

Wheat Market Outlook and Price Report: May 7, 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 April 16, 2018

World Wheat Overview:

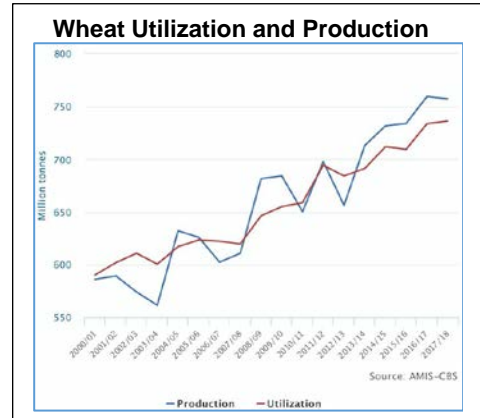
➤ **World Wheat Outlook for 2018/19 – AMIS¹ Market Monitor May '18**

WHEAT	FAO-AMIS		USDA		IGC	
	2017/18	2018/19	2016/17	2017/18	2017/18	2018/19
	est.	f'cast 3-May	est.	f'cast 10-Apr	est.	f'cast 26-Apr
Production	757.9	746.6	750.7	759.8	758.4	739.0
Supply	1,015.5	1,023.3	993.4	1,014.4	1,002.6	1,001.6
Utilization	737.7	743.3	738.8	743.1	740.0	744.8
Trade	173.6	174.1	183.3	182.0	175.3	179.2
Stocks	276.7	279.0	254.6	271.2	262.6	256.8

- The AMIS report is interesting, because summarizes a range of views on the market outlook.
- AMIS projects 2018 **world wheat production** to fall by 1.5% from last year. **Russia** is expected to show the biggest decline due to a return to more normal yields.

¹ Agricultural Market Information System (AMIS) provides a collective assessment of the market situation and outlook by eleven major int'l organizations that form the AMIS Secretariat. (FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Grp., WFP, World Trade Org., GLAM).

- **Wheat utilization** is projected to increase by 0.8% in 2018/19 with food consumption keeping pace with population growth. Feed use of wheat is expected to contract.
- **World wheat trade** is expected to be steady at current highs (~174 mln mt) due strong import demand and good export availability, especially from Russia.
- **2019 world wheat ending stocks** may reach a new record with inventories in China offsetting decreases in the EU and US.



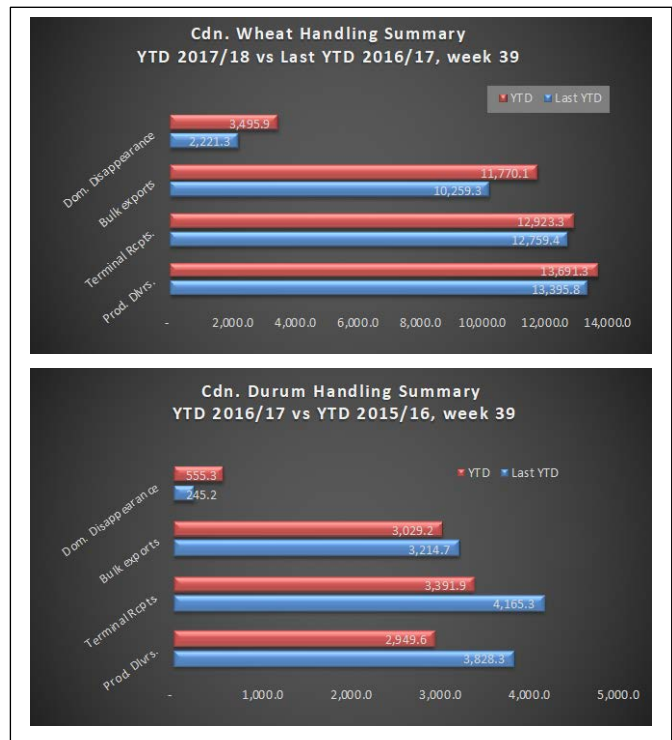
➤ **Global wheat production and trade:**

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:** Wheat futures are mostly 12 to 13 cents lower this morning, across all three exchanges. They settled with 11 to 13 cent losses in the nearby winter wheat contracts on Friday. MPLS was mostly 6 to 7 cents lower. Despite Friday's losses Chicago was up 6.46% on the week and 13.87% higher over the past 2 weeks, with KC 4.59% higher this week and gaining 11% in 2 weeks. Specs in Chicago wheat futures and options reported their smallest net short position since last August on Tuesday at 28,702 contracts.
- **Funds:** Spec Funds were huge buyers early, taking their overall long to 57 myn tonnes before selling late in the week. They were following stories from China that the meeting with USA officials had gone favourably, suggesting that the duties were not cast in stone. In our view, a change in duties is more bullish than bearish on USA futures. Funds sold 2.6 mln mt of wheat late in the week.
- Funds were short -3.2 million mt of wheat as of May 4/18
- **Matif:** Matif hit 6-month highs last Friday.

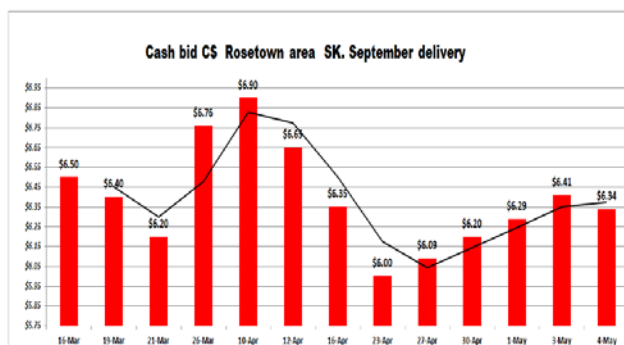
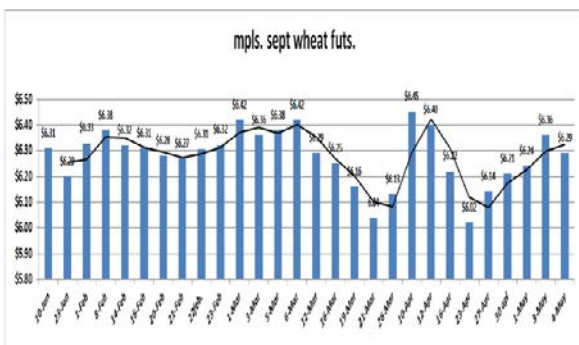
- **Canadian wheat:**

- In shipping week 39, Canadian producers delivered 347k mt of wheat to Canadian grain handling facilities. YTD, producers have delivered 13.7 mln mt vs 13.4 mln mt last year. Exports were more moderate this week at 289k mt for a total of 11.8 mln mt YTD vs. 10.3 mln mt last YTD.
- Seeding of the 2018 crop has started in the southern areas of Saskatchewan, though field conditions vary greatly across the province. It is concerningly dry in the south and wet in the north of Saskatchewan. Seeding in Alberta and Manitoba is ongoing.
- In grain shipping week 39, Canadian producers delivered a big 58k mt of durum elevators for a YTD total of 2.95 k mt. Durum exports were reported at an excellent 148k mt, for a total 3 mln mt YTD. Durum exports are 6% behind last year's pace.
- The durum export market has been a bit sluggish this year, as the glyphosate issues with Italy have continued to impair Canadian



durum exports to that destination. We have only shipped ~283k mt to Italy (and zero tonnage since Oct. '17) versus 522k mt YTD last crop year. We think we have made up much of that shortfall by bigger shipments to the US this year (404k mt vs. 100k mt last YTD). We believe some of the durum shipped to the US actually ended up in Italy.

- Total durum exports for the year should end up at about 4.3 to 4.5 mln mt. We do not expect much change in price for a while



- Canadian rail transportation: CN and CP supplied a combined 74% of hopper cars ordered in grain week 38 matching performance from last week. CN continued its improved performance supplying 91% of cars ordered while CP regressed somewhat from last week supplying only 53% of cars ordered (*leaving 47% of cars un-serviced*).

○ **US wheat:**

- US wheat futures rallied sharply last week with KC and CBOT making 9-month highs mostly on weather issues in the US, Black Sea, Argentina and Australia, although Friday did see a 10¢ drop on possible rain next week in the Black Sea and Australia.
- USDA reported all wheat export shipments at 283.2k mt this week, well below last week and this time last year. Total commitments for wheat exports are down 16% from a year ago.
- The results from the **Wheat Quality Tour** are in. They estimate an avg yield of 37.0 bu/acre with a 243 mln bu crop, down 20% from 46.1 bu/ac last year and a 334 mln bu crop (-27.3%). This reflects a harvested percentage of 85.4% vs 96-97% normally, and last year's 91.4%. The 5-year avg yield for Kansas is 41 bu/acre, so this year's estimate is solidly below that. These yield results indicate that this may be the smallest Kansa wheat crop since 1989.
- *It is worth noting that the ~13 mln mt decline in the HRW crop is exactly equal to the rise in the Russian crop size and this is more evidence of the ongoing shift in the centre of gravity of the world's wheat market.*

○ **Australian wheat:**

- Australia is expected to have good showers in the SE corner, and temperatures have cooled somewhat.
- Australian farmers are trying to assess the risks of planting into the dry soil with no guarantee of any rains, while domestic consumers are expressing increasing concern about being able to source supplies.
- Australian wheat futures rose A\$15/mt on the week.

○ **Argentine wheat:**

- According to the US Ag Attaché in Argentina, the Argentine 18/19 wheat crop is estimated at big 20 Argentine new crop Fob was nominally unchanged at \$205 for 12 pro and \$200 for 11.5 pro, but the incessant rains are preventing planting and farmers are offering nothing, although rising world prices and the record low Peso gives them every incentive to plant.
- Argentine new crop Fob wheat values were nominally unchanged at US\$205/mt for 12% protein wheat and US\$200/mt for 11.5% protein wheat. However, the incessant rains are preventing seeding and farmers are not offering any wheat into the market, although rising world prices and the record low Peso give them every incentive to plant wheat.

- **EU wheat:**
 - French wheat is US\$13/mt higher than Russian 11.5% protein wheat for Aug. shipment, but the spreads narrow in the later months.
- **Black Sea wheat:**
 - Reports from the Russian Ministry of Agriculture last week showed that Russian spring crop planting has been delayed by poor April weather, with only 374,700 ha of spring wheat planted, just 3% of the intended area. Last year, 589k ha had been seeded at this time. Spring wheat should account for ~30% of total Russian wheat acreage. Warmer, drier weather in Russia should allow seeding to speed up.
 - *As mentioned above, the expected ~13 mln mt decline in the US HRW crop is about equal to the increase in the Russian wheat crop size last year, which is and this is an indication of the ongoing shift in the centre of gravity of the world's wheat market.*
 - Russian 12.5% protein wheat for August traded up US\$5/mt at US\$203/mt; feed wheat traded at US\$191/mt; the bid-offer on 11.5% protein wheat was US\$194-196/mt FOB.
- **Significant purchases/ trades:**
 - **Korea** bought 65,000 tmt of Aug-Sep feed wheat at US\$220/mt.
 - **Saudi Arabia** returned to the market last Friday for 540,000 mt of wheat for July-August arrival. (We expect results later on Monday; it will likely be Russian/FSU/EU origin wheat).
 - Following expectations of a good crop this year, the annual hike in **Moroccan** import duties from 30% to 135% was approved and will last till October 31/18.
 - **Ethiopia** re-issued its 400,000 mt wheat tender for May 18.
 - **Pakistan** approved another 500,000 mt of exports with a subsidy of US\$155/mt.
- **Wheat Market Outlook:**

Significant events:

 - Weather was benign over the past weekend and North American farmers were very busy in the fields.
 - The peso in Argentina weakened, as inflation once again raised fears in that country interest rates could be raised dramatically, which normally means that farmers stop selling their crops, preferring to stay long dollars.
 - May weather will be crucial. Where the USDA puts their estimate of Russia's new crop wheat production is seen as key to prices.
 - The wheat market is about weather from here on in, and strength will likely continue until/ unless the world's current weather trouble spots see a change for the better.

Outlook:

 - Basis the "relative strength index", wheat and corn look overbought to us and could be a little weaker based on profit taking prior to the WASDE report which is due next Thursday.
 - The important number to watch for in this week's important WASDE report is the USDA estimate of the Russian wheat crop. In our view, a number above 75 mln mt is bearish, a 72 mln mt number would keep futures firm.
 - Black Sea wheat remains the world's cheapest wheat for now. What origin wheat trades to Saudi Arabia and at what price will be very interesting for wheat values in the short term.
 - Other than much improved weather/ seeding we don't see much that will pressure wheat to the downside at present. The USA hard wheat tour is not indicating a good crop; yield estimates are very low.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: May 7, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$6.48	\$238.10	1 CWRS 13.5	\$6.18	\$227.08
1 CWAD 13.0	\$6.37	\$234.06	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$5.93	\$217.89	1 CPSR 11.5	\$5.73	\$210.54
SW Sask			SW Sask		
1 CWRS 13.5	\$6.95	\$255.37	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$7.04	\$258.68	1 CWAD 13.0	\$6.80	\$249.86
1 CPSR 11.5	\$5.88	\$216.05	1 CPSR 11.5	\$5.80	\$213.12
NE Sask			NE Sask		
1 CWRS 13.5	\$6.82	\$250.59	1 CWRS 13.5	\$6.46	\$237.37
1 CWAD 13.0	\$6.87	\$252.43	1 CWAD 13.0	\$6.75	\$248.02
1 CPSR 11.5	\$5.68	\$208.71	1 CPSR 11.5	\$5.60	\$205.77
SE Sask			SE Sask		
1 CWRS 13.5	\$6.86	\$252.06	1 CWRS 13.5	\$6.55	\$240.67
1 CWAD 13.0	\$7.01	\$257.58	1 CWAD 13.0	\$6.90	\$253.53
1 CPSR 11.5	\$5.72	\$210.18	1 CPSR 11.5	\$5.61	\$206.13

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 Basis² (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)
 - 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.

² 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.”

- 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				May 7, 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	\$366.00	\$357.98		
HRS	\$358.46			
HRW 11.5	\$327.33			
SWW 12.0	\$289.59			
1 CWRS 13.5 ³	\$366.00		\$241.04	\$124.96
2 CWRS 13.0 ³	\$358.46		\$218.99	\$139.46
3 CWRS ³	\$327.33		\$215.32	\$112.01
CPS ³	\$282.99		\$199.52	\$83.47
1 CWAD ⁴		\$330.16	\$239.20	\$90.95
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$214.00			
French 11.5 (Rouen)	\$207.21			
APW 10.5 (W Coast)	\$247.50			
Argentine 12.0	\$250.00			

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						May 7, 2018
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
May/June. delivery	\$9.78	\$9.58	\$8.73	\$7.70	\$7.70	
Parity Track Rosetown	\$8.28	\$8.08	\$7.23	\$6.21	\$6.21	
Track Bid Rosetown Area	\$6.56	\$5.96	\$5.86	\$5.43	\$5.43	
Gross Margin at Elevator (\$/bu)*	\$1.72	\$2.12	\$1.37	\$0.78	\$0.78	
Gross Margin at Elevator (\$/mt)*	\$63.37	\$77.87	\$50.42	\$28.49	\$28.49	

* to cover elevation, elevator market risk, margin