

Wheat Market Outlook and Price Report: December 4th, 2017

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i) Background and Rationale for the Report

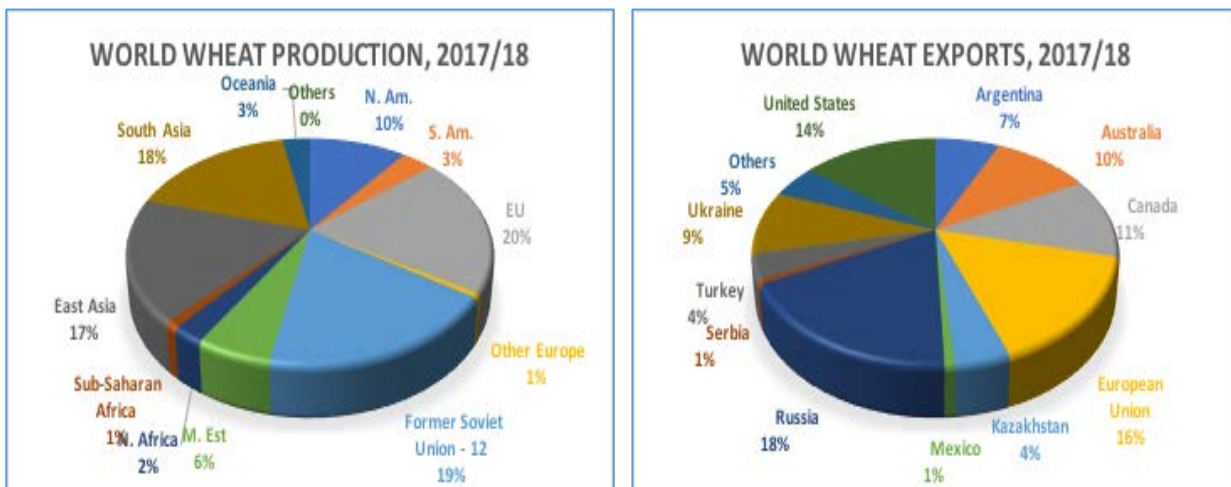
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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:

➤ World wheat production and export shares, 2017/18



Weather concerns about several wheat production areas are increasingly creeping into the discussions about wheat markets and their outlook.

- The two pie charts today help put the **relative importance of various producing countries** with respect to overall production and exports into focus. In terms of production, The EU and FSU represent the single largest production areas, followed by South Asia and East Asia.

- In terms of **export market share**, Russia has become the single biggest exporter this crop year, followed by the EU and the USA. At 11% of total world exports, Canada ranks 4th, followed very closely by Australia, the Ukraine and then Argentina. Current potential weather problems in the US, Argentina, Australia and some parts of the EU could potentially affect a significant amount of wheat production.

- **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.

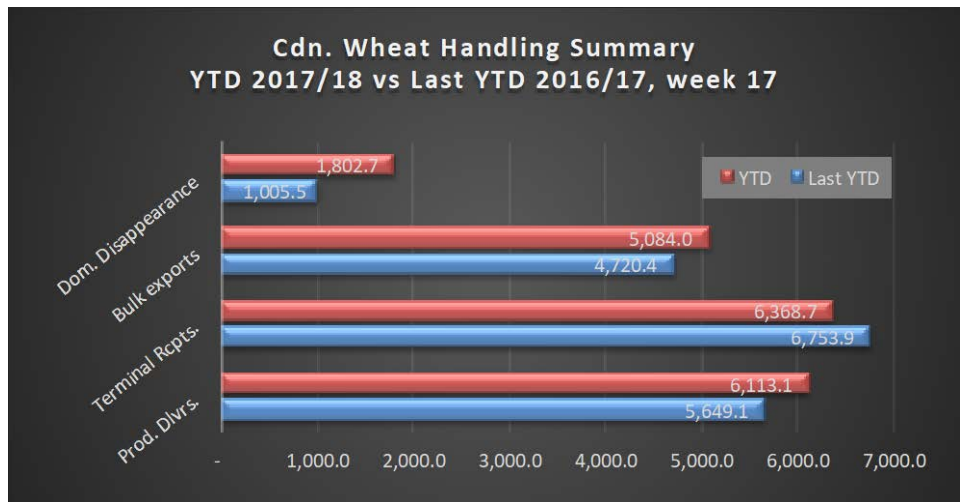
- **Futures:** CBOT and KC wheat hit contract lows before rallying into the weekend. MPLS lost 12c during the week in spite of a 6c gain on Friday.
- **Funds:** Speculative Funds actually extended their net short last week.
- **Matif:** Matif futures in Europe hit contract lows before ending the week slightly higher.

