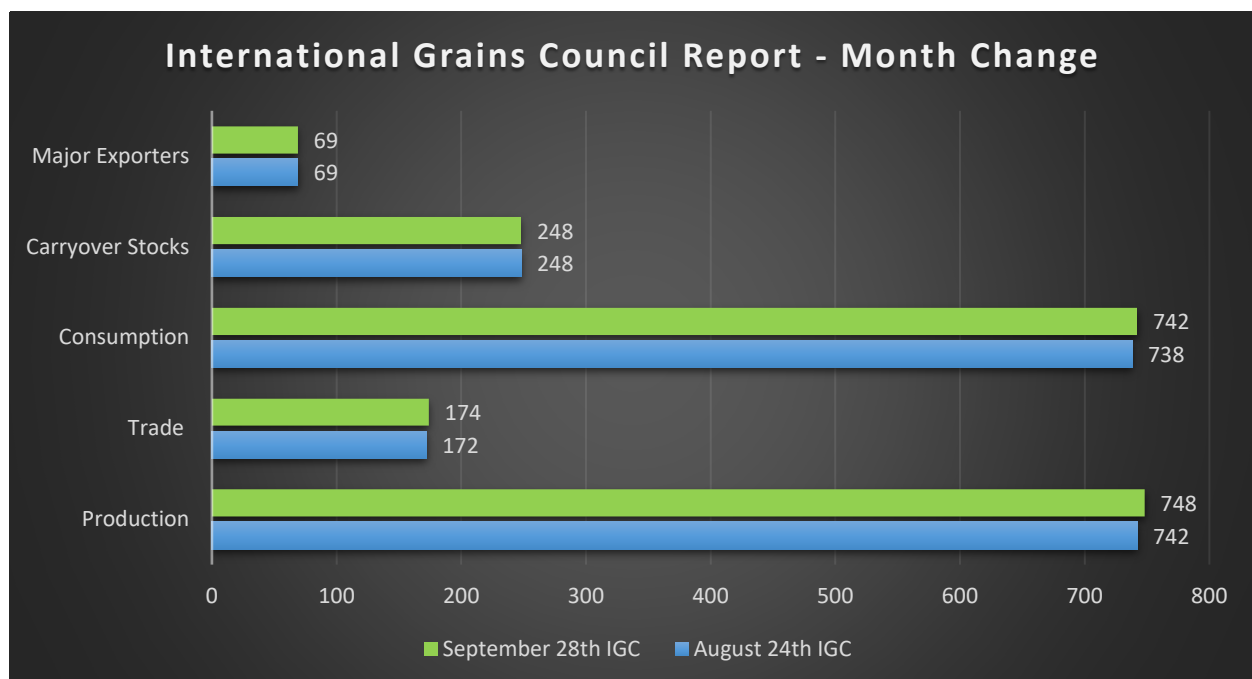
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 July. 14/17

2017/18 World Wheat Overview:

- **September 28th International Grains Council Report:**
 - **Projections for world wheat production** for 2017/18 has been increased by another 6 million mt to 748 million mt, from last month's estimate of 742 million mt due to higher production in Russia.
 - **Estimates for world ending wheat stocks** have remained unchanged at 248 million mt, due to projections for increased trade and higher consumption.



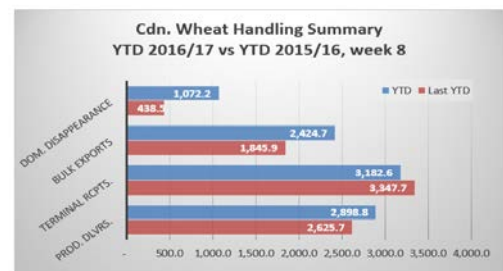
➤ **Global wheat production and trade:**

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

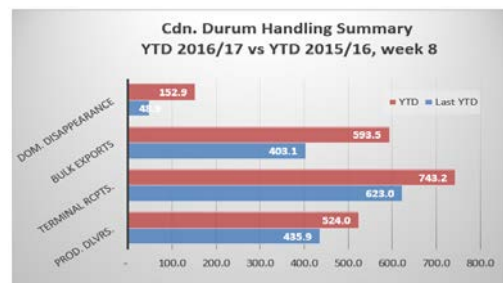
- **Futures:** On the futures market, December contract Chicago wheat closed at 448.2, down 6.6 cents for the day and down by 1.2 cents for the week. Kansas December contract hard red winter wheat closed at 442.6 down by 7.4 cents for the week, and down by 10.2 cents in today's trade. Minneapolis hard red spring wheat moved significantly lower in Fridays trade following the USDA small grains report to close at 623.6 which is down by 21.2 cents for the day, and down by 9.2 cents for the week.
- **Funds-** Index Funds sold some wheat and bought soybeans, while the Specs bought some soybeans and wheat sold some corn. Nothing of any significance that changed their overall positions.
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- **Matif:** Matif exchange in Europe closed at €166, which was up by €1.25 for the week, but down by a small €0.50/mt in Fridays trade.

