

Wheat Market Outlook and Price Report: April 10, 2017

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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 10, 2017

2017 World Wheat Supply Demand Outlook (AMIS¹ data)

WHEAT	FAO-AMIS		in million tonnes			
	2016/17	2017/18	USDA		IGC	
	est.	f'cast 6-Apr	2015/16 est.	2016/17 f'cast 9-Mar	2016/17 est.	2017/18 f'cast 30-Mar
Production	760	740	735	751	754	735
Supply	985	980	953	991	977	974
Utilization	738	735	712	741	737	740
Trade	173	169	173	181	169	166
Stocks	240	247	240	250	239	234

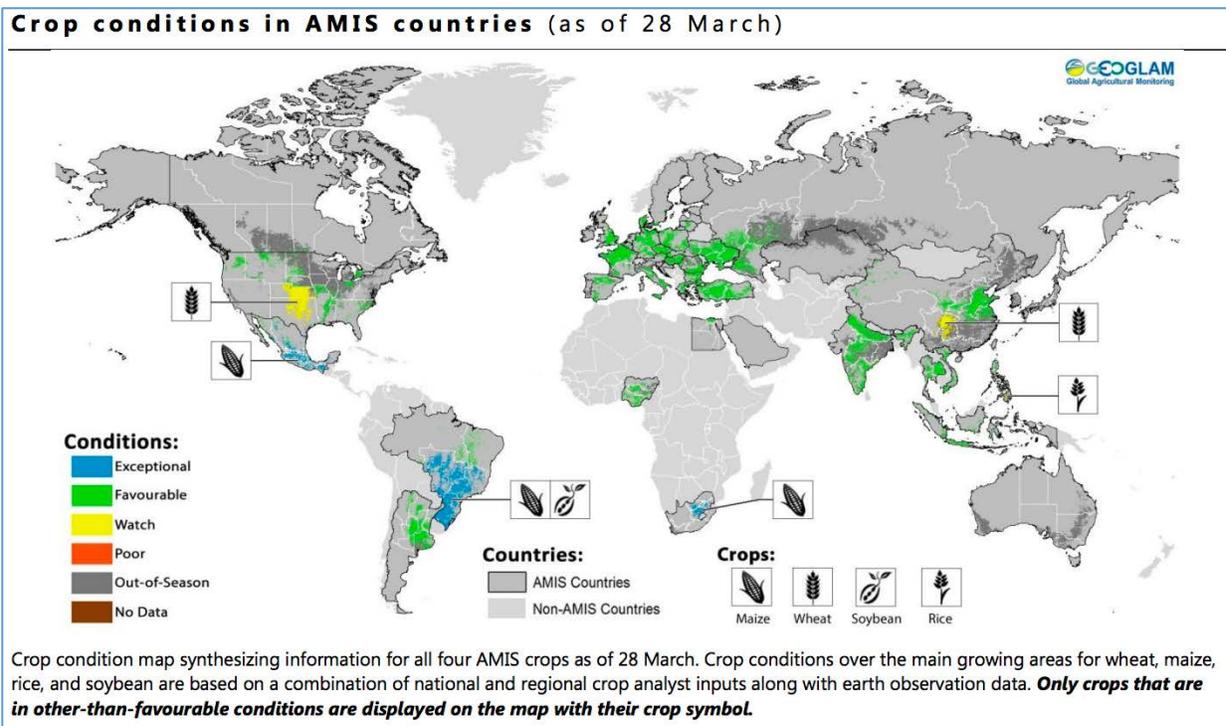
- Based on **first projections for the 2017/18 marketing season**, the supply and demand outlook for wheat, corn and rice points to continued stability in world markets. Even in the event of any unexpected production shortfalls, carryover stocks are large enough to provide a sufficient buffer in the new season.

¹ Agricultural Market Information System (AMIS).

