

## Wheat Market Outlook and Price Report: November 20th, 2017

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### i) Background and Rationale for the Report

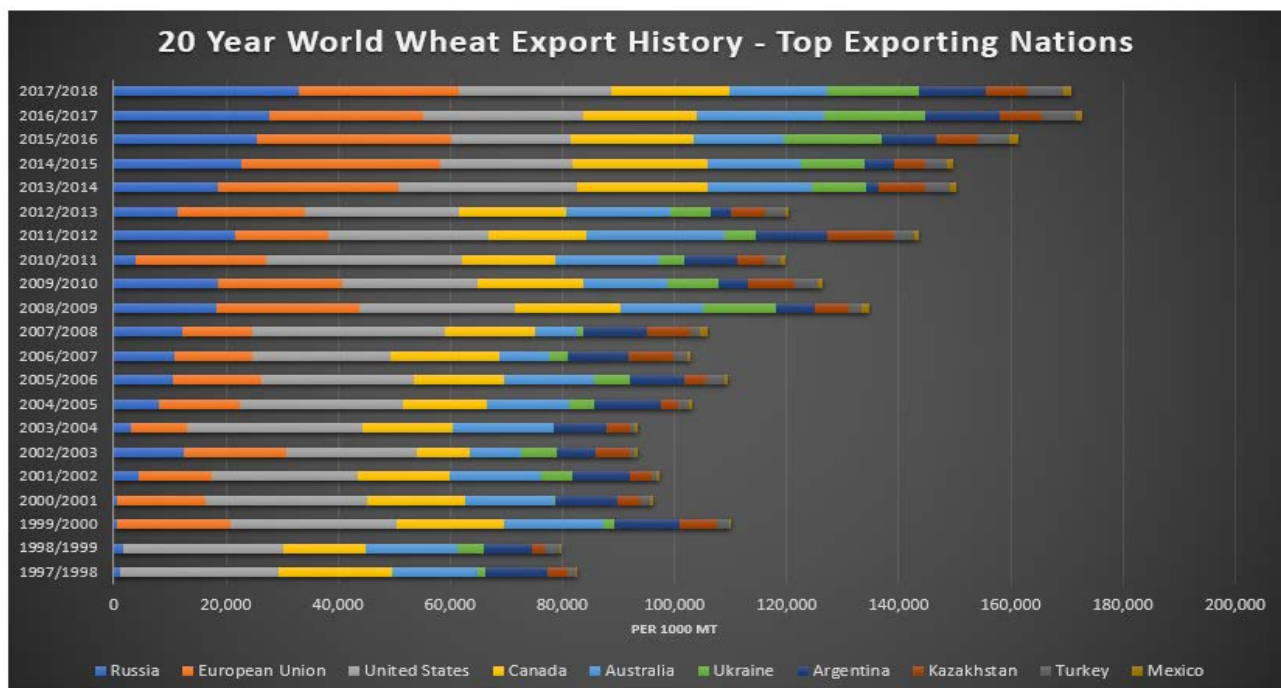
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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:

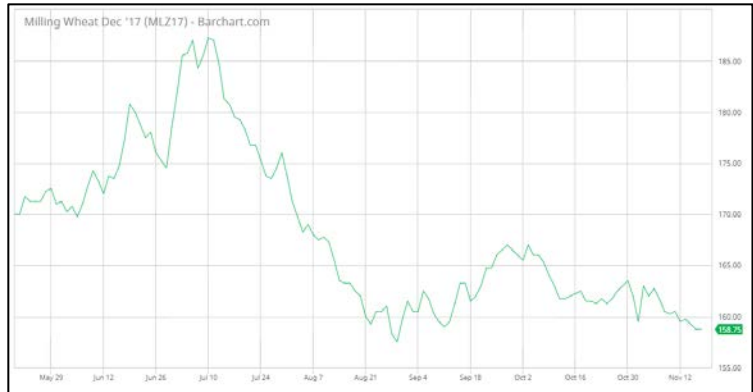
- **November 14<sup>th</sup> USDA Wheat Outlook Report**
  - **Global wheat exports** are raised 250k mt to a total of 182.2 million mt due to strengthening Russian sales combined with projections for US sales.
  - **Russian wheat exports** have been raised by 500k mt to 33.0 million mt due to strong early season exports, and due to railway incentives to promote additional grain shipments.