Canadian wheat:

- According to the CGC, producers delivered 310k mt of wheat into the handling system, which is down from last week's 402k mt. Exports for week 8 were 306k mt, up from last week's 242k mt, and up by 31% from last year's YTD exports.
- Elevator stocks are currently high at 3.29 million mt with 1.62 million mt at primary elevators and most of the remaining inventory at port.
- Producers delivered 55k mt of **durum** into the handling system over the past week. Durum exports during week 8 amounted to 17k mt; 594k mt year-to-date. This is ahead of last year's year to date exports of 403k mt.



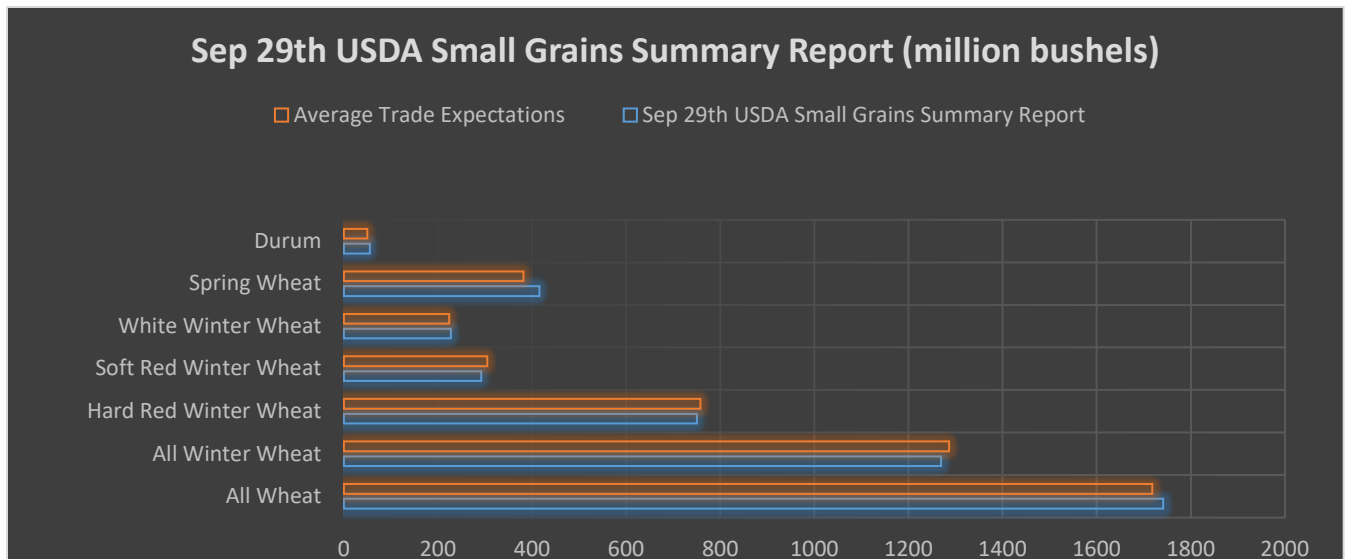
- The Manitoba harvest has been slowed by cool wet weather, but has progressed over the past week. The harvest of cereals is nearing completion and fall field work is in progress.
- Harvest in Saskatchewan has progressed to 78% complete, which is up only slightly from last week's estimate of 75% harvested. 77% of Saskatchewan spring wheat is now reported to be harvested, and harvest is most advanced in the Southwestern regions of the province which are 92% harvested, while the Southeast is reported to be 88% harvested. Northern regions of the province are reported to be 48-53% harvested as of September 25th.
- Alberta made only limited harvest progress in the past week due to cooler wet conditions that overshadowed the province. Provincially, the harvest is reported to be 60.1% harvested, which is up by only 4% from last week's 56% harvested, and also behind the 5-year average of 67.7% harvested for this year to date. 63% of Alberta spring wheat is reported to be harvested as of September 26th, with 94.4% of all samples grading 1 – 2 CWRS.