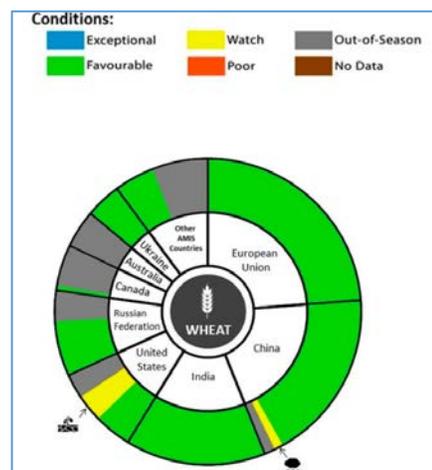
- Specifically, 2017 **wheat production** is forecast to decline by 2.7% mostly on lower outputs in several major producing countries, in particular the US.
- **Utilization** in 2017/18 is expected to decrease marginally as feed use of wheat is projected down from 2016/17 because of cheaper supplies of feed grains.
- **Trade** in 2017/18 (July/June) is set to contract by 2.3% mostly due to reduced import demand in China and India. Smaller exports are projected for Australia and the US.
- Ending stocks (2018) are expected to increase for a fifth consecutive year to a new high.

Crop Condition Report:

Where the markets go from here depends on weather during the planting and growing season in North America. Europe and the FSU appear to have come through the winter with crops in good condition.



- **Overall**, winter wheat crop conditions are favourable in the northern hemisphere as the crop begins to exit dormancy.
- In the **EU**, winter wheat conditions are favourable due to mild temperatures in late February and early March.
- In the **US**, the situation is mixed as dryness has developed in the primary growing areas of the southern Great Plains, while the rest of the country is seeing good conditions.



- In **China**, conditions are mostly favourable with the exception of the southwest, where high rainfall is affecting the crop.
- In **India**, winter wheat is in the ripening to maturity stage under favourable conditions.
- In the **Russian Federation**, conditions are favourable as the crop exits dormancy.
- In **Ukraine**, winter wheat has broken dormancy earlier than usual due to an unseasonably warm March and is currently under generally favourable conditions with almost no winter kill reported, slightly dry conditions exist in the south.
- In **Canada**, winter wheat is still in dormancy under generally favourable conditions with planted area estimated to decrease this year. Monitoring continues for spring flooding, dry conditions, and winter-kill as spring snowmelt is underway.

Global wheat and trade:

Below is a brief synopsis on this week's market events in the major wheat origins.

Canadian wheat:

- This was one of the bigger weeks for *Canadian wheat exports*. During shipping week 35, Canada shipped 347k mt; 9 million mt year-to-date. This is 19% or 2.1 million mt lower than last year-to-date.
- **Durum exports** during week 35 amounted to 88k mt; 2.8 million mt year-to-date. This is 14% or 471k mt lower than last year-to-date.
- For next year, USDA expects US durum acres to fall 17% to 2 million acres. For the EU, Stratégie Grains in Europe expects reduced planted acres and more normal yields to cut 2017/18 EU durum production by 9% year over year to 8.9 million mt, though the European crop is looking pretty good right now. Stratégie Grain also forecasts 2017/18 Mexican durum production to fall by 20% from 2016/17 at 2 million mt. And AAFC pegged Canadian durum production at 5.5 million mt, down 29%, thus tightening the global durum supply. Canada, the US, Mexico and the EU together produce about 95% of global durum. However, this year's ending stocks are estimated at 10.7 million mt, 41% above the 5-year average.

US wheat:

- Wheat exporters sold 568,400 mt of wheat for delivery in the marketing year that ends on May 31, up 23% weekly and 48% from the prior four-week average.
- According to USDA, unknown buyers bought 134,400 mt of US wheat, followed by 98,200 mt purchased by Taiwan. Algeria bought 92,300 mt of US wheat, South Korea purchased 65,000 mt, Mexico took 55,900 mt, and Japan bought 46,100 mt.
- The US national winter wheat crop rating was 51% good to excellent, down 8% from last year in April.
- According to the National Weather Service on Friday, a winter storm is moving through Indiana and Ohio and is expected to bring up to 5 inches of snow across several counties before tapering.
- Rains in the U.S. have been helping improving dry soil conditions, providing a bearish counter to the stronger-than-export US wheat export sales from last week.

EU:

- The French soft winter wheat crop is still rated 90% in good-to-excellent condition, indicating the start to a good crop there. We did see similar numbers this time last year before rains depreciated the quality of the crop in May and June.

South Africa:

- On March 31, the South African Government lowered the wheat import tariff from ZAR 1,591/mt to ZAR 1,190/mt.

Russian Federation:

- On March 30, the Ministry of Agriculture of the Russian Federation proposed to cut their **wheat intervention prices** for the 2017/18 (July/June) season. If approved by the anti-monopoly regulator, intervention prices will be set at RUB 12,500 (USD 216.26) per tonne of first grade wheat; RUB 11,500 (USD 198.96) per tonne of second grade wheat; RUB 10,300 (USD 178.20) for a tonne of third grade wheat; RUB 9,000 (USD 155.70) per tonne of fourth grade wheat; and RUB 7,600 (USD 131.48) for fifth grade wheat.
- The **FAO report** on cereal supply and cereal demand published April 7th expects world cereal consumption to grow by only 0.8% in 2017, to 2,597 million mt. The slowdown in growth compared to the previous year, when growth was 2.2%, reflects a decrease in demand for grains as animal feed and biofuel, such as ethanol. According to forecasts, wheat stocks will grow by 2.5%, to 246.6 million mt, while corn stocks, by contrast, will decline by 4%, to 207 million mt as a result of a sharp decline in production in China and the United States.

Significant purchases: Not a big week for wheat trade.

- **Turkey** is said to have covered the short-term needs of their flour mills by purchasing several hundred thousand tons of wheat from EU and Black Sea countries, replacing Russian supplies blocked by a change to import rules.
- **Algeria** bought 570k mt for June at US\$198/mt C&F. Traders had initially estimated the total at between 400,000 to 570,000 mt. The origin is optional but traders said they thought the wheat likely to be mainly sourced from the European Union including some from France.
- **Korea** bought 200k mt feed wheat for July-August at US\$187.50-\$189.25/mt. This equates to sub US\$160/mt Fob parity, perhaps a reflection of the likely loss of India as an importer of Ukrainian wheat basis the current Indian forecasts of a record 98 million mt wheat crop.
- **Jordan** bought just 50k mt hard wheat for LH November at US\$200/mt C&F.
- **Iraq** cancelled last Sunday's tender due to lack of offers but will retender with more realistic payment terms.

Wheat Market Outlook:

➤ **Significant events this past week:**

- **Futures:** US futures ended mixed with Kansas City and Chicago wheat 2¢ either side of unchanged while Minneapolis hit 6- month lows.
- **Funds:** Funds extended their short to 139,000 contracts (futures and options combined), which could spark a sharp rally *should any weather issue develop*.
- **EU:** After early week gains, Matif ended with a contract low close.
- Brussels updated their EU S & D showing a 5 million mt difference to the USDA numbers on ending stocks (15 million mt and 10 million mt, respectively) all of which were derived from differing feed utilisation.
- **Argentina:** Argentine Fob values fell US\$1/mt, farmer selling remained way ahead of last year at 11.3 million mt against 5.6 million mt. Exporters own 8.9 million mt against 7.7 million mt of export licences taken.
- The Argentine government continues to use 18.4 million mt for their wheat crop size (vs. USDA 16 million mt) and 11.3 million mt exports (vs. USDA 10.1 million mt).
- Ongoing rains in Argentine added to the already excellent soil moisture reserves and the trade is looking for another expansion in Argentine wheat acreage this year as the zero-export tax make grains more profitable than beans, even at these low prices. (This is a totally different picture from the US and Brazil.)

- **Russia:** Russian 12.5 protein wheat was down to US\$188/mt for April, less US\$2-3/mt per month on the offered side. On new crop, the July-August base remained around US\$172/mt, but sellers dropped their ideas on monthly carries to US\$2/mt per month against \$4 last week.
- According to a report from the Foreign Service of the US Department of Agriculture (FAS USDA), **Pakistan** will collect 25.2 million mt of wheat this year. This is 400k mt lower than last year. Dry weather during the sowing season caused the reduction of the acreage under wheat to 9.05 million hectares (9.2 million hectares in the 2016/17 season).

➤ **Outlook:**

- Wheat inspections in the **US** were neutral, but sales were above expectations. The first national crop ratings were slightly better than expected. Ratings across the Southern and Central Plains improved noticeably following recent rains and precipitation continued across the Plains and Midwest, thus progressively reducing the threat of a weather issue this spring.
 - *Wheat importers were in no hurry to buy more with new crop sales commitments running at their lowest since 2012.*
 - Weather will be the only major topic for the market for the next several weeks and months.
- There is no change to previous comments: Demand alone cannot turn the wheat market around; rather a weather problem is needed for that to happen. EU and Black Sea dryness is the current focus.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT, (PDQ data)

Date: April 10, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '17 (bu.)	June '17 (mt)
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.19	\$227.45
1 CWAD 13.0	\$6.91	\$253.90	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$4.43	\$162.78	1 CPSR 11.5	\$4.48	\$164.61
SW Sask			SW Sask		
1 CWRS 13.5	\$6.16	\$226.34	1 CWRS 13.5	\$6.11	\$224.51
1 CWAD 13.0	\$7.02	\$257.94	1 CWAD 13.0	\$7.02	\$257.94
1 CPSR 11.5	\$4.37	\$160.57	1 CPSR 11.5	\$4.42	\$162.41
NE Sask			NE Sask		
1 CWRS 13.5	\$6.07	\$223.04	1 CWRS 13.5	\$6.05	\$222.30
1 CWAD 13.0	\$6.91	\$253.90	1 CWAD 13.0	\$6.93	\$254.64
1 CPSR 11.5	\$4.18	\$153.59	1 CPSR 11.5	\$4.29	\$157.63
SE Sask			SE Sask		
1 CWRS 13.5	\$6.07	\$223.04	1 CWRS 13.5	\$6.07	\$223.04
1 CWAD 13.0	\$6.93	\$254.64	1 CWAD 13.0	\$6.95	\$255.37
1 CPSR 11.5	\$4.25	\$156.16	1 CPSR 11.5	\$4.34	\$159.47

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:

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."

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 10, 2017
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	\$327.46	\$292.66		
HRS	\$320.11			
HRW 11.5	\$251.97			
SWW 12.0	\$240.20			
1 CWRS 13.5 ³	\$327.46		\$227.08	\$100.39
2 CWRS 13.0 ³	\$320.11		\$210.54	\$109.57
3 CWRS ³	\$251.97		\$195.11	\$56.86
CPS ³	\$233.34		\$149.92	\$83.43
1 CWAD ⁴		\$377.46	\$256.47	\$120.99
Competing wheat:		US\$/mt		
Russia 12.5 (Black Sea, 25k mt)		\$187.00		
French 11.0 (Rouen)		\$179.32		
ASW 10.5 (W Coast)		\$193.00		
Argentine 12.0		\$185-\$193.00		

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

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						April 10, 2017
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$8.73	\$8.53	\$6.67	\$6.35	\$6.35	
Parity Track Rosetown	\$7.23	\$7.03	\$5.17	\$4.85	\$4.85	
Track Bid Rosetown Area	\$6.18	\$5.73	\$5.31	\$4.08	\$4.08	
Gross Margin at Elevator (\$/bu)*	\$1.05	\$1.30	-\$0.14	\$0.77	\$0.77	
Gross Margin at Elevator (\$/mt)*	\$38.54	\$47.72	-\$4.99	\$28.44	\$28.44	
* to cover elevation, elevator market risk, margin						