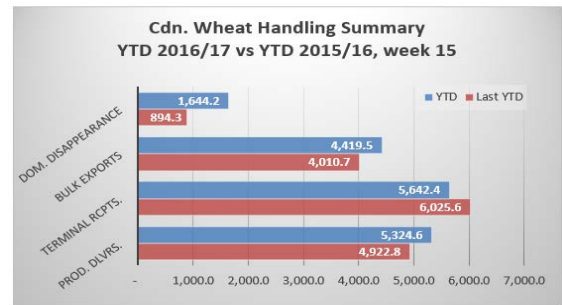
➤ **Global wheat production and trade:**

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.

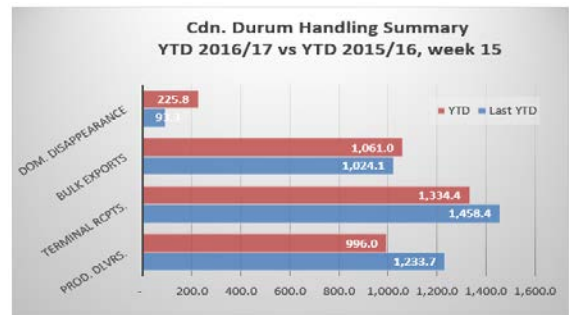
- **Futures:** Heading into the weekend, December contract Chicago wheat closed at 427-2, down by 4.2 cents for the week, but up by 5.6 cents in Fridays trade. In Kansas, December contract hard red winter wheat closed the week at 422-0, down by 11.2 cents for the week, but up by 5 cents in Fridays trade. In Minneapolis, December contract hard red spring wheat closed at 635-0, down by 12.4 cents for the week, but up by 4.6 cents in Fridays trade.
- **Funds:** Managed money last week got a bit more bullish in the futures market as fund managers were net buyers (+3.2 mln mt on the week), leaving them in a net short position of -20.2 mln mt.
- **Matif:** The Matif exchange in Europe closed at 158.75 which was down by 1.75 for the week, but unchanged in Friday's trade.



- **Canadian wheat:**
- According to the CGC, producers delivered 425k mt of wheat into the handling system, which is up from last week's 316k mt. Exports for week 15 were 358k mt, up from last week's 239k mt, but up by 10% from last year's YTD exports.
- Elevator stocks are currently at 3.07 million mt with 1.5 million mt at primary elevators and most of the remaining inventory at port.
- Producers delivered 85k mt of **durum** into the handling system over the past week. Durum exports during week 15 amounted to 25k mt; 1,061k mt year-to-date. This is slightly ahead of last years year to date exports of 1024k mt.

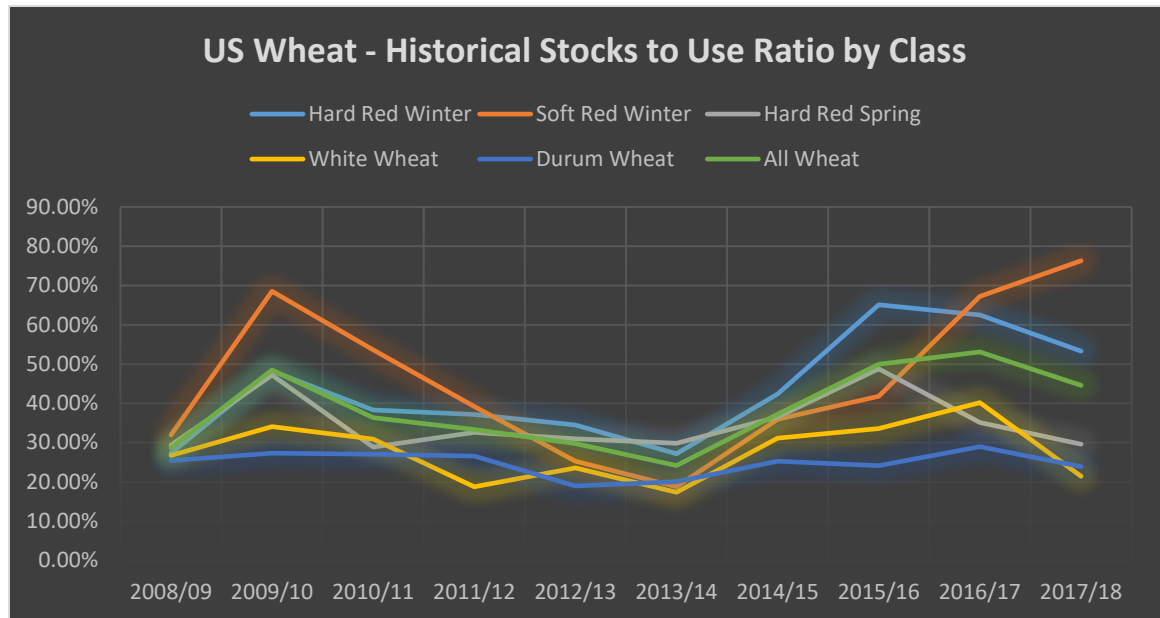


- **US wheat:**
- For the week of November 9<sup>th</sup> US export sales were reported at 489,301 mt, which fell within most trade expectations which ranged from 350-550k mt. *The export sales report showed a drop of 37.4% from last week's robust sales and exports were 18.2% lower than this week last year.*