US wheat:

- In the USDA weekly crop progress report, the US winter wheat crop is now reported to be 24% planted, which is up from 13% planted last week, but behind the 5-year average of 28% planted for this year to date.

- The US weekly export sales report shows that US wheat exports are behind last years pace. Cumulative exports are currently at 318 million bushels which is behind last years 329 million bushels, and total commitments are currently down by 4% at 496.7 million bushels, vs last years 515.9 million bushels.
- The USDA realised its small grains summary report on Friday which projected all US wheat production to be 23 million bushels higher than average trade expectations. Although US winter wheat production is estimated to be lower than expected, all wheat production is higher than thought and markets reacted by falling.



- **Australian wheat:**
Meanwhile Australia continues to be mainly dry, with below average temperatures and with below average rainfall, but recent forecasts show a possibility for some rain in the coming week. Recent reports indicate that Queensland has had some recent rain, but this represents only a small portion of Australia's wheat production. Australian wheat has continued to trade at a premium to other wheats due to weak farmers selling and production concerns.
- An increasing number of private crop estimates dropped towards the 18 million mt wheat production level, some 4.5 mln mtt below the current USDA number. This has a direct impact on potential exports. However, at current prices, Australian wheat exports are already at their inelastic minimum.
- *Australian wheat is currently at \$\$240 - \$260 per mt which is not cost competitive against Russian or US wheat.*
- **Argentine wheat:**
Argentina continues to have excess moisture, but the 5-day forecast indicates dryer improved conditions and cooler temperatures which could improve crop prospects. *Argentine wheat is currently trading at \$187 Fob for 12.0 protein which is competitive against European wheat.*
- **EU/Russian wheat:**
French 11.5 protein wheat is currently at \$211.09 while German 12.5 is at \$204.40 and the UK at \$211.09. French wheat is currently competitive to Algeria.
- **Black Sea wheat:**
On the cash market, Black Sea wheat has continued to rally with the bid/offer on Russian October 12.5 protein wheat at \$192-\$195.

Significant purchases/ trades:

It was another quiet week in cash wheat trading

- Algeria is reported to have bought an estimated 450k tonnes of optional – origin milling wheat which is believed to be sourced from France for December shipment at prices of \$211 - \$212 including cost and freight.

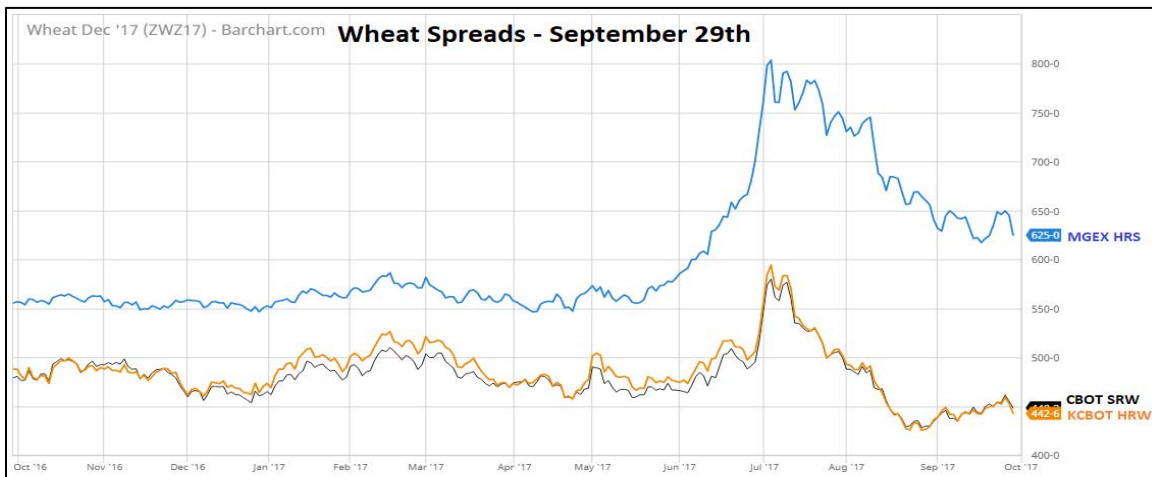
Wheat Market Outlook:

➤ Significant events:

- The biggest event of the week was the Friday release of the USDA smalls grains summary report, which caused a fall in wheat values in Fridays trade. While both spring and winter wheat took significant losses, the outlook for spring wheat is more bearish than for winter wheat. US winter wheat is currently cost competitive on the world market and there is support for winter wheat at current values.
- As crude oil burst through the \$50 resistance, more traders are expecting inflation to return and higher interest rates to come into effect. The UK is already talking higher interest rates. The dollar index was a little stronger. Inflation concerns may strengthen commodities longer term, however harvest pressure will keep prices down for now.

