

Wheat Market Outlook and Price Report: January 16, 2016

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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 Nov. 21/16

2016/17 World Wheat Overview:

- **Production:** Based on the January '17 USDA **WASDE Report** world wheat production was again increased by 1.4 million mt from the December '16 report. *Global wheat supply* was raised by 1.3 million mt, with the largest increases in Argentina, Russia and the EU.
- **Consumption:** Global use of wheat during 2016/17 was increased by a small 0.1 million mt, with increased food use partially offset by a reduction in feed and residual use.
- **Trade:** Global exports were increased by 1.2 million mt, with increases for Argentina, Australia and the EU. *Partly offsetting is a reduction in Canadian exports reflecting the slow shipment pace so far this crop year.*
- **Ending Stocks:** With total global supplies increasing faster than global use, wheat ending stocks were increased by 1.2 million mt. This results in a new record wheat carry-out of 253.3 million mt. (The 2015/16 global wheat ending stocks amounted to 240.5 million mt.)

Global wheat and trade:

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

Trade remains slow since the holidays. Activity is not expected to pick up significantly until late January/ early February. The Chinese New Year's celebrations start on January 28th this year and the roughly 23 day long celebrations will slow trade into Asia into February.

Canadian wheat:

- USDA lowered the Canadian wheat export projection for the ongoing crop year by 500k mt to 22.13 million mt.
- *The week 23 CGC Canadian Grain Handling report shows that at 6.2 million mt, this crop year's Canadian wheat exports lag last year's wheat exports to date by 1.4 million mt or*

19%. Using the same report, we note that durum exports lag last years by 116k mt or 6%.

US wheat:

- In the **January 12 USDA report** on US wheat, planted acres were shown lower, while ending stocks were adjusted 43 mbu higher. HRW stocks were 14 mbu higher, and SRW stocks were 27 mbu higher, but HRS tightened stocks by 3 mbu.
- To elaborate, *the USDA US winter wheat number warrants attention. It came in at 32.8 million acres, which is down 3.8 million acres or a significant 10% lower than last year's winter wheat. It is the lowest winter wheat acreage since 1908, and is smaller than anticipated by the trade. Most of the US acreage cut was in HRW acres in the Plains.*

EU wheat:

- Precipitation in Europe remains below normal everywhere except the Balkans and the cold continues with sub-zero temperatures covering the whole of the continent reaching as far as the Atlantic coast.
- European wheat futures rallied into the close following the US wheat acreage number, but French cash premiums were unchanged.

Russia:

- In their report USDA raised the Russian crop 500k mt to 72.5 million mt, but left exports at 29 million mt, which still looks very optimistic.
- Baltic hi-protein wheat was firm ahead of Friday's Turkish tender for 14-protein wheat.
- Russia has reportedly exported 22.9 million mt of wheat for Jan-Nov '16, versus 18.2 million mt last year.

Australia:

- Values for Fob Australian wheat were unchanged with futures up in US\$ terms. USDA kept the Australian crop at 33 million mt despite the heavy December precipitation, and they raised exports by 500k mt to 24.5 million mt (16 million mt last year). This is seen as near capacity assuming normal barley and canola exports.

Argentina:

- The Buenos Aires Grain Exchange (BAGE) put Argentine harvest at 99% complete and left their crop number at 15 million mt, up 39% on last year's 10.8 million mt. Rosario Grain Exchange is now using the same number and the USDA also went to a 15 million mt wheat crop from their previous estimate of 14.4 million mt. The additional 600k mt is going straight into export markets.
- **Argentine Fob values** ended slightly lower: The offers of 12% protein wheat was US\$175/mt for Feb plus \$5 per month, with 12.5 pro a \$6-7 premium and 11.5 pro a \$3-4 discount.
- **Egypt:** The Egyptian purchase agency GASC bought 235k mt 15-25 Feb at US\$199-201.00/mt delivered Egypt. That was the biggest wheat purchase of the week. Egypt received offers off Russian, Romanian, Ukrainian and Argentine wheat.

Detail of GASC (Egypt) Wheat Purchases for Dec. 29/16 and Jan. 12/18									
Purchases Dec. 12/16					Purchases Jan. 12/17:				
Tonnage ('000 mt)	Origin	FOB Px	Ocean Freight	C&F Px	Tonnage ('000 mt)	Origin	FOB Px	Ocean Freight	C&F Px*
60	Ukraine	\$187.00	\$10.20	\$197.20	60	Russian	\$187.50	\$11.39	\$198.89
60	Russian	\$186.25	\$11.10	\$197.35	60	Russian	\$187.95	\$11.39	\$199.34
55	Russian	\$187.15	\$10.25	\$197.40	60	Romanian	\$189.65	\$10.70	\$200.35
60	Russian	\$186.85	\$11.10	\$197.95	55	Russian	\$188.34	\$12.30	\$200.64

* Wheat purchase prices have moved up from last month.

- **Tunisia** was in the market for 100k mt of *durum wheat* and purchased at US\$274.00/my delivered Tunisia.
- **Turkey** tendered Friday for 90k mt of 14% protein wheat and purchased over the weekend at US\$232-\$239.50/mt

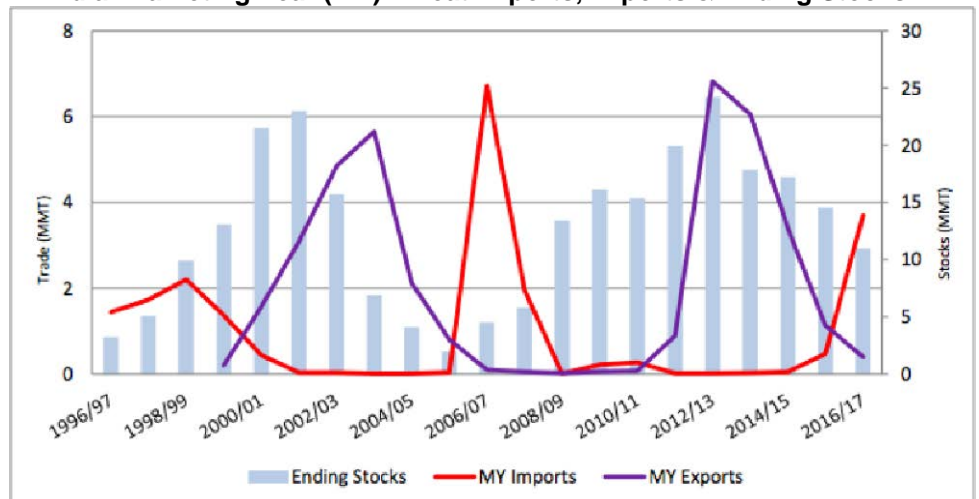
- **Korea** bought 600k mt of feed wheat at US\$188/mt delivered Korea.

Wheat Market Outlook:

- Significant events this past week:
 - **Futures:** The USDA report lifted US futures 6-14¢/ bushel.
 - **Funds:** Early support in the futures markets came from index fund rebalancing.
 - **US Weekly Export Sales Report:** **US weekly sales** were 391k mt for a season total 784 Mbu. This is *up 33% over last year*. Wheat inspections were 261k mt for a season total 580 Mbu, *up 26% on last year*, against USDA's unchanged 26% projected increase.
 - *Most of the sales were comprised of hard wheat, so there is absolutely no reason why Canadian exports are 1.43 myn tonnes lower y/y through week 23 - unless exporters either missed the market or the lower sales are due insufficient rail car supply.*
 - **EU:** Temperatures have fallen much below normal, but the snow cover should be sufficient in most areas.
 - **Brazil:** Sunday's precipitation maps show favourable widespread and significant rains across the whole of Brazil – except in the south, which will benefit from some drier conditions.
 - **Argentine wheat:** Argentina looks considerably drier generally, which will not help crops in the south. Some central regions, which are already experiencing flooding will see additional rainfall.
 - **Russia:** Any crop damage from the severe cold was seen as limited due to good snow cover. But next week's expected cold blast across Western Europe will be watching closely by the markets.
 - **Egypt:** The Egyptian Pound fell 6%, the Government appointed a new quarantine chief, but newswires continue to talk of the wave of expected private company bankruptcies as a result of the Government's November 3rd devaluation.
 - **Exchange rates:** The Russian **Ruble** was flat, but remained well above the pre-holiday level. The **Egyptian Pound** fell 6%. The **Turkish Lira** made fresh all-time lows. The **Euro** firmed while the **British Pound** slumped to 11-week lows.
- A note on **India:** As previously reported, India will shift from being an exporter of wheat to an importer of wheat. This is happening because India's wheat supplies in 2016/17 have tightened relative to growing domestic