- US winter wheat is reported to be 95% planted as of November 12<sup>th</sup>, with 84% of the crop emerged and with 54% of the US crop rated as good or excellent. This compares to 55% good or excellent last week, and to 59% good/excellent at this same date last year.
- In the latest WASDE report, the USDA broke down US wheat supply and usage by class, and the stocks to usage ratio for each individual wheat class is shown below. At a projected 76.3%, soft red winter wheat has the highest stocks to usage ratio in 17/18 due to a large carry in and reduced total domestic usage (presumably due to cheap feed corn). Durum wheat is projected to have a stock to usage ratio of 23.9% which is only slightly below the average of 24.03%, while US hard red spring wheat is projected to have a stocks to usage ratio of 53.3%, which is

higher than the 5 year average of 46.34%. US hard red winter wheat is also projected to have a stock to usage ratio that is higher than the 5 year average (53.3% vs average of 46.34%).



○

**Australian wheat:**

- Rain is expected to persist in eastern and southern Australia this week, but the west remains dry. The 2-week forecast however brings even more rain into the east, and WA also turns wetter in that period.
- RaboBank has estimated the '17/18 Australian wheat production at 20.9 mln mt vs the 21.5 mln mt estimated by the USDA.

**Argentine wheat:**

- There is a little more talk in the markets about Argentina trending drier. The La Nina weather pattern has strengthened to a 6-year high, which could subject Argentina and Brazil to dryness. However, the 6-10 day forecast for Argentina and Brazil is currently unchanged with average rains projected for most of the Brazilian growing regions. Brazil has also dropped its idea of a 750,000 tonne duty-free non-Mercosur import quota; this is a disappointment for US HWW sales.
- Argentine 12% protein wheat Fob prices closed the week down US\$1/mt, with the 12.5% protein wheat a US\$6/mt premium and 11.5% pro wheat a US \$2/mt discount.

**EU wheat:**

- French wheat plantings are reported to be 95% complete as of November 13<sup>th</sup>, which is ahead of last years 90% planted at this year to date.
- Strategie Grains cut its monthly estimate for the 2018 crop soft wheat acreage. The reasons stated are difficult seeding conditions in northern Europe (extensive dry areas in France, NW Germany Spain, the UK, also N Italy) and low prices putting farmers off wheat. Strategie Grains projected soft wheat acreage in the EU to reach 23.5 mln ha, compared with the 23.8 mln ha estimated last month and 23.7 mln ha seeded in the 2017 crop.
- Durum wheat area in Europe is expected to be close to last year's at a little more than 6.9 million acres.
- Strong competition from Russia and the Black Sea region is hurting EU exports and Matif wheat futures are trading at an 11-week low. YTD EU wheat exports amount to 7.5 mln mt (start crop year to Nov. 15), and are 2.2 mln mt lower than last year's 9.7 mln mt.

**Black Sea wheat:**

- The Fob wheat market in Russia did closed lower with Russian 12.5% protein wheat at US\$191/mt for December, plus only US\$1/mt per month carrying charges.
- Nevertheless, Egypt (GASC) did purchase 240k mt of Russian wheat at cheap levels, given there was almost no competition by other exporters due to the renewed uncertainty over quality/specs. Egypt has reportedly re-instated its zero tolerance on ergot.

**Significant purchases/ trades:**

- **Egypt** (GASC) bought 240,000 mt of Russian wheat at US\$209/mt C&F for Jan. 1-10/'18 shipment.
- **Turkey** bought 230,000 tonnes of European milling wheat.
- **Jordan** tendered for 100,000 tonnes of wheat.
- *Are these small signs of end-user demand at current levels?*
- **US** inspections were 300,000 mt (season total 431 myn bushels, down 6%), sales were 489,000 mt (season total 617 myn bushels, down 5%).

**Wheat Market Outlook:**

➤ Significant events:

- Weekly EU all-wheat shipments of 365k mt brought the season total to 8.17 mln mt, down 2.5 mln mt or 24% on last year versus USDA's projected 4.5% increase, an 8 mln mt difference.
- Due to the sluggish export pace so far this season, FranceAgriMer dropped its forecast of '17/18 French soft wheat shipments outside the EU. France, the EU's biggest cereal producer, is facing strong competition overseas from Black Sea grain suppliers such as Russia, which is reducing its export prospects despite a much-improved French harvest this year.
- Russia's currency dropped in value dramatically since October, which increases their export competitiveness. If they have any logistical issues due to winter weather or due to political conflicts, then perhaps Europe and North America can pick up some additional export business.
- Egypt has reportedly re-instated its zero tolerance on ergot. This means most exporters will not offer due to the increased risk. This would leave the Egyptian market more or less in Russian hands.

