

Wheat Market Outlook and Price Report: March 12th, 2018

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

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 Mar. 12/18

2017/18 World Wheat Overview: USDA WASDE report, March 9th 2018

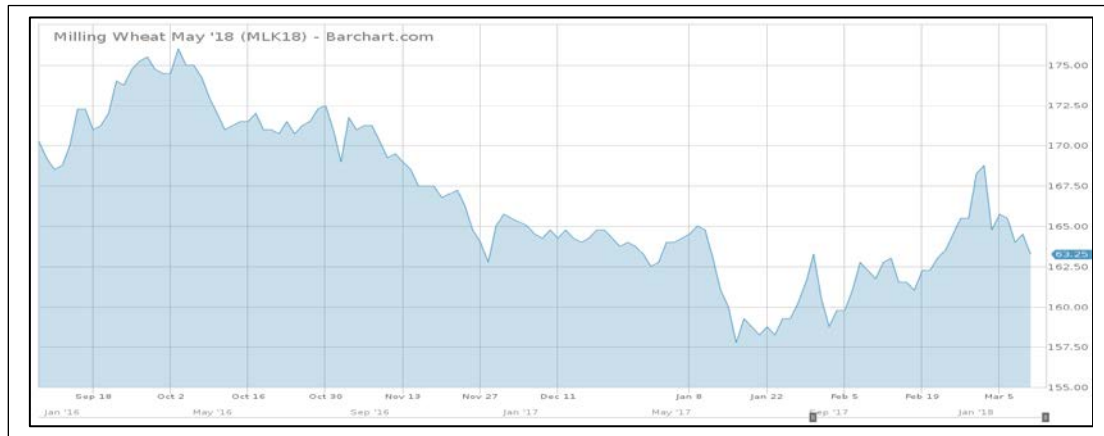
- **World wheat ending stocks for 2017/18** have once again been revised upwards, this time by 2.79 million mt, to a new world record of 268.89 million mt.
- **World wheat supplies** are revised 0.5 million mt due to higher production forecasts in Kazakhstan.
- **Russian wheat exports** have been increased by 1.5 million mt to a record 37.5 million mt, while EU wheat exports have been reduced by 1 million mt.
- **Total world consumption** has been reduced, primarily due to a 2 million mt reduction in Indian consumption driven by higher domestic prices and weakening Indian demand.



➤ **Global wheat production and trade:**

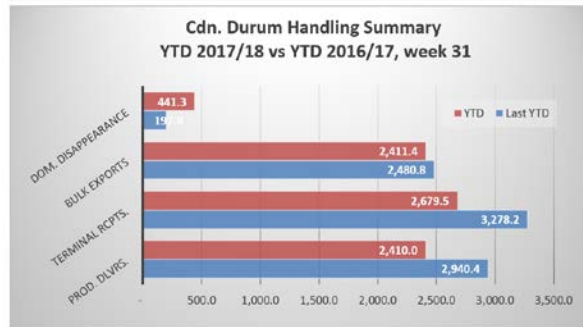
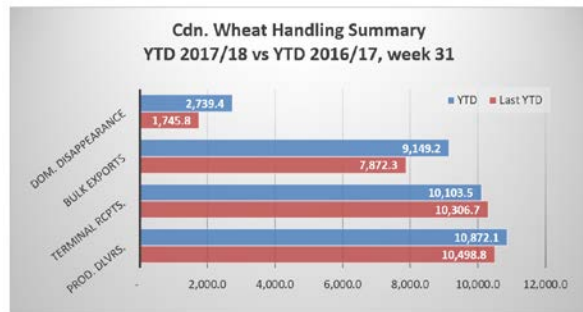
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** May'18 contract Chicago winter wheat closed at 489.25 which was down by 10 cents in Friday's trade and down by 10.6 cents for the week. Meanwhile, May'18 contract Kansas hard red winter wheat closed down by 12.75 cents at 520.5 and was also down by 13.2 cents for the week. In Minneapolis, May'18 contract hard red spring wheat closed at 617.5, which was down by 7.25 cents in Friday's trade and down by 2.4 cents for the week, while Jul'18 hard red spring wheat closed at 625.5, down by 7.25 cents for the day and down by 2.6 cents for the week.
- **Funds:** Funds continue to cover their wheat short position and are currently short 4.3 million mt as of March 9th.
- **Matif:** Matif wheat futures in Europe closed at €163.25 which was down by €1.25/mt on Friday, and down by €1.50 for the week. EU ending stocks were revised higher by the USDA this past week.