➤ **Outlook:**

- The new USDA numbers indicate that spring wheat acreage abandonment due to drought was much smaller than most analyst's expectations. Overall US wheat production is down by 22% vs last year, which is a smaller reduction than expected. Meanwhile, Canadian spring wheat production is estimated to be close to normal and Russian spring wheat production is well above normal. This creates a bearish outlook for hard red spring wheat from today's levels going forward. Currently there is nothing left which could justify the current HRS premium over HRW wheat. The previous low for hard red spring wheat was 6.09 US\$ per bushel, and expectations are that HRS will test this low going forward. November delivered cash wheat is currently bid \$6.59 to \$6.15 per bushel across the prairies, and this is a good selling opportunity given the current world supply of HRS wheat.
- Russian wheat continues to be the cheapest wheat and is at a substantial discount to North American supplies and therefore will continue to do the majority of cash trade. Prices will eventually adjust; either Russian/FSU prices will increase or North American/EU prices will reduce to compete. Short term, we see prices dropping 10 cents or so. Need to watch inflation, which could firm commodities longer term.



iii) Primary Elevator Price Tables and Grade Spreads

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

Date: October 2, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '17 (bu.)	Dec. '17 (mt)
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	\$6.43	\$236.26
1 CWAD 13.0	\$7.11	\$261.25	1 CWAD 13.0	\$7.21	\$264.92
1 CPSR 11.5	\$4.74	\$174.17	1 CPSR 11.5	\$4.57	\$167.92
SW Sask			SW Sask		
1 CWRS 13.5	\$6.35	\$233.32	1 CWRS 13.5	\$6.44	\$236.63
1 CWAD 13.0	\$7.23	\$265.66	1 CWAD 13.0	\$7.27	\$267.13
1 CPSR 11.5	\$4.73	\$173.80	1 CPSR 11.5	\$4.56	\$167.55
NE Sask			NE Sask		
1 CWRS 13.5	\$6.11	\$224.51	1 CWRS 13.5	\$6.19	\$227.45
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.24	\$266.03
1 CPSR 11.5	\$4.52	\$166.08	1 CPSR 11.5	\$4.36	\$160.20
SE Sask			SE Sask		
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.22	\$228.55
1 CWAD 13.0	\$7.30	\$268.23	1 CWAD 13.0	\$7.30	\$268.23
1 CPSR 11.5	\$4.54	\$166.82	1 CPSR 11.5	\$4.54	\$166.82

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)

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."

- 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 M

Relevant FOB Prices and Export Basis				Oct. 2, 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	\$346.40	\$318.37		
HRS	\$339.51			
HRW 11.5	\$271.97			
SWW 12.0	\$252.22			
1 CWRS 13.5³	\$346.40		\$227.45	\$118.95
2 CWRS 13.0³	\$339.51		\$203.56	\$135.95
3 CWRS³	\$271.97		\$196.21	\$75.76
CPS³	\$245.79		\$164.25	\$81.54
1 CWAD⁴		\$401.99	\$244.72	\$157.27
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$194.00			
French 11.5 (Rouen)	\$194.69			
ASW 10.5 (W Coast)	\$240.00			
Argentina 12.0				

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					Oct. 2, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.25	\$9.06	\$7.23	\$6.69	\$6.69
Parity Track Rosetown	\$7.76	\$7.57	\$5.73	\$5.19	\$5.19
Track Bid Rosetown Area	\$6.19	\$5.54	\$5.34	\$4.47	\$4.47
Gross Margin at Elevator (\$/bu)*	\$1.57	\$2.03	\$0.39	\$0.72	\$0.72
Gross Margin at Elevator (\$/mt)*	\$57.54	\$74.53	\$14.34	\$26.56	\$26.56

* to cover elevation, elevator market risk, margin