

Wheat Market Outlook and Price Report: April 16, 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).

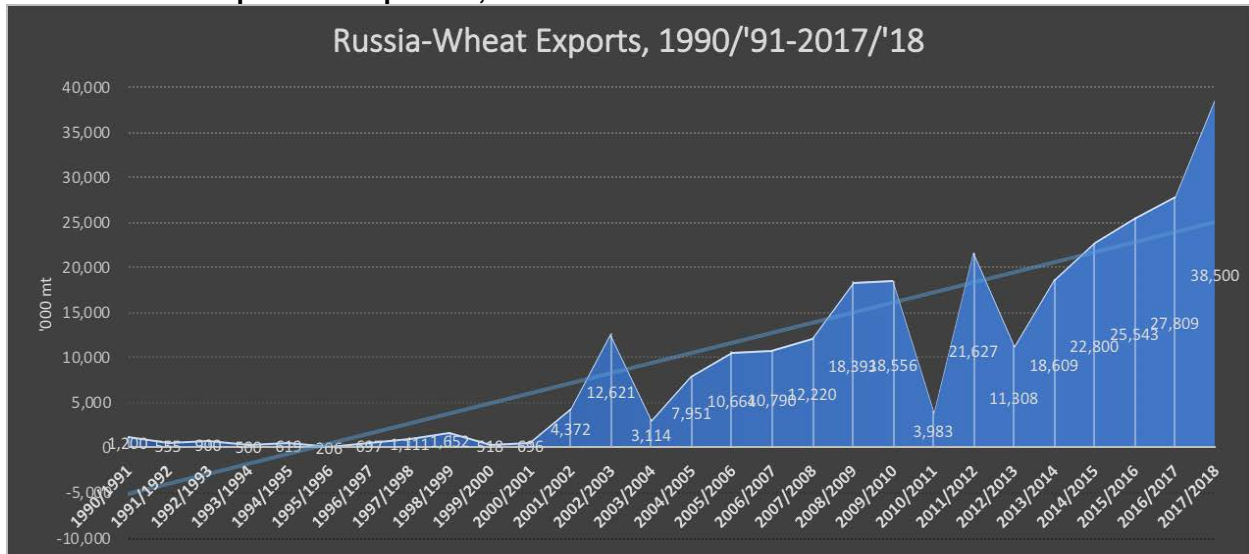
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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 April 16, 2018

World Wheat Overview:

- **Russia's rise to become the World's Dominant Wheat Exporter**

Russian Wheat Export Developments, 1990/91-2017/18



It is worth looking at a longer data time series for Russian wheat exports (1990/91-2017/18) to appreciate what Russia has done within international wheat markets and to its competitors.

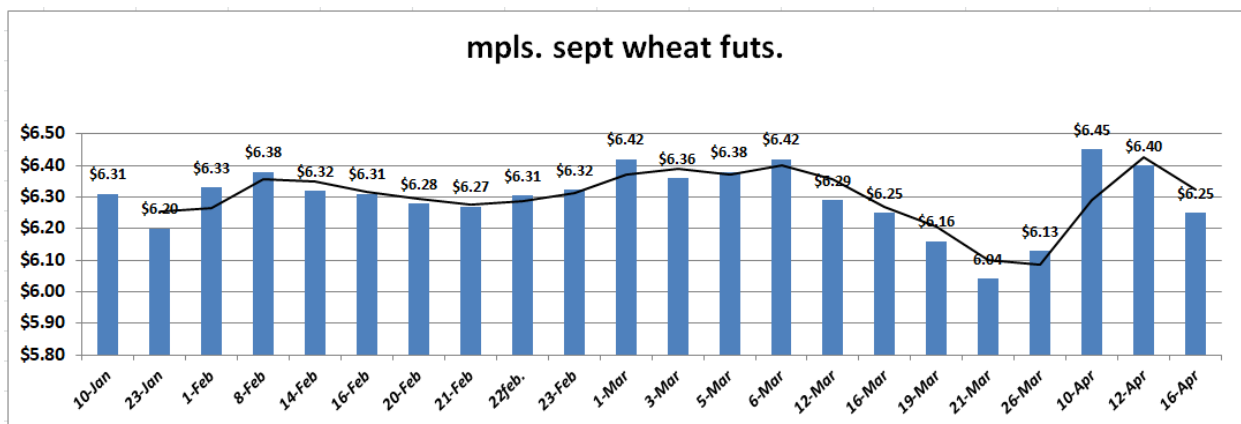
- Russian wheat exports have increased from 1.2 mln mt to 38.5 mln mt in 2017/18 (some think they even reach 40 mln mt this year).