- **Canadian wheat:**

- Given the CGC handling data for week 17, Canadian wheat had another good export week week, with 351,600 mt loaded for export, and 78,100 mt of wheat used domestically. 197k mt of the export wheat were loaded on the Pacific Coast, 95,700 mt in St. Lawrence elevators.

- 197k of the wheat loaded was No. 2 spring wheat (61.5%), 61k mt were No. 1 quality wheat.

- In relevant trade, Iraq bought 100,000 mt of US and Australian hard wheat. *Iraq paid US\$294.50 for US wheat. - Canada did offer, but their price of US\$303.50/mt was too high and presents a huge premium to elevator bids.*



- Taiwan purchased 81,780 mt of US wheat on Friday for Jan/Feb.'18 shipment. Japan bought 151,853 mt of quality wheat on Friday from Australia, Canada, and the US. Of that total, 57,430 mt were bought from the US. We think Canada sold one cargo.

- In grain shipping week 17, Canadian producers delivered 107k mt of **durum** into the handling system while Canadian Durum exports amounted to a decent 115.4k mt and 1.3 mln mt year-to-date. This is now 11% ahead of last year's year to date exports of 1.2 mln mt.

(CGC) Grain Handling Summary Durum		week 17 (to Nov.26/'17)		
('000 mt)	Prod. Dlvs.	Terminal		Dom.
		Rcpts.	Bulk exports	Disappearance
week 17	107.1	109.6	115.4	13.8
Week ago	83.2	99.3	117.9	5.0
YTD	1,190.9	1,619.1	1,301.6	260.7
Last YTD	1,519.0	1,638.1	1,169.2	102.5
YTD less Last YTD (k mt)	-328.1	-19.0	132.4	158.2
YTD over Last YTD (%)	78%	99%	111%	254%

Mercantile based on weekly CGC Handling Data

US wheat:

- The USDA Export Inspections reports this week showed wheat shipments for the week of Nov. 23 at 344,721 mt, 32.4% bigger than last week and 40.5% above the same week last year.
- Re. next year's crop, 92% of the US winter wheat crop was emerged as of Nov. 26, about average. But the crop rating was put at 50% Gd/Ex, down 2% from last week. This is the lowest rating for the end of Nov. in five years and is behind the five-year average of 54%.
- The USDA baseline numbers brought minor support to wheat, projecting further declines in US wheat acreage for 2018/19 along with a small decline in end stocks: all wheat 2018 acreage down to 45 mln acres and 38.34 bu yields (46 mln ac, 46.3 bu yield in '17).

Australian wheat:

- An anticipated serious storm over eastern Australia is causing concerns about Australian wheat as the heavy rains could threaten un-harvested wheat crops. Heavy precipitation of 12+ inches is forecast for Victoria and NSW. Roughly 50% of the wheat crop in South Australia has already been harvested, but only ~30% in Victoria and NSW. The wheat crop remaining to be harvested could be as much as 1.8 mln mt in Victoria and 1.9 mln mt in NSW/ South Australia. The excessive rains are most likely to result in quality losses vs. outright tonnage losses.

Argentine wheat:

- Bage (Buenos Aires Grain Exchange in Argentina) pegged the Argentine wheat harvest at 26% complete. Their wheat crop estimate stayed at 17 mln mt, although some had talked about frost damage this week.
- Argentine FOB wheat values increased by US\$2-3/mt ahead of the Algerian wheat tender, and Argentina was reported to have sold up 3-6 cargoes on this tender. The price was ~US\$172-174/mt FOB Argentina.

EU wheat:

- Fob values of wheat in the EU were little changed this week.
- French wheat remains uncompetitive, except to African destinations.

Black Sea wheat:

- Russian prices for 12.5% protein wheat dropped to US\$188/mt by the end of the week against offers at US\$192/mt. Deferred Feb-March wheat was offered at US\$190-193/mt. the discount for 11.5% protein wheat stayed at at US\$8-9/mt.
- In Russia, agency SovEcon, reported that the Russia's 2018 grain harvest next year could amount to 128.2 mln mt after this year's record of 134 mln mt. This is based on its expectation that the coming winter will be relatively favorable for winter grains and that 6 percent of sowings will be lost. The forecast includes 76.7 mln mt of wheat in 2018 compared with 83.9 mln mt this year.

India:

- Per Reuters, India's production of wheat and pulses is expected to jump in 2018 as a hike in the government's assured purchase prices (MSP's) and ample rainfall have prompted farmers to plant more of the winter crops. This may allow India to avoid buying overseas wheat for the first time in three years.

