



Wheat Market Outlook and Price Report: January 8th, 2018

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i) Background and Rationale for the Report

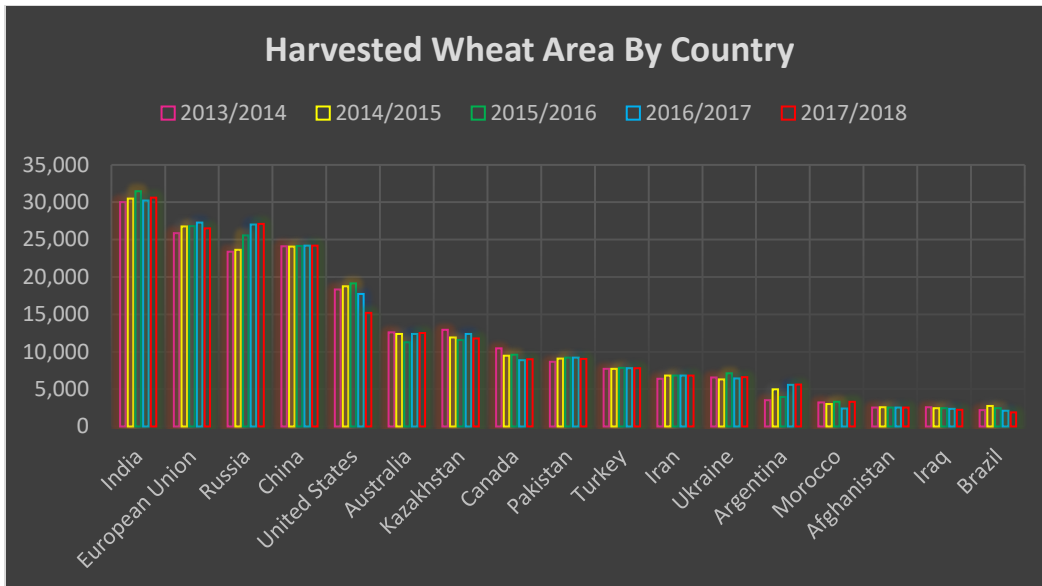
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 Jan. 8, 2018

World Wheat Overview:

