

Wheat Market Outlook and Price Report: September 11th, 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.

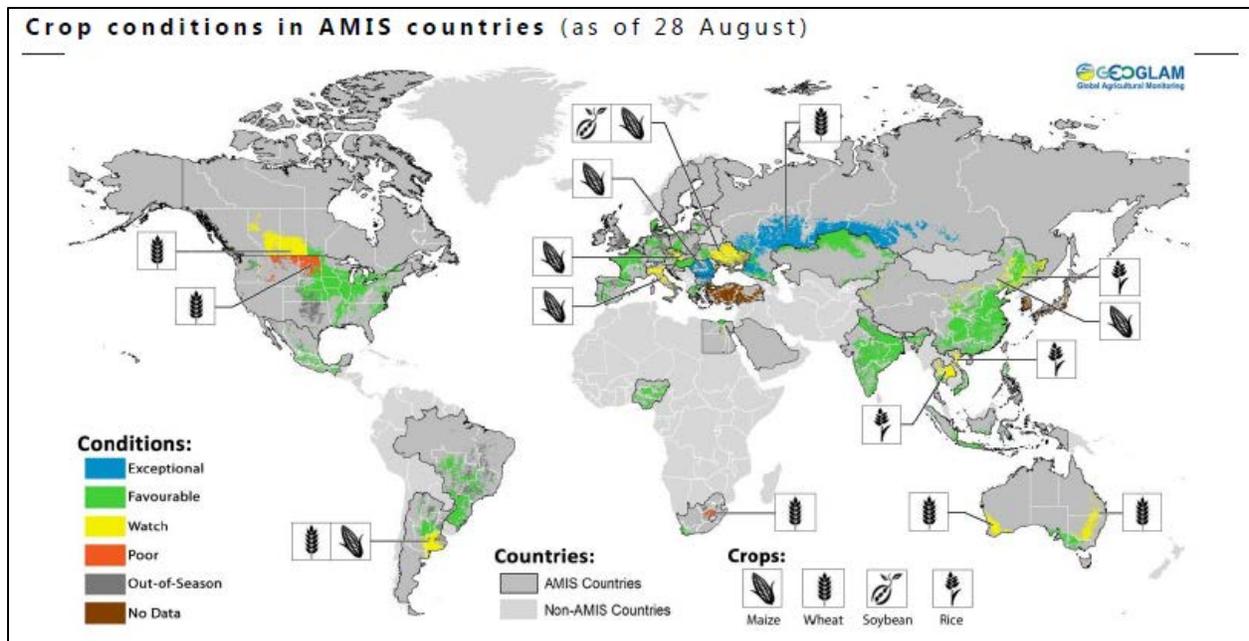
ii) Wheat Market Outlook July. 14/17

2017/18 World Wheat Overview:

- **September 7th AMIS¹ Market Monitor Report:**
 - **World wheat production** for 2017/18 has again been increased, now by 8.9 million mt from last month's report and is now projected at 748.8 million mt on larger than expected crops in Russian and the former Soviet Union.
 - **Estimates for world ending stocks** are now set at 261.9 million mt, which is up from 255.8 million mt. This is an increase of 6 million mt and would set a new all-time record.

WHEAT	FAO-AMIS			<i>in million tonnes</i>			
	2016/17	2017/18		USDA		IGC	
	est.	f'cast		2016/17	2017/18	2016/17	2017/18
		6-Jul	7-Sep	est.	f'cast	est.	f'cast
					10-Aug		24-Aug
Production	760.3	739.9	748.8	755.0	743.2	754.2	742.2
Supply	981.7	987.0	996.0	997.9	1,001.7	979.7	986.2
Utilization	731.8	727.7	730.9	739.3	737.1	735.7	738.4
Trade	175.8	171.8	174.7	182.3	179.9	175.2	171.8
Stocks	247.3	255.8	261.9	258.6	264.7	244.0	247.8

¹ AMIS = Agricultural Market Information System. It covers international markets for wheat, maize, rice and soybeans.



- **The AMIS Market Monitor** on crop conditions shows exceptional growing conditions in Russian and regions of the former Soviet Union, with only the Northern US plains being rated as poor.
- **Crops in Argentina, Australia, and Western Canada** are being closely watched and the upcoming USDA WASDE report could see wheat production in Argentina and Australia revised lower on September 12th.

➤ **Global wheat production and trade:**

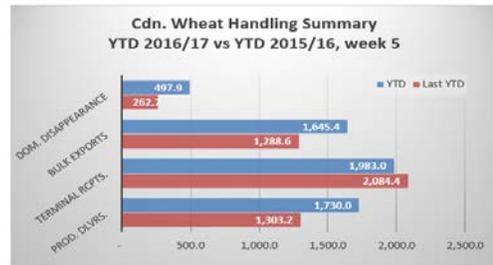
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** On the futures market, Chicago wheat closing the week at 437.6 which is up by 3.2 cents for the week, and up by 0.4 cents in Fridays trade. Kanas hard red winter wheat closed the week at 441.4 which is up by 5.2 cents for the week, but down by 0.2 cents in Fridays trade, while Minneapolis hard red spring wheat closed the week at 646.6 which is up by 6.2 cents for the week, but down by 3.0 cents in Fridays trade.
- **Funds-** Very little activity at all the Funds are also waiting to see what the USDA says before making additional moves. Specs sold 1 million mt of wheat during last week.
- **Matif:** Matif exchange in Europe dropped a small €1/mt in spite of the strong Euro and poor shipments during the week.

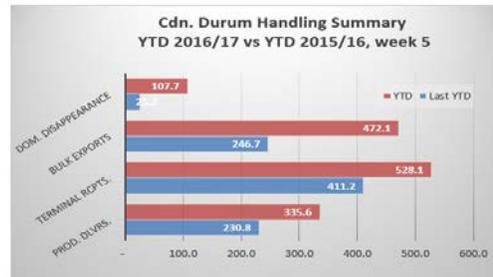
Canadian wheat:

- According to the CGC, producers delivered 595k mt of wheat into the handling system, which is up from last week's 408k mt. Exports for week 5 were 517k mt, up from last week's 268.5k mt, and up by 28% from last year's YTD exports.
- Elevator stocks are currently at 3.04 million mt with 1.48 million mt at primary elevators and most of the remaining inventory at port.
- Producers delivered 77.6k mt of **durum** into the handling system over the past week. Durum exports during week 5 amounted to 66k mt; 472k mt year-to-date. This is ahead of last year's year to date exports of 247k mt.

- Manitoba harvest is progressing quickly and the September 5th Manitoba crop progress report indicates that the harvest of Flax and edible beans has now started in some regions. Spring cereals are reported to be 60 – 70% harvested in most regions and yield of spring wheat are reported to be 55 – 100 bushels per acre. Much of the province continues to be dry and fall tillage is underway in some regions.



- Saskatchewan's crop progress report indicates that approximately 45% of all crops have been harvested as of September 4th. 38% of spring wheat and 26% of canola have now been combined provincially, along with 90% of peas, and 91% of lentils. 16% of canary seed and 9% of flax have also now been harvested according to reports. Most of Saskatchewan received little rain in the past week and harvest is progressing rapidly.



- Alberta is now reported to be 32% harvested, with harvest progress most advanced in southern and central regions. As of September 5th, 31% of spring wheat, 68% of durum, 39% of barley, and 11% of oats have been harvested. 16% of Canola and 30% of flax have also now been harvested. According to reports, 92% of Alberta spring wheat is grading 1 or 2 CWRS. Yield index reports indicate that crops in southern and central regions of the province are below average, while they are normal or above normal in northern regions.
- *The StatsCan stock numbers for wheat that came out on Friday were higher than expected at 6.9 million mt (vs 5.2 million mt last year).*

- **US wheat:**

The US winter wheat harvest is complete, but spring wheat continues to be harvested in northern states. As of September 5th, the US spring wheat crop is now reported to be 90% harvested, which is up from 76% harvested last week, and ahead of the 5-year average of 78% harvested for this year to date. The average protein of US spring wheat declined slightly to 14.8% from last weeks 15%, but is still well above last years 14.4%. Crop quality is reported to be very good and average test weight is 60.8 lbs per bushel. Spring wheat acreage abandonment in the northern US plains continues to be an unknown.

- *Feed wheat* - Wheat is cheap for chicken consumption in the eastern US and is buying demand away from corn. We can see at \$21.00/mt premium to corn, wheat is a good value particularly in poultry rations.

- **Australian wheat:**

Projections for the Australian wheat crop continue to be reduced due to dry conditions during critical stages of crop development. It is expected that the USDA will significantly reduce their forecasted Australian wheat production in the WASDE report on Tuesday.

- *Australian farmers have stopped selling wheat as they are very concerned about crop conditions and resulting yields. Both dryness and frost have been a problem this year and the danger for more of either is not yet over.*

- **Argentine wheat:**

- The Argentine wheat crop is being closely watched due to reports of excesses moisture and potential flooding. The short-term forecast is for additional rains and there are reports of widespread disease. It is anticipated that the USDA might reduce projections for Argentine wheat production in the Tuesday WASDE report.

- *Argentine old crop wheat values fell by ~\$10/mt, but farmers did not sell at those values as returns for wheat are falling below costs.*
- **EU/Russian wheat:**
- The EU wheat harvest is wrapping up and Russian wheat is now reported to be 72% harvested. In the past week SovEcon estimated the Russian wheat crop at 81.1 million mt, which is up from their previous estimates of 78.9 million mt.
- In **Germany**, supplies of exportable German milling continue to decline with the domestic feed market still paying a better value than Fob.
- But **French** wheat will eventually have to compete with Russian wheat to move tonnage.
- **Black Sea wheat:**
- The **Ukraine** continues to plant new crop winter wheat into very dry soil conditions.
- But for current crop Ukrainian wheat, after shipping around 200k mt in of wheat during August to India, they expect an even bigger 500k mt wheat program for September.
- **Russian** 12.5% protein wheat ended the week at US\$185/mt for Oct plus additional US\$1-2/mt per month. The 11.5% protein wheat discount ended at US\$10/mt, and feed wheat was worth another US\$9/mt less.

Significant purchases/ trades:

It was an extremely quite week in cash wheat trading

- Algeria bought 250,000 mt of Mexican durum wheat at around US\$290/mt.
This price reflects about C\$7.25/bu at the elevator Saskatchewan. Canadian offers were way out of line.
- US inspections were just 252,000 mt as hurricane Harvey kept loadings in Texas at zero, but the season total 283 myn bushels remains ahead of last year's 267 myn bushels. Sales of 375,000 mt kept that season total right in line with last year at 458 million bushels.

Wheat Market Outlook:

- Significant events:
 - The Canadian dollar has continued to appreciate due to increased interest rates, a strong Canadian economy, and a weak US\$. The US dollar index has continued to fall due to political turmoil. This is making Canadian wheat exports less competitive on the world markets. If oil were to recover in value in the coming months, then the Canadian dollar could continue higher and current spring wheat prices could look attractive in hindsight.
- **Outlook:**
 - Current conditions are too dry in Ukraine and Australia and too wet in Argentina. In some areas, new crop prices are below production cost in local currencies.
 - The USA dollar continues to be pressured by Trump actions.
 - The USDA needs to make significant adjustments to its production estimates.

There are some potentially bullish elements out there and we are at close to five year lows, so let's see what next week's WASDE produces.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: September 11, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '17 (bu.)	Nov. '17 (mt)
1 CWRS 13.5	\$6.39	\$234.79	1 CWRS 13.5	\$6.74	\$247.65
1 CWAD 13.0	\$7.22	\$265.29	1 CWAD 13.0	\$7.26	\$266.76
1 CPSR 11.5	\$4.39	\$161.31	1 CPSR 11.5	\$4.39	\$161.31
SW Sask			SW Sask		
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	\$6.50	\$238.84
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	\$7.30	\$268.23
1 CPSR 11.5	\$4.22	\$155.06	1 CPSR 11.5	\$4.22	\$155.06
NE Sask			NE Sask		
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.27	\$230.38
1 CWAD 13.0	\$7.17	\$263.45	1 CWAD 13.0	\$7.17	\$263.45
1 CPSR 11.5	\$4.25	\$156.16	1 CPSR 11.5	\$4.25	\$156.16
SE Sask			SE Sask		
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	\$6.36	\$233.69
1 CWAD 13.0	\$7.27	\$267.13	1 CWAD 13.0	\$7.32	\$268.97
1 CPSR 11.5	\$4.24	\$155.79	1 CPSR 11.5	\$4.24	\$155.79

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)

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."

- 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 M

Relevant FOB Prices and Export Basis				Sept. 11, 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	\$358.48	\$324.27		
HRS	\$351.64			
HRW 11.5	\$259.51			
SWW 12.0	\$244.91			
1 CWRS 13.5³	\$358.48		\$228.18	\$130.30
2 CWRS 13.0³	\$351.64		\$207.97	\$143.67
3 CWRS³	\$259.51		\$200.62	\$58.89
CPS³	\$238.53		\$154.32	\$84.20
1 CWAD⁴		\$407.73	\$252.80	\$154.94
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea 25k mt)	\$185.00			
French 11.5 (Rouen)	\$190.92			
ASW 10.5 (W Coast)	\$229.00			
Argentine 12.0	\$170-180			
<p>¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency</p> <p>² Export Basis = FOB Prices CDA minus Cdn. Street Price</p> <p>³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS</p> <p>⁴ Values derived to Lakehead FOB</p>				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					Sept. 11, 2017
Canadian Funds				Grade	
PNW value/Vancouver		1CWRS13.5	2CWRS	3CWRS	Winter wht. CPS
Dec./Jan. delivery		\$9.58	\$9.40	\$6.89	\$6.49
Parity Track Rosetown		\$8.09	\$7.90	\$5.39	\$5.00
Track Bid Rosetown Area		\$6.21	\$5.66	\$5.46	\$4.20
Gross Margin at Elevator (\$/bu)*		\$1.88	\$2.24	-\$0.07	\$0.80
Gross Margin at Elevator (\$/mt)*		\$68.93	\$82.30	-\$2.48	\$29.22
* to cover elevation, elevator market risk, margin					