



Wheat Market Outlook and Price Report: January 15th, 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).

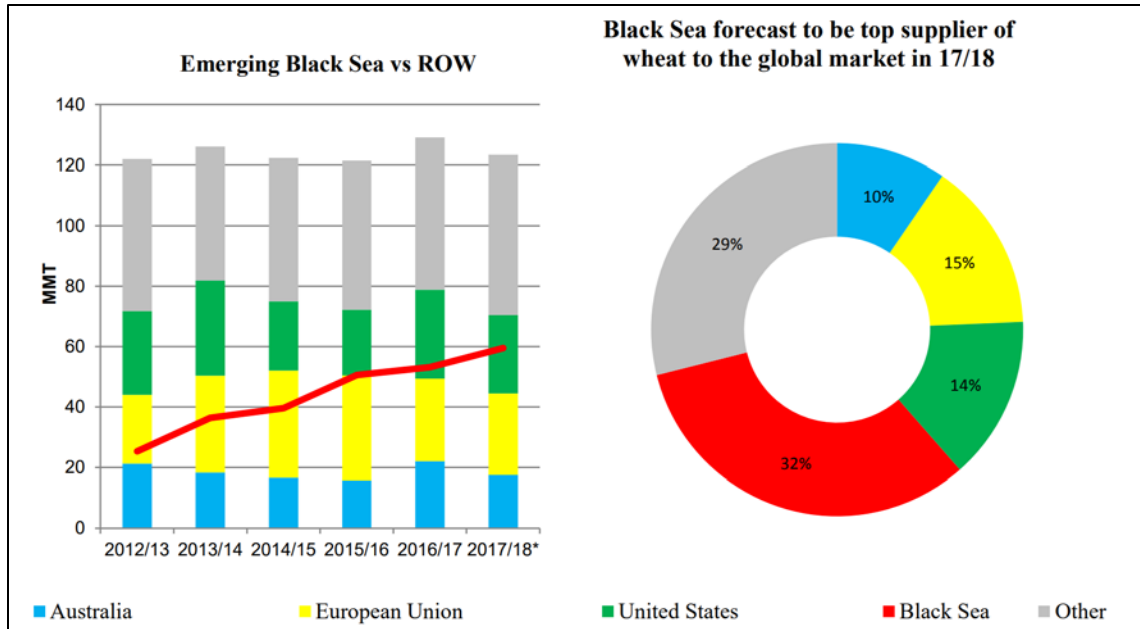
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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. 15, 2018

World Wheat Overview:

➤ USDA Foreign Agricultural Service – World Markets and Trade January 12th/18'