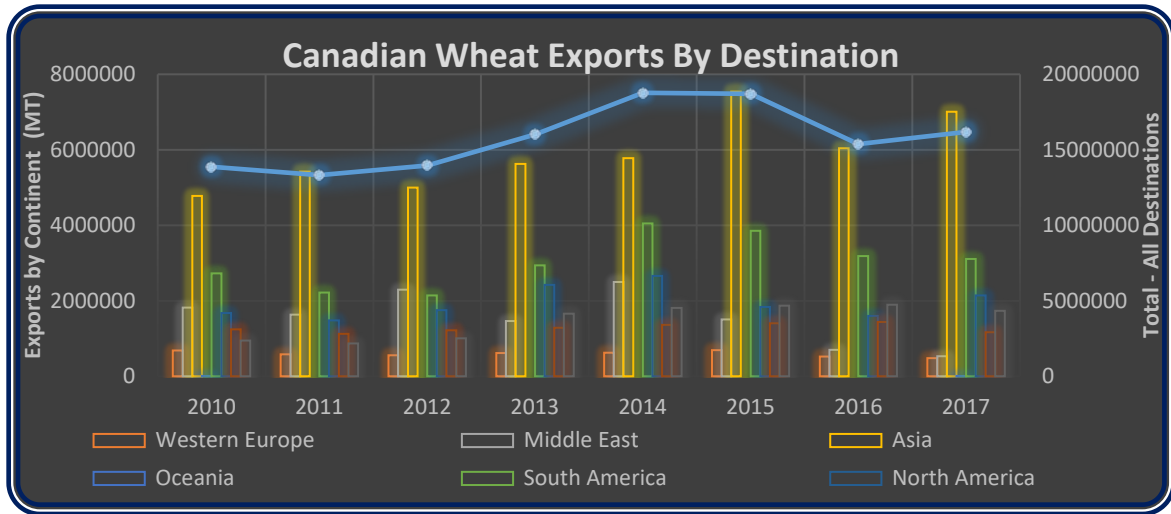


Canadian wheat:

- In grain shipping week 31, Canadian producer deliveries were reported at 263k mt, which is up from 291k mt in week 30. Meanwhile, exports were reported at 253k mt, up marginally from 251k mt in week 30. Year to date Canadian non-durum wheat exports now stand at 9.15 million mt, which is up from last year's 7.87 million mt, but still lagging well behind producer deliveries which stand at 10.87 million mt YTD.
- *The pace of deliveries exceeds the pace of exports and Canada is on track to achieve annual exports of 16.85 million mt, while producer deliveries are on pace to achieve 18.24 million mt (annual). There is a lot of competition in the export markets, and weak railcar availability is slowing grain movement which makes it increasingly unlikely that we will achieve our export target of 17.2 million mt.*
- Stats Canada data shows that Canadian wheat exports to Asia have been on an uptrend over the past 7 years, while both North and South American exports have trended lower since 2014. Meanwhile African, EU, and Central American exports have remained stable. Asia continues to be the largest buyer of Canadian wheat, with top Asian buyers (as of December) being

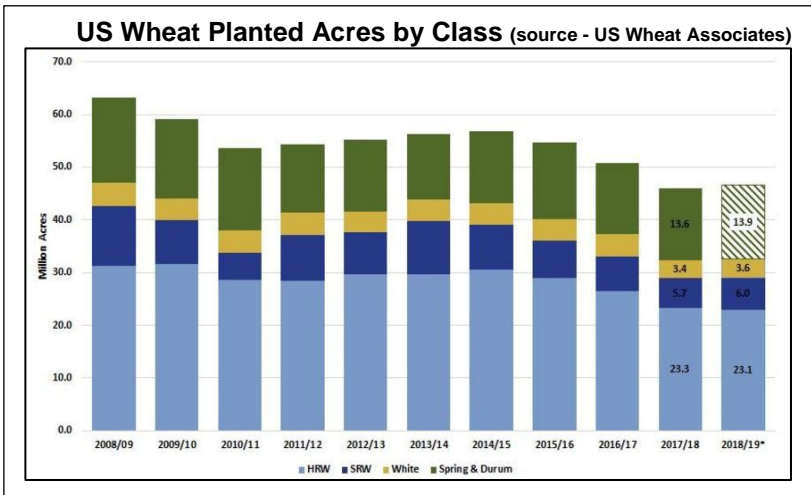


Indonesia (1.68 million mt), Japan (1.47 million mt), Bangladesh (1.24 million mt), Vietnam (0.94 million mt) and China (0.59 million mt).