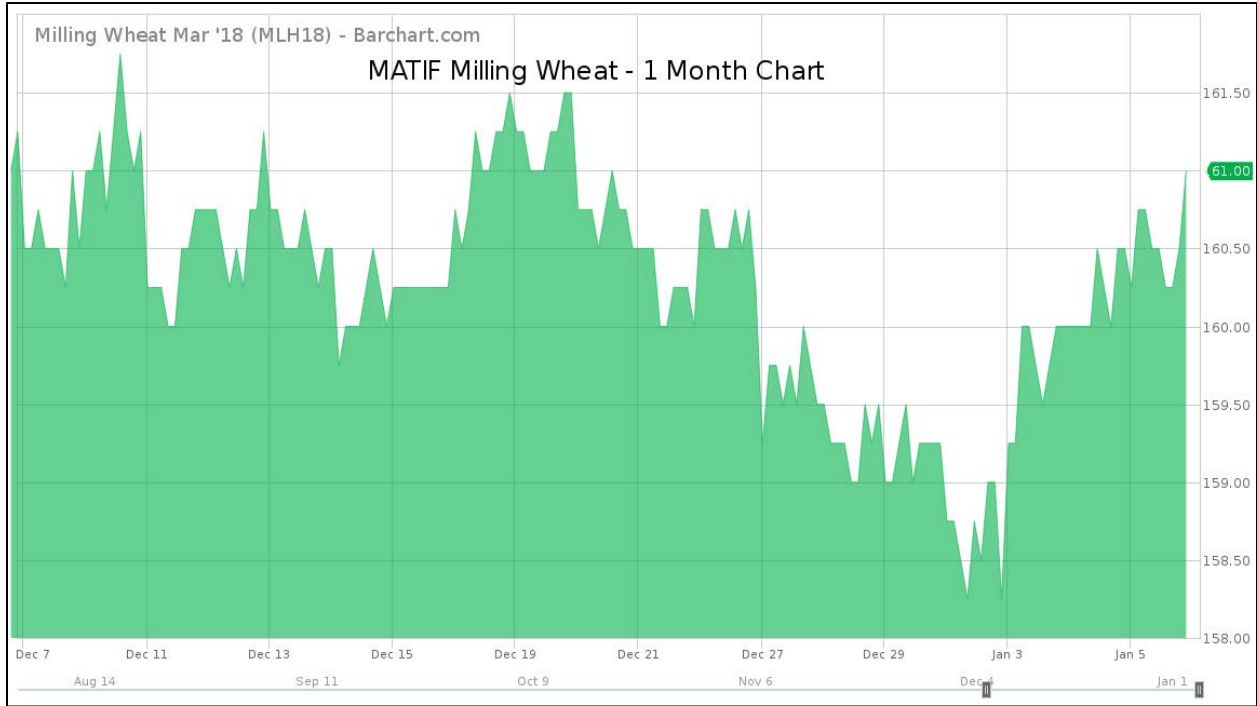
- World harvested wheat area has been on a 3-year downward trend, moving from 224 million ha in 2015/16, to 222 million ha in 2016/17, and 220 million ha in 2017/18.
- North American wheat acres have declined, while Indian, Russian, Argentinian, and EU acres have been on an upward trend. However, despite lower area, global production has been up due to excellent yields.
- Looking at 2018/19, it seems probable that world wheat acreage could increase slightly over last year as Russia continues to expand its wheat production, and as Indian tariffs have been introduced in an effort to boost Indian domestic production. However, current data shows that Indian wheat acres are actually down almost 6% with 94% of the rabi crop already planted.
- While Australian and EU area are likely to remain stable, Canadian wheat acreage could expand in 2018/19 as producers switch pea and lentil acres to other crops.



➤ **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 last week's market events in the major wheat origins.

- **Futures:** Mar'18 contract Chicago winter wheat closed at 430.75 which was down by 3.25 cents in Fridays trade, but up by 3 cents for the week. Meanwhile, Mar'18 contract Kansas hard red winter wheat closed down by 2.25 cents in Fridays trade at 437.5, but was up by 10.6 cents for the week on colder US weather and concerns about winterkill. In Minneapolis, Mar'18 contract hard red spring wheat closed at 626.75, which was down by 1 cents in Fridays trade, but was up by 7.6 cents for the week, while May'18 hard red spring wheat closed at 632.25, down by 0.5 cents for the day and up by 5.4 cents for the week.
- **Funds:** Speculative funds have slightly increased their short position by 0.3 million mt, and are now estimated to be short by 24 million mt as of January 5th.
- **Matif:** Matif wheat futures in Europe closed at €161.00, up by €0.50/mt on Friday and up by €1.75 for the week, after the Euro traded several cents lower in the latter half of last week. French exports have been weak and French wheat is currently overvalued vs Black Sea and Argentine counterparts.