- According Bloomberg and the Russian Export Center, food shipments from Russia jumped 25% last year alone. The record amount was mostly due to exports of wheat and frozen fish, and sugar.
- Russia has become the world's top wheat shipper. In recent years, Russia has increasingly taken wheat market share from other exporters, like France (the EU), the US, Canada. About half the world's countries now buy wheat from Russia.
- Russian wheat has especially controlled wheat tenders to Egypt (GASC tenders), which overtook China thus year as the largest buyer of Russian food for the first time since 2012.
- Consulting firm IKAR in Russia increased their export estimate for Russia to 39.5 million mt last Friday.
- *Given production costs of wheat in Russia and its access to Black Sea ports, it has become increasingly tough for North America to compete against Russian wheat in the wheat export markets.*

➤ **Global wheat production and trade:**

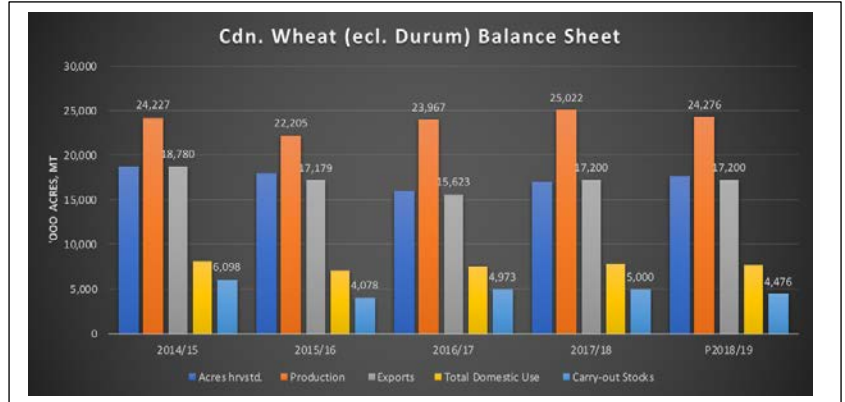
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Chicago SRW futures fell 2.2%, while HRW was hit harder still; it fell 3% to lows not seen since last week. May 18 MGEX Wheat closed Friday at \$6.17, down 6 cents on the day.
- US wheat futures fell again last week, with export sales again poor last week and the weather models agreeing on rain next week in parts of the US Plains (but not in the south and west where drought will expand). Old crop export commitments continue to show that *US wheat is too expensive and that further reductions by the USDA will likely be necessary, while new crop sales remain at a 6-year low and over 20% below last year.*
- Minneapolis futures have not done too much since January.



- **Funds:** In the week ending April 10, managed money spec funds cut back their net short position in Chicago wheat by 18,546 contracts, leaving them at -54,872 ahead of the late week sell off.
- **Matif:** Matif followed the US wheat futures, hitting 5-week highs early, but ending down €2/mt despite Black Sea strength and good EU shipments.
 - **Canadian wheat:**
- In shipping week 36, Canadian producers delivered 404.1k mt of wheat to Canadian grain handling facilities, up 94k mt from the week previous. YTD, producers have delivered 12.7 mln mt, 357k mt more than last year. Exports were up this week to 361k mt; YTD 10.8 mln mt versus 9.2 mln mt YTD last year.

- In Canada, given the **latest AAFC numbers**, the area seeded to wheat for 2018/19 is forecast to increase by 4% from 2017/18 as the 11% decrease for winter wheat is more-than offset by a 5% increase for spring wheat.
- However, production is projected to fall by 3% to 24.3 mln mt due to a decrease in yield. Supply is forecast to fall by 2% to 29.4 mln mt. Exports are forecast to be the same as for 2017/18 (17.2 mln mt) and carry-out stocks are forecast to decrease by 10% to 4.5 mln mt.
- *There are two important observations on the AAFC numbers:* a) Week 35 YTD exports for wheat (excl. durum) are at 10.4 mln mt. To reach 17.2 mln mt this crop year would require 400k mt of weekly wheat exports. We do not think this will be reached. We are using 16 mln mt exports for the ongoing crop year, which still requires 329k mt of weekly exports. Smaller exports will increase ending stocks accordingly. b) Given tepid grower prices for wheat in Western Canada and good value for canola, spring wheat acres may increase less than the 5% assumed by AAFC.