US Wheat:

- In the USDA WASDE report, US wheat exports were reduced by 25 million bushels to 925 million bushels, while US ending stocks were raised by the same amount.
- The 25 million bushel decrease in exports is divided between a 16 million bushel reduction in HRW exports, and a 9 million bushel reduction in HRS exports. Hard red spring wheat ending stocks are now estimated at 185 million bushels vs the previous February estimate of 176 million bushels.
- Rain/Snowfalls amounting to 2-6" fell across the northern plains of ND, MT, SD, MN, and in regions of Iowa, while southern and western regions of the plains remained dry with no significant rains projected in the 6-10 day outlook. Overall the outlook for the northern plains is improving, while the southern and western regions of the HRW belt continue to look dry.
- US weekly export sales were 391.5k mt, which is on the high side of trade expectations of 200 – 400k mt. This brings YTD exports to 809 million bushels, which is down by 12% vs last year and is in-line with the USDA's new revised 12% decline in last weeks WASDE.
- With US HRW and HRW ending stocks being revised upwards, the world shortage of high protein wheat seems to have been overstated, and its probable that we will continue to see further upward revisions in HRS ending stocks in future reports.
- Despite dry conditions, the total US planted wheat area is expected to increase by 500k acres in 2018/19 to 46.5 million acres (a 1% increase). The increase is forecasted to be primarily in US spring wheat and durum area which (if achieved) would be the largest HRS and durum acreage since 2015/16 at 13.9 million acres (a 2% increase from 2017/18 acreage). However, the US winter wheat planted area is now expected to be the lowest since 1909 and could somewhat offset the higher HRS acres.



Australian wheat:

- In the past week it was reported that ABARES (Australian Bureau of Agriculture) projected the 2018/19 Australian wheat crop at 23.7 million mt, up by ~12% from 2017/18 production of 21.2 million mt due to a La Nina weather event that is expected to increase rainfall on the Australian east coast. Rainfall has fallen in Queensland and NSW over the past week, which is improving soil moisture in advance of planting which will begin next month. However, dryness is still prevalent in many regions.
- Australian wheat is current trading at US \$242.50 per MT Fob Western Australia.

Argentine wheat:

- Brazil continues to receive timely rains, while the Argentine drought has worsened. The forecast for remainder of the week is once again turning dry and this is little relief in sight. There are some soaking rains expected in the long-term outlook for the coming weekend, but the forecast for this could easily change. Argentine weather is becoming irrelevant to wheat, as harvest is already underway and the major damage is already done. Argentine wheat production was left unchanged at 18 million mt in this month's USDA WASDE report.
- Argentine Fob wheat traded higher over the course of last week to close at \$206 per mt.

EU wheat:

- EU ending wheat stocks were raised, but only by 1 million mt, which is arguably not enough, and it seems likely EU ending wheat stocks could be revised upwards by an additional 1-4 million mt in future reports. Meanwhile, Russian ending stocks were reduced by 1.51 million mt on stronger than expected exports. Weather in the EU continues to be warm, and France has reported that 81% of French winter wheat is in Good/Excellent condition, which is down by 2% from last week's 83% good/excellent, and also below last year's 92% G/E rating.
- French and German wheat traded mixed, with French 11.5 wheat closing the week at US \$205.00 (down by \$0.13 for the week) while German 12.5 closed the week \$1.97 higher at \$211.10.

Black Sea wheat:

- As mentioned, the USDA revised Russian wheat exports 1.5 million mt higher this past week to a new projection of 37.5 million mt. However, this adjustment seems insufficient, and it's now thought that Russian exports could be as high as 40 million mt and that further upward revisions could be in store. UkrAgroConsult has reported that 86.6% of Ukraine crops are in good or satisfactory condition as of March 3rd, and that most winter crops in the Ukraine have survived the recent cold in good condition due to snow cover that provided a thermal blanket. The projection for the 2018 wheat crop has been increased by 4.8% to 26.3 million mt due to higher harvested acres of 6.4 million mt (up from last year's 6.2 million mt) as well as yields which are expected to be slightly lower vs last year. Ukraine's wheat exports for 2018/19 are now projected at 17 million mt.
- Russian 12.5% protein wheat is currently trading at \$208.00/mt.

Significant purchases/Trades:

- **Egypt (GASC)** bought 175,000 mt of Russian wheat for shipment April 5-15 at US\$230-231/ mt C&F (this is up by US\$6-8/mt above what they paid 10 days prior).
- **Korea** bought 65,000 mt of May feed wheat at US\$233/mt C&F.
- **US export sales** of 392,000 tonnes left the season total at 809 million bushels, down 12% on last year (this is in line with the latest USDA revision).

➤ **Wheat Market Outlook:**
Significant events:

- **World wheat ending stocks for 2017/18 have once again been revised upwards, this time by 2.79 million mt, to a new world record of 268.89 million mt.**
- Early last week federal transport and agriculture ministers sent a letter to the railways requesting a plan to address the backlog of unfilled railcar orders, but still unclear if any action might be taken by either the railway or the federal government. Vessel lineups at Canadian ports have increased dramatically.
- An announcement by the Trump administration of new steel and aluminum import tariffs raised concerns of possible retaliatory measures by major grain importing countries. Canada and Mexico were both exempted from the new tariffs. *It's interesting how the world calls foul against Trump yet nobody mentions the introduction of EU import levies on grains to keep US grain out of the EU to protect EU farmers from low world prices.*

➤ **Outlook:**

HRW is currently driving the wheat trade and next week's NASS crop condition ratings could help markets to find some limited price support on Monday. In our view, if there is a significant reduction in the US exports of HWW, that decline can easily be substituted by additional Russian/FSU/ Canadian/EU exports.

EU/Black Sea crops have come through the winter without too much damage, but it should be noted that major crop issues in the region over the last 15 years have all been the result of adverse summer weather - not autumn or winter losses, so some risks remain.

EU-Black Sea price relationships have changed significantly this week and with good carryover stocks, they will be in a good position to compete for exports in a month or so.

We continue to recommend old crop wheat sales at \$7.00 per bushel or better and continue to leave new crop alone for now.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: March 12, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jun. '18 (bu.)	Jun. '18 (mt)
1 CWRS 13.5	\$6.59	\$242.14	1 CWRS 13.5	\$6.65	\$244.35
1 CWAD 13.0	\$6.92	\$254.27	1 CWAD 13.0	\$6.98	\$256.47
1 CPSR 11.5	\$5.64	\$207.24	1 CPSR 11.5	\$5.69	\$209.07
SW Sask			SW Sask		
1 CWRS 13.5	\$6.57	\$241.41	1 CWRS 13.5	\$6.67	\$245.08
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$7.05	\$259.05
1 CPSR 11.5	\$5.47	\$200.99	1 CPSR 11.5	\$5.63	\$206.87
NE Sask			NE Sask		
1 CWRS 13.5	\$6.35	\$233.32	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$6.97	\$256.11	1 CWAD 13.0	\$7.01	\$257.58
1 CPSR 11.5	\$5.38	\$197.68	1 CPSR 11.5	\$5.48	\$201.36
SE Sask			SE Sask		
1 CWRS 13.5	\$6.43	\$236.26	1 CWRS 13.5	\$6.53	\$239.94
1 CWAD 13.0	\$7.11	\$261.25	1 CWAD 13.0	\$7.15	\$262.72
1 CPSR 11.5	\$5.46	\$200.62	1 CPSR 11.5	\$5.50	\$202.09

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				March 12, 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	\$359.21	\$338.00		
HRS	\$351.67			
HRW 11.5	\$316.79			
SWW 12.0	\$274.36			
1 CWRS 13.5 ³	\$359.21		\$229.28	\$129.93
2 CWRS 13.0 ³	\$351.67		\$197.68	\$153.99
3 CWRS ³	\$316.79		\$191.80	\$124.98
CPS ³	\$267.76		\$196.58	\$71.18
1 CWAD ⁴		\$333.52	\$266.39	\$67.13
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$208.00			
French 11.5 (Rouen)	\$205.00			
ASW 10.5 (W Coast)	\$242.50			
Argentine 12.0	\$212.00			
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					March 12, 2018
Canadian Funds					
PNW value/Vancouver	1CWRS13.5	2CWRS	Grade 3CWRS	Winter wht.	CPS
March/Apr. delivery	\$9.60	\$9.39	\$8.44	\$7.29	\$7.29
Parity Track Rosetown	\$8.10	\$7.89	\$6.95	\$5.79	\$5.79
Track Bid Rosetown Area	\$6.24	\$5.38	\$5.22	\$5.35	\$5.35
Gross Margin at Elevator (\$/bu)*	\$1.86	\$2.51	\$1.73	\$0.44	\$0.44
Gross Margin at Elevator (\$/mt)*	\$68.35	\$92.40	\$63.40	\$16.20	\$16.20
* to cover elevation, elevator market risk, margin					