- **Canadian wheat:**

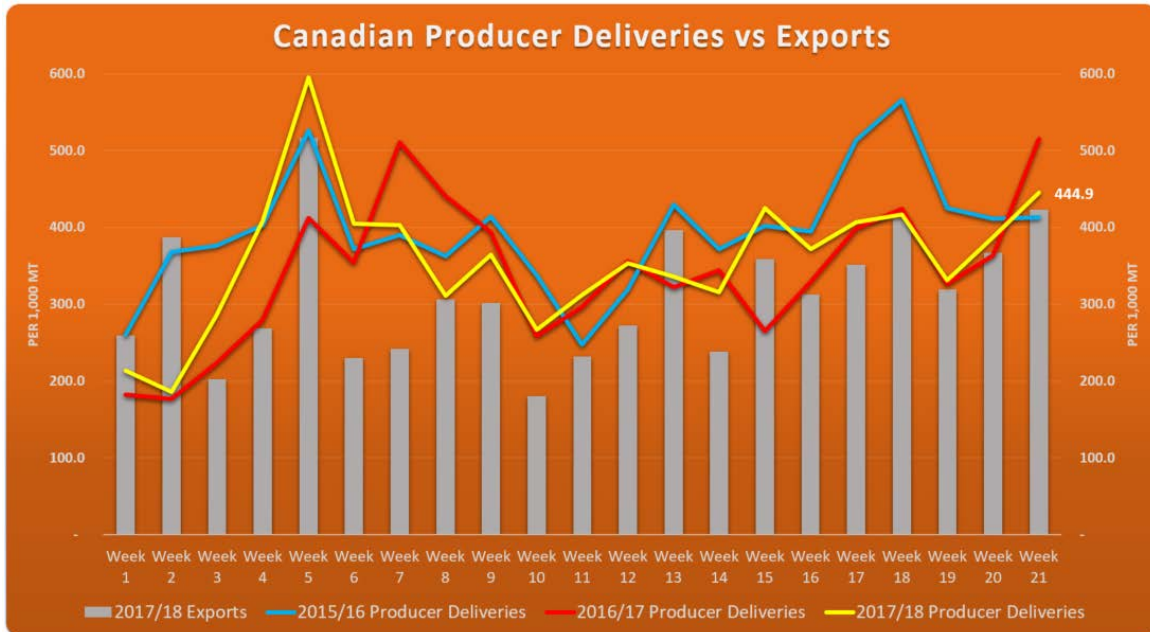
2018 wheat movement is off to a good start, with shipping week 21 Canadian producer deliveries reported at 445k mt, up from last week's 387k mt and the largest since grain shipping week 7. Canadian wheat exports were also reported at 423k mt, which makes week 21 exports the highest since week 5. Total 2017/18 exports to date stand at 6.57 million mt, which is up from last years 5.48 million mt, and also up from 2015/16 exports of 6.44 million mt. While we have seen a favorable increase in exports, Canadian exports are not keeping pace with producer deliveries which total 8.3 million mt year to date.

(CGC) Grain Handling Summary Wheat ('000 mt)	Week 21 (to Dec 17/17)			
	Prod. Dlvsrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 21	444.9	504.0	423.4	139.1
Week ago	387.1	337.4	367.4	105.8
YTD	7,759.2	8,027.8	6,610.1	2,231.7
Last YTD	7,300.1	8,305.1	5,809.9	1,276.9
YTD less Last YTD (k mt)	459.1	-277.3	800.2	954.8
YTD over Last YTD (%)	106%	97%	114%	175%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum ('000 mt)	Week 21 (to Dec 17/17)			
	Prod. Dlvsrs.	Rcpts.	Bulk exports	Disappearance
Week 21	83.7	196.0	119.4	30.1
Week ago	91.2	122.9	87.3	25.2
YTD	1,611.0	2,148.5	1,593.9	354.0
Last YTD	2,082.7	2,379.9	1,607.8	128.2
YTD less Last YTD (k mt)	-471.7	-231.4	-13.9	225.8
YTD over Last YTD (%)	77%	90%	99%	276%

Mercantile based on weekly CGC Handling Data



US wheat:

- Extreme cold covered much of the US over the course of last week, and precipitation is still lacking across large regions of the US plains. Winter wheat rallied last week on concerns about winterkill in the US winter wheat belt due to cold combined with a lack of snow-cover. Kansas city hard red winter wheat hit 6 week highs before closing the week down slightly on Friday by 2.25 cents. According to the USDA, winter wheat crop conditions across the American Southern Plains did deteriorate, with Kansas winter wheat now reported to be 37% good to excellent, down from 51% good/excellent at the end of November. Oklahoma’s winter wheat is also in trouble, with just 15% of the crop reported to be in good to excellent condition and with winter kill also being a concern in Colorado, Missouri, Illinois, and Indiana. While US winter wheat crop condition has deteriorated, it’s still too early to know the full extent of winterkill damage.