➤ Outlook:

We expect Russian wheat offers to continue to be the lowest and to continue to set the market. We don't expect to see too many volume tenders coming to market before the New Year, so we don't see much chance of a rally unless Funds decide to buy in their futures short. However, we don't see any pressure on them to do so.

Weather does not look like it will be an issue although we do expect analyst to talk about dryness in the USA.

The deferred premium of Mpls. over Kansas wheat futures is getting interesting to sell. We will continue to see some premiums paid for small quantities of quality hard wheat.

### iii) Primary Elevator Price Tables and Grade Spreads

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

Date: November 20, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan. '18 (bu.)	Jan. '18 (mt.)
<b>1 CWRS 13.5</b>	\$6.86	\$252.06	<b>1 CWRS 13.5</b>	\$7.01	\$257.58
<b>1 CWAD 13.0</b>	\$7.27	\$267.13	<b>1 CWAD 13.0</b>	\$7.30	\$268.23
<b>1 CPSR 11.5</b>	\$4.92	\$180.78	<b>1 CPSR 11.5</b>	\$5.02	\$184.45
<b>SW Sask</b>					
<b>1 CWRS 13.5</b>	\$6.92	\$254.27	<b>1 CWRS 13.5</b>	\$6.98	\$256.47
<b>1 CWAD 13.0</b>	\$7.55	\$277.42	<b>1 CWAD 13.0</b>	\$7.53	\$276.68
<b>1 CPSR 11.5</b>	\$4.69	\$172.33	<b>1 CPSR 11.5</b>	\$4.81	\$176.74
<b>NE Sask</b>					
<b>1 CWRS 13.5</b>	\$6.73	\$247.29	<b>1 CWRS 13.5</b>	\$6.77	\$248.76
<b>1 CWAD 13.0</b>	\$7.45	\$273.74	<b>1 CWAD 13.0</b>	\$7.32	\$268.97
<b>1 CPSR 11.5</b>	\$4.67	\$171.59	<b>1 CPSR 11.5</b>	\$4.78	\$175.64
<b>SE Sask</b>					
<b>1 CWRS 13.5</b>	\$6.77	\$248.76	<b>1 CWRS 13.5</b>	\$6.80	\$249.86
<b>1 CWAD 13.0</b>	\$7.57	\$278.15	<b>1 CWAD 13.0</b>	\$7.47	\$274.48
<b>1 CPSR 11.5</b>	\$4.68	\$171.96	<b>1 CPSR 11.5</b>	\$4.79	\$176.00

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

Avg. Grade Spread/ 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>1</sup> (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)

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<sup>1</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."

- 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				Nov. 20, 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>	\$366.22	\$347.41		
<b>HRS</b>	\$359.17			
<b>HRW 11.5</b>	\$272.67			
<b>SWW 12.0</b>	\$251.04			
<b>1 CWRS 13.5<sup>3</sup></b>	\$366.22		\$247.65	\$118.56
<b>2 CWRS 13.0<sup>3</sup></b>	\$359.17		\$216.42	\$142.74
<b>3 CWRS<sup>3</sup></b>	\$272.67		\$212.75	\$59.92
<b>CPS<sup>3</sup></b>	\$244.46		\$165.72	\$78.74
<b>1 CWAD<sup>4</sup></b>		\$411.35	\$284.77	\$126.58
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)	\$191.00			
French 11.5 (Rouen)	\$192.26			
APW 10.5 (W Coast)	\$225.00			
Argentine 12.0	\$172-176.00			

<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

Canadian Wheat - World Price Parities						Nov. 20, 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>		\$9.79	\$9.60	\$7.24	\$6.65	\$6.65
<b>Parity Track Rosetown</b>		\$8.29	\$8.10	\$5.75	\$5.16	\$5.16
<b>Track Bid Rosetown Area</b>		\$6.74	\$5.89	\$5.79	\$4.51	\$4.51
<b>Gross Margin at Elevator (\$/bu)*</b>		\$1.55	\$2.21	-\$0.04	\$0.65	\$0.65
<b>Gross Margin at Elevator (\$/mt)*</b>		\$57.00	\$81.18	-\$1.65	\$23.76	\$23.76
* to cover elevation, elevator market risk, margin						