Significant purchases/ trades:

- Re. spring wheat, **Japan** bought 151,853 mt of quality wheat on Friday from Australia, Canada, and the US. Of that total, 57,430 mt were bought from the US. We think Canada sold one cargo.
- **Algeria** bought 570k mt at US\$208.75-210.50/mt of French & Argentine wheat.
- **Iraq** bought 50k mt of Australian wheat at US\$283.35/mt and 50k mt US wheat at US\$294.50/mt.
- **Egypt** (GASC) bought 120kt m of Russian wheat at US\$207.50/mt.
- **Saudi Arabia** tendered on Friday for 480k mt wheat for Feb-Apr delivery.
- **Thailand** tendered for 100k mt feed wheat for Dec-Jan.'18 delievery; there are no results yet.

Wheat Market Outlook:

➤ **Significant events:**

- Heavy rains in Australia were seen to be negatively affecting production, and yields in Argentina were less than forecast.
- Canada did offer wheat to Iraq, but the price of \$303.50 was too high and did not trade. The price represents a huge premium to elevator bids.
- La Nina could present a risk to Southern Hemisphere crops.

➤ **Outlook:**

The concerns in the markets are the heavy rains in Australia reducing yields and quality, and the lower than expected yields in Argentina. Thus quality continues to be an issue and good premiums can be made for better qualities of wheat as was seen from the Iraq results.

We get the final StatsCan production numbers next week. We expect StatsCan will give larger supplies in Canada, but this is not really bearish as logistics tell us that this just means larger carryovers.

Russian/FSU crops continue to be cheap and will do the Middle-East business.

Kansas has gained on Chicago and Minneapolis has weakened compared to Kansas.

We expect to see Russian traders buying in some of their Chicago short hedges, which should improve wheat futures values a little.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: December 3, 2017					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '18 (bu.)	Mch. '18 (mt.)
1 CWRS 13.5	\$6.77	\$248.76	1 CWRS 13.5	\$6.93	\$254.64
1 CWAD 13.0	\$7.32	\$268.97	1 CWAD 13.0	\$7.35	\$270.07
1 CPSR 11.5	\$4.96	\$182.25	1 CPSR 11.5	\$5.05	\$185.56
SW Sask			SW Sask		
1 CWRS 13.5	\$6.77	\$248.76	1 CWRS 13.5	\$6.89	\$253.17
1 CWAD 13.0	\$7.52	\$276.31	1 CWAD 13.0	\$7.44	\$273.38
1 CPSR 11.5	\$4.74	\$174.17	1 CPSR 11.5	\$5.02	\$184.45
NE Sask			NE Sask		
1 CWRS 13.5	\$6.53	\$239.94	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.46	\$274.11	1 CWAD 13.0	\$7.35	\$270.07
1 CPSR 11.5	\$4.70	\$172.70	1 CPSR 11.5	\$4.77	\$175.27
SE Sask			SE Sask		
1 CWRS 13.5	\$6.57	\$241.41	1 CWRS 13.5	\$6.72	\$246.92
1 CWAD 13.0	\$7.58	\$278.52	1 CWAD 13.0	\$7.52	\$276.31
1 CPSR 11.5	\$4.72	\$173.43	1 CPSR 11.5	\$4.86	\$178.58

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 MT

Relevant FOB Prices and Export Basis				Dec. 3, 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	\$362.56	\$334.06		
HRS	\$355.08			
HRW 11.5	\$276.59			
SWW 12.0	\$250.43			
1 CWRS 13.5³	\$362.56		\$243.25	\$119.31
2 CWRS 13.0³	\$355.08		\$212.01	\$143.07
3 CWRS³	\$276.59		\$208.34	\$68.25
CPS³	\$243.89		\$169.02	\$74.86
1 CWAD⁴		\$399.47	\$275.58	\$123.89
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)		\$190.00		
French 11.5 (Rouen)		\$193.76		
APW 10.5 (W Coast)		\$222.00		
Argentine 12.0		\$173-178.00		

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						Dec. 3, 2017
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$9.69	\$9.49	\$7.35	\$6.64	\$6.64	
Parity Track Rosetown	\$8.19	\$7.99	\$5.85	\$5.14	\$5.14	
Track Bid Rosetown Area	\$6.62	\$5.77	\$5.67	\$4.60	\$4.60	
Gross Margin at Elevator (\$/bu)*	\$1.57	\$2.22	\$0.18	\$0.54	\$0.54	
Gross Margin at Elevator (\$/mt)*	\$57.79	\$81.54	\$6.73	\$19.88	\$19.88	

* to cover elevation, elevator market risk, margin