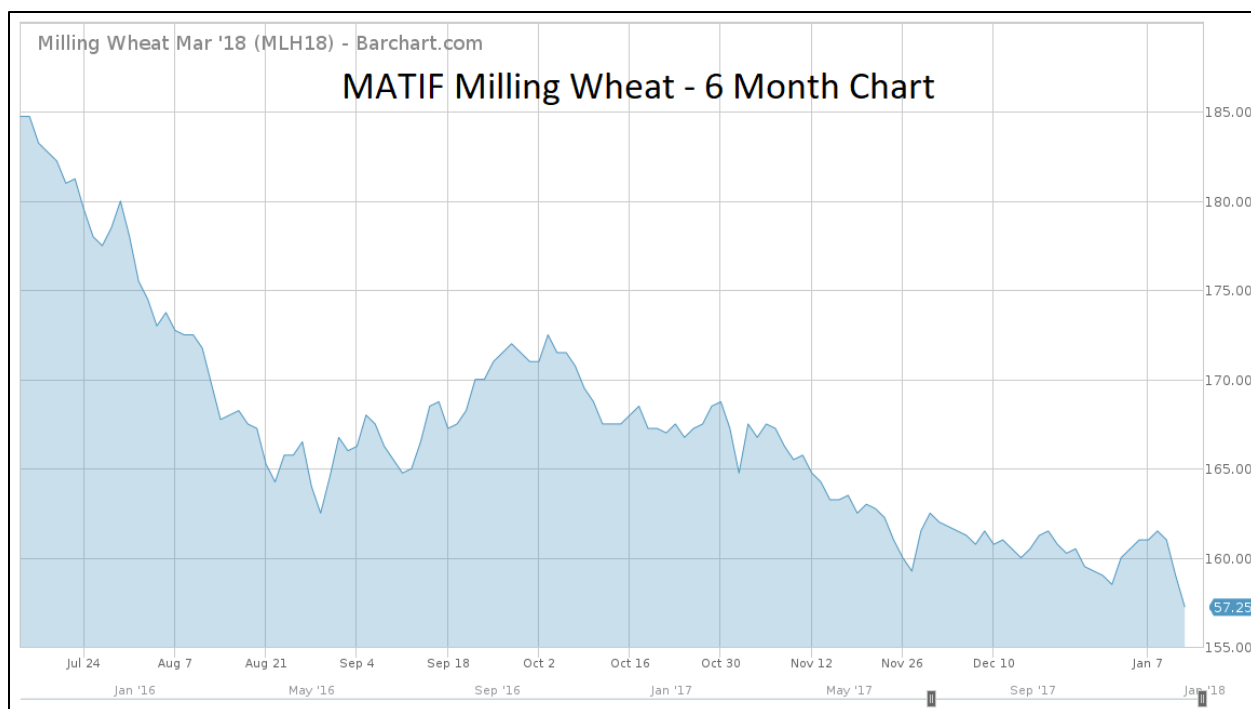
- Black Sea region gains market share away from traditional wheat exporters, and is now forecasted to be the top wheat supplier to the global market in 2017/18
- US, EU, and Rest of World exports continue to suffer a loss of market share to major wheat importing nations such as Egypt. The US currently supplies only 1% of Egyptian wheat imports vs 8% in 2013.
- In 2016/17 the US supplied just 33% of Nigerian wheat imports, vs 75% 5 years ago, while Russia has increased from 1% of imports, to supplying 26% of Nigerian wheat imports.



➤ **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:** On the futures market, Mar'18 contract Chicago winter wheat closed at 420.5 which was down by 12.75 cents in Friday's trade, and down by 10.2 cents for the week. Meanwhile, Mar'18 contract Kansas hard red winter wheat closed down by 14 cents on Friday at 426.25, which was a loss of 11.2 cents for the week. In Minneapolis, Mar'18 contract hard red spring wheat led the losses to close at 612.75, which was down by 16.25 cents in Fridays trade, and down by 14.2 cents for the week.
- **Funds:** Index funds did little to change their overall long. Speculative elements increased their wheat short by 500k mt to 17.54 mln tonnes. With the negative WASDE report there is little pressure on them to cover.
- **Matif:** Matif wheat futures in Europe closed at €157.20, down by €1.75/mt on Friday and down by €3.75 for the week. French wheat is still overvalued vs Black Sea and Argentine counterparts.



- **Canadian wheat:**

- In shipping week 23, Canadian producer deliveries were reported at 331k mt, down from last week's 445k mt. Canadian wheat exports were dismal at just 127.6k mt, and well below the pace of deliveries. Total 2017/18 exports year to date stand at 6.738 million mt, which is up from last year's 6.193 million mt, but still not on pace to make export projections of 17.2 million mt. Commercial stocks have continued to increase, and in the past week commercial stocks rose by over 200k mt to total 3.07 million mt. Canadian exports are up vs last year, but are not keeping pace with producer deliveries which total 8.08 million mt year to date. Canadian ending wheat stocks could be revised higher due to weak exports.

(CGC) Grain Handling Summary Wheat		Week 23 (to Jan 7/'18)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 23	311.0	231.3	127.6	42.5
Week ago	444.9	504.0	423.4	139.1
YTD	8,083.8	8,291.9	6,737.6	2,278.8
Last YTD	7,566.3	8,619.3	6,193.1	1,310.7
YTD less Last YTD (k mt)	517.5	-327.4	544.5	968.1
YTD over Last YTD (%)	107%	96%	109%	174%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum		Week 23 (to Jan 7/'18)		
('000 mt)	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance
Week 23	88.9	81.6	75.8	15.1
Week ago	83.7	196.0	119.4	30.1
YTD	1,719.3	2,230.4	1,669.6	361.3
Last YTD	2,178.6	2,537.4	1,779.9	131.0
YTD less Last YTD (k mt)	-459.3	-307.0	-110.3	230.3
YTD over Last YTD (%)	79%	88%	94%	276%