- **Rail shipping:** The Canadian rail companies have improved slightly to 69% of total hopper cars being ordered in shipping week 36 being delivered. *This still leaves 31% of orders uncovered with only very little volume ordered.*
- **Durum:** In grain shipping week 36, Canadian producers delivered 102k mt of durum to licensed Canadian grain handling companies. Durum exports were reported at 108k mt, and YTD total exports now stand at 2.8mln mt, down 4% (or 131k mt) from last year's pace.
- According to the USDA's seeding intentions report for 2018, the US area seeded to Durum wheat is estimated at 2.00 million acres, down 13% from 2017. Acreage decreases are expected in Montana and North Dakota, the two largest Durum-producing States. Durum wheat seedings were nearly complete by March 11 in Arizona. – We think USDA may be underestimating the US durum area as earlier price incentives of wheat over durum have reversed.
- CWRS 13.5% protein was quoted in the market at US\$271.20/mt FOB Vancouver.
- *Cash #2CWAD is currently bid at \$8.00 in Northgate.*

○ **US wheat:**

- More heavy snow is expected for the N Plains and upper Midwest, rain in the Delta and south-east and ongoing dryness in the Plains. Below normal temperatures will persist everywhere for another week. There is little sign of any warming in Canada, so we can assume that wheat seeding dates in Canada will likely be negatively affected. This generally means lower yields.
- Slow spring seeding progress and a weekly crop update showed winter wheat ratings down another 2 points at a 16-year low of 30% 'good to excellent' (53% last year). Just 3% of the crop was headed (versus 8% a year ago). Spring wheat seeding was 2% complete against 4% last year and a 6% average.
- This morning on ideas of rains helping US winter wheat crop conditions.
- There are progressive declines on poor old crop wheat export sales, new crop US sales commitments are at 6-year lows and are 20% down on a year ago.
- US HRW 11.5/13% protein was quoted at US\$243.30/mt FOB. PNW HRS 13.5% protein was worth US\$290.00/mt FOB.

○ **Australian wheat:**

- USDA made no changes to the Aussie balance sheet, nor to China where futures ended sharply lower.
- Australian wheat futures hit 6-month highs in both old and new crop due ongoing dryness. Domestic prices have been rising on a daily basis.

- APW from Western Australia was quoted at US\$242.50/mt FOB Australia for May shipment.
 - **Argentine wheat:**
 - Last week's rain was seen as excellent for soil moisture ahead of planting. Farmers were reported as being 'much more optimistic', and some acreage estimates used a 10% increase on last year.
 - USDA switched 300k mt from Argentine domestic consumption to exports for the '17/18 balance sheet.
 - Argentine old crop Fob wheat values were unchanged, but new crop values fell by US\$5/mt following the rains.
 - **EU wheat:**
 - Cumulative EU wheat exports suggest an all-wheat export season total of ~20 mln mt, which is ~4 mln mt below the USDA's revised 24 mln mt. *If domestic EU demand numbers are correct, this implies EU ending stocks are another 4 mln mt too low.*
 - French 12.5% protein wheat was quoted at US\$210.60/mt FOB for May shipment.
 - **Black Sea wheat:**
 - USDA raised Russian wheat exports 1 million mt to 38.5 million mt.
 - More difficult logistics inland, overall demand and a lack of farmer selling produced the rally for Russian wheat prices, but these are now even with German/Baltic wheat prices and upside may be limited from here.
 - The Fob market closed up US\$5/mt at US\$208.50-214/mt for Russian 12.5 pro.

➤ **Significant purchases/ trades:**

- **Japan** bought 68k mt of US spring wheat in their weekly MOA tender. Another 60k mt spring wheat were bought from Australia/ Canada.
- **Korea** passed on its Aug/ Sept tender for 65k m of feed wheat; the lowest offer was US\$224/mt.
- **Jordan's** state-owned silo company is tendering for 35k mt of hard wheat and 15k mt of soft wheat for LH Jne/ FH Jly.
- **Taiwan** is looking for 92,975 mt of wheat from the US, with the tender to close on April 18th.
- **US export sales** Thursday were below expectations at just 121kt, leaving the season total at 847 mln bu, down 15% on last year against the USDA's projected 12% decline.

➤ **Wheat Market Outlook:**

Significant events:

- **Egypt** set this year's local purchase price at \$220 equivalent, ostensibly based on international prices. But at 15% or \$35 below what farmers were demanding, this could result in fewer acres and higher imports.
- **USDA report:** USDA lowered US feed and residual usage for wheat by 30 mln bu and pegged US 2017/18 ending stocks at 1,064mln bu (28.957mln mt) compared to the expected 1,037mln bu (28.222mln mt). **World 2017/18 ending stocks** were pegged at 271.2mln mt, 3 mln mt higher than the expected 268.2 mln mt. These are record high world stocks.– Perhaps the one point of note was the 35 mln bu increase in HRW stocks from last month, which will help offset the expected sharp drop in production. - *There was nothing positive or bullish in this report for wheat.*
- Cumulative **EU wheat exports** suggest an all-wheat export season total of ~20 mln mt, which is ~4 mln mt below the USDA's revised 24 mln mt. *If domestic EU demand numbers are correct, this implies EU ending stocks are another 4 mln mt too low.*

- **Russia's** ministry of agriculture said Russia exported 5.8 million mt of wheat worth over \$1 billion in the first two months of 2018, with 67% – or 1.7 million mt – heading to Egypt.

➤ **Outlook:**

- If you assume an 80 million mt 2018 Russian wheat crop and 42-43 million mt of Russian domestic wheat consumption, then this will allow another 38 million mt of Russian wheat exports next year *without touching stocks*. If you also consider that the USDA is still 3-4 million mt too high on 2017/18 EU exports, we seem to have plenty of wheat around.
- At the present, weather delaying planting in North America will be the news feature for the next 60 days, *but we need some problems to reduce supplies*.
- *Our recommendation remains the same sell old crop hold new crop wheat for the time being.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 16, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '18 (bu.)	July '18 (mt.)
1 CWRS 13.5	\$6.40	\$235.16	1 CWRS 13.5	\$6.34	\$232.96
1 CWAD 13.0	\$6.49	\$238.47	1 CWAD 13.0	\$6.49	\$238.47
1 CPSR 11.5	\$5.40	\$198.42	1 CPSR 11.5	\$5.18	\$190.33
SW Sask			SW Sask		
1 CWRS 13.5	\$6.86	\$252.06	1 CWRS 13.5	\$6.78	\$249.12
1 CWAD 13.0	\$7.13	\$261.98	1 CWAD 13.0	\$7.02	\$257.94
1 CPSR 11.5	\$5.25	\$192.91	1 CPSR 11.5	\$5.37	\$197.32
NE Sask			NE Sask		
1 CWRS 13.5	\$6.70	\$246.18	1 CWRS 13.5	\$6.65	\$244.35
1 CWAD 13.0	\$6.95	\$255.37	1 CWAD 13.0	\$6.94	\$255.00
1 CPSR 11.5	\$5.24	\$192.54	1 CPSR 11.5	\$5.14	\$188.86
SE Sask			SE Sask		
1 CWRS 13.5	\$6.72	\$246.92	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.07	\$259.78	1 CWAD 13.0	\$7.09	\$260.51
1 CPSR 11.5	\$5.31	\$195.11	1 CPSR 11.5	\$5.20	\$191.07

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

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.”

- 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.

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

Relevant FOB Prices and Export Basis				April 16, 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	\$352.25	\$342.09		
HRS	\$345.33			
HRW 11.5	\$298.24			
SWW 12.0	\$276.54			
1 CWRS 13.5³	\$352.25		\$242.88	\$109.37
2 CWRS 13.0³	\$345.33		\$220.46	\$124.86
3 CWRS³	\$298.24		\$216.79	\$81.45
CPS³	\$270.07		\$183.35	\$86.72
1 CWAD⁴		\$323.17	\$247.29	\$75.88
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$210.00			
French 11.5 (Rouen)	\$211.83			
APW 10.5 (W Coast)	\$237.50			
Argentine 12.0	\$220-230.00			

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						April 16, 2018
Canadian Funds				Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Mch./April. delivery	\$9.41	\$9.22	\$7.94	\$7.35	\$7.35	
Parity Track Rosetown	\$7.91	\$7.73	\$6.44	\$5.85	\$5.85	
Track Bid Rosetown Area	\$6.61	\$6.00	\$5.90	\$4.99	\$4.99	
Gross Margin at Elevator (\$/bu)*	\$1.30	\$1.73	\$0.54	\$0.86	\$0.86	
Gross Margin at Elevator (\$/mt)*	\$47.93	\$63.41	\$20.00	\$31.74	\$31.74	
* to cover elevation, elevator market risk, margin						