Australian wheat:

- Australia is reported to have received some light showers in the east, and temperatures have turned hot with Sydney being reported as the hottest place on earth last Sunday at 47.3 degrees Celsius, but the cooling significantly on Monday. For most regions the Australian weather has become more typical heading into summer, and most of NSW and Victoria are reporting average yields and fair prices as crops are moved to market. Drought seems to have had a bigger impact in Western Australia, but overall Australian wheat production is thought to be in the range of 20 – 21 million mt. Australian wheat futures have traded higher, but fob values are currently trading lower at US \$220.00 Fob as markets look for export demand.

Argentine wheat:

- The Buenos Aries Grain Exchange has estimated harvest progress at 92% vs 82% last week, and production estimates remain unchanged at 17 million mt. The Argentine weather outlook has improved over the past several days, with widespread rains projected in the 6-10 days forecast. Dry conditions have prevailed across much of Argentina as well as some limited regions of Brazil, and more rain is needed. Argentine wheat is currently trading at US \$180 per mt Fob.

EU wheat:

- EU weather has been warmer than normal with storms and heavy flooding reported in parts of northern Europe. EU wheat exports have been severely lagging this season, with 3-week EU soft wheat shipments being reported at 1.145 million mt. Season total EU wheat shipments are down by 20% vs last year, and total all-wheat shipments are down by 21%. French wheat exports are especially weak and are 30% behind FAM projections. By annualizing current shipments, total EU all wheat shipments would now fall 7 million mt lower than current USDA projections and USDA numbers will need to be revised.

Black Sea wheat:

- The Black Sea is been largely quiet, with much of the trade still on holidays and with Ukrainian Christmas falling on January 7th. Russian wheat is still filling all important N. African and M.E. tenders, and Black Sea port data shows that exports have been maintaining and accelerated pace over last year. Black Sea exports have also been aided by abnormally warm conditions and a lack of icing. Russian wheat values picked up slightly over the past week, with 12.5 protein trading at \$192 per mt.

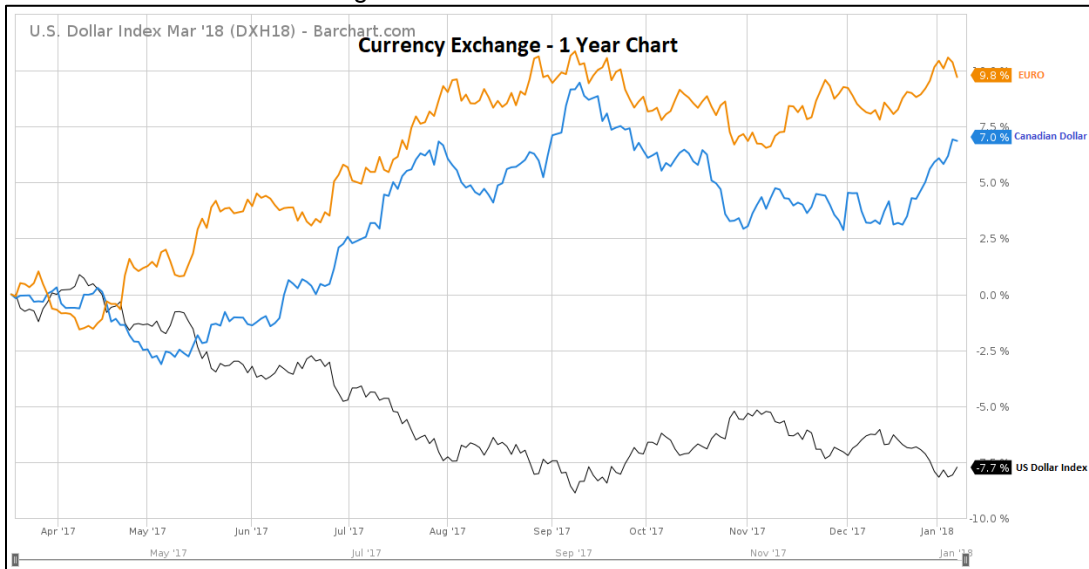
➤ **Significant purchases/ trades:**

Cash markets have been relatively quiet this past week, with the only new trade being an Algerian purchase of 390k mt of march shipment wheat at \$290 - \$213 US per mt, with the origin of this wheat still unknown.

➤ **Wheat Market Outlook:**

Significant events:

- One of the most significant events of the past week was the weaker EU export numbers. As noted above, EU all wheat shipments were reported to be lagging by 21% vs last year and EU wheat is still overvalued vs that of Black Sea of Argentine origin.
- The past week was also a week of new developments in the currency markets, with the Canadian dollar climbing sharply. If the Loonie maintains current values it will hurt Canadian exports and could boost Canadian ending stocks.



➤ **Outlook:**

Markets are expected to be quieter this week, with the upcoming WADSE report being released at noon eastern time on Friday. The trade is still focused on weather as funds are still short, with the dry conditions in Argentina and US winterkill being at the forefront of current weather concerns. Wet conditions and flooding is also a concern in northern Europe, and the Black Sea region could also be affected by any potential cold weather which might slow exports. The upside of any potential weather rally will be limited by high world wheat stocks and weak EU exports which are weighing heavily on the markets. Let's see what the WASDE report brings on Friday.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 8, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar. '18 (bu.)	Mar. '18 (mt)
1 CWRS 13.5	\$6.68	\$245.45	1 CWRS 13.5	\$6.73	\$247.29
1 CWAD 13.0	\$7.29	\$267.86	1 CWAD 13.0	\$7.36	\$270.44
1 CPSR 11.5	\$5.06	\$185.92	1 CPSR 11.5	\$5.05	\$185.56
SW Sask			SW Sask		
1 CWRS 13.5	\$6.63	\$243.61	1 CWRS 13.5	\$6.66	\$244.72
1 CWAD 13.0	\$7.48	\$274.85	1 CWAD 13.0	\$7.42	\$272.64
1 CPSR 11.5	\$4.77	\$175.27	1 CPSR 11.5	\$4.98	\$182.99
NE Sask			NE Sask		
1 CWRS 13.5	\$6.43	\$236.26	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	\$4.79	\$176.00	1 CPSR 11.5	\$4.74	\$174.17
SE Sask			SE Sask		
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	\$6.46	\$237.37
1 CWAD 13.0	\$7.33	\$269.33	1 CWAD 13.0	\$7.38	\$271.17
1 CPSR 11.5	\$4.81	\$176.74	1 CPSR 11.5	\$4.87	\$178.94

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*

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,

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.

Vancouver FOB, minus the elevator bid prices representative measure of the "export" basis for grains in Western Canada."

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				January 8, 2018
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	\$351.72	\$333.93		
HRS	\$344.43			
HRW 11.5	\$269.15			
SWW 12.0	\$250.45			
1 CWRS 13.5 ³	\$351.72		\$236.63	\$115.09
2 CWRS 13.0 ³	\$344.43		\$205.40	\$139.03
3 CWRS ³	\$269.15		\$154.32	\$114.83
CPS ³	\$244.06		\$170.49	\$73.57
1 CWAD ⁴		\$368.60	\$255.00	\$113.60
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$192.00			
French 11.5 (Rouen)	\$196.00			
ASW 10.5 (W Coast)	\$220.00			
Argentine 12.0	\$180.00			
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**

Canadian Wheat - World Price Parities						January 8, 2018
Canadian Funds	Grade					
PNW value/Vancouver Dec./Jan. delivery	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
	\$9.40	\$9.20	\$7.15	\$6.64	\$6.64	
Parity Track Rosetown	\$7.90	\$7.70	\$5.65	\$5.15	\$5.15	
Track Bid Rosetown Area	\$6.44	\$5.59	\$4.20	\$4.64	\$4.64	
Gross Margin at Elevator (\$/bu)*	\$1.46	\$2.11	\$1.45	\$0.51	\$0.51	
Gross Margin at Elevator (\$/mt)*	\$53.72	\$77.65	\$53.46	\$18.59	\$18.59	
* to cover elevation, elevator market risk, margin						