Mercantile based on weekly CGC Handling Data

- **US wheat:**

- US weekly wheat exports were reported at 71.5l mt, which was well below trade expectations, and these weak exports were also reflected in the USDA WASDE report. In the January 12th WASDE report, the USDA raised US wheat ending stocks by 29 million bushels due to increased supplies, and decreased usage, while the NASS report projected US winter wheat planted acres above trade expectations. US hard red spring wheat exports, were reduced by 11 million bushels, which was reflected by an increase in US spring wheat ending stocks.
- It was the higher than expected SRW acreage in the USDA report that pushed futures to decline 10-15¢ this past week

- **Australian wheat:**

- The Australian Stats Bureau revised 2016/17 Australian ending wheat stocks 3 million mt lower, with the USDA following this lead last Friday. In the January 12th WASDE report, Australian

beginning stocks for 2017/18 are projected at 4.37 million mt, down from the previous 7.10 million mt. This is carried through and results in a 1.5 million mt reduction in Australian exports (16 million mt, vs previous 17.5) as well as a decreased in 17/18 ending stocks, down to 3.22 million mt from the previous December projection of 4.25.

- Australian Fob and futures values for wheat rose following the Aussie Stats Bureau's 2016/17 wheat crop of 30.4 million mt, which was way below ABARES' 35 million mt and USDA's 33.5 million mt.

Argentine wheat:

- Argentina remains largely dry, with most current projections for continued warm dry conditions. However, weather models have been giving conflicting outlooks and the USDA left Argentine wheat production unchanged at 17.5 million mt. While production estimates have remained stable, the USDA did revise projections for Argentine wheat exports upwards by 200k mt to 11.9 million mt. Argentine wheat remains the cheapest on the world market on an Fob basis
- Argentine FOB values for 12% protein wheat slipped US\$2/mt. The premium for 12.5% protein wheat increased to US\$7/mt, while the discount for 11.5% pro wheat remained at US\$3/mt. Argentine wheat is now some US\$20/mt cheaper than equivalent French wheat values. Thus a significant portion of the Algerian sale will be executed from Argentina. Asia is now also taking Argentina feed wheat!

EU wheat:

- Europe has experienced a warm winter thus far, but some models are now suggesting that conditions could turn cold in the coming week, which could have a negative impact on the EU winter wheat crop which is lacking adequate snow cover to protect from winterkill. EU weather could be closely watched by the wheat trade in the coming week.
- However, EU wheat exports have been lackluster over the past shipping season, which was reflected by the USDA in this month's report by a 1.5 million mt downward revision in export projections. This was somewhat offset by a 0.9 million mt decrease in EU production, but overall EU ending stocks were revised upwards by 500k mt to 12.62 million mt.
- French/EU exporters will need to do some serious pricing to avoid a major stock build.

Black Sea wheat:

- As noted on page one, Black Sea exports continue to surprise the trade, aided by record production and a warm shipping season with a lack of icing. In the USDA WASDE report, Russian wheat production was again revised upwards, this time to 85 million mt from Decembers 83 million mt, while total Russian exports were revised upwards to 35 million mt, up from 33.5 million mt last month. Total exports from the FSU-12 countries is now projected at 60.54 million mt.
- Black Sea wheat prices rallied into the weekend, but carrying charges narrowed to just 50¢/mt. Quality discounts were unchanged as was the bid-offer on Russian 12.5% protein new crop wheat at US \$185-188/mt.

➤ **Significant purchases/ trades:**

Cash trade was primarily concentrated on wheat business into the Middle East, where prices for Russian/FSU wheat were more or less unchanged and trading at a US\$212.00/mt

- **Morocco** bought 315,000 tonnes of US and 364,000 tonnes of EU wheat under quota.
- **Egypt** (GASC) bought 115,000 tonnes of Russian for 11-20 Feb at US\$208/mt C&F (\$192 Fob).
- **Algeria's** purchase total from the previous week was raised to 555,000 tonnes.
- **Iraq** bought 50,000 tonnes Australian and 50,000 tonnes of Canadian wheat at \$289 and \$295 respectively from its Dec 24th tender.
- **Thailand** bought 60,000 tonnes of Feb feed wheat at US\$212/mt C&F (based on Argentine 10.5% pro at \$170 Fob).

- **US export inspections** were 234,000 tonnes (season total 543 myn bushels, down 7%), sales were awful at just 72,000 tonnes for a season total of 715 myn bushels down 8% against USDA's unchanged 7% projected decline.

➤ **Wheat Market Outlook:**

Significant events:

Hard red spring wheat suffered the biggest losses on Friday, evidence that it might have been more overvalued vs other wheats. The USDA raised projections for US hard red spring wheat ending stocks by 11 million bushels due to reduced exports.

On January 12th, both the bank of Canada, and TD bank hiked their fixed 5-year lending rates by 0.15% to 5.14% and higher interest rates seem inevitable as rising bond interest rates are increasing the cost of borrowing. While the Canadian dollar momentarily tumbled earlier in the week amid rumors that the Trump administration had plans to withdraw from NAFTA, higher interest rates will increase demand for Canadian currency and could result in the Loonie moving even higher.

➤ **Outlook:**

There was nothing in the stock number nor the WASDE report that was bullish on wheat. Winter wheat conditions are the most important subject to watch in the short term. The amount a winter kill in the USA and the potential of kill in Russia/FSU and the EU are key elements given current weather conditions. In the cash markets there is no reason for Russian prices to go down, but even with 35 million mt of exports, stocks will still rise 50% to over 16 mln tonnes which will be a major cushion for next year's crop. At the same time, the French/EU prices will need to do some serious pricing to avoid a major stock build - unless like Australia, there is a big error on the crop, and/or domestic consumption.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 15, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '18 (bu.)	Apr. '18 (mt.)
1 CWRS 13.5	\$6.49	\$238.47	1 CWRS 13.5	\$6.62	\$243.25
1 CWAD 13.0	\$7.25	\$266.39	1 CWAD 13.0	\$7.33	\$269.33
1 CPSR 11.5	\$5.08	\$186.66	1 CPSR 11.5	\$5.15	\$189.23
SW Sask			SW Sask		
1 CWRS 13.5	\$6.50	\$238.84	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	\$7.46	\$274.11	1 CWAD 13.0	\$7.44	\$273.38
1 CPSR 11.5	\$4.75	\$174.53	1 CPSR 11.5	\$4.87	\$178.94
NE Sask			NE Sask		
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	\$6.44	\$236.63
1 CWAD 13.0	\$7.20	\$264.56	1 CWAD 13.0	\$7.26	\$266.76
1 CPSR 11.5	\$4.85	\$178.21	1 CPSR 11.5	\$4.95	\$181.88
SE Sask			SE Sask		
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	\$7.40	\$271.91
1 CPSR 11.5	\$4.92	\$180.78	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)

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."

- 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				Jan. 15, 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	\$345.19	\$324.21		
HRS	\$338.35			
HRW 11.5	\$264.48			
SWW 12.0	\$245.78			
1 CWRS 13.5³	\$345.19		\$229.65	\$115.54
2 CWRS 13.0³	\$338.35		\$198.42	\$139.93
3 CWRS³	\$264.48		\$194.74	\$69.73
CPS³	\$239.40		\$174.17	\$65.23
1 CWAD⁴		\$316.92	\$255.00	\$61.91
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$193.00			
French 11.5 (Rouen)	\$194.79			
APW 10.5 (W Coast)	\$225.00			
Argentine 12.0	\$174-179.00			

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						Jan. 15, 2018
Canadian Funds		Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$9.22	\$9.03	\$7.02	\$6.52	\$6.52	
Parity Track Rosetown	\$7.72	\$7.54	\$5.53	\$5.02	\$5.02	
Track Bid Rosetown Area	\$6.25	\$5.40	\$5.30	\$4.74	\$4.74	
Gross Margin at Elevator (\$/bu)*	\$1.47	\$2.14	\$0.23	\$0.28	\$0.28	
Gross Margin at Elevator (\$/mt)*	\$54.17	\$78.56	\$8.36	\$10.25	\$10.25	
* to cover elevation, elevator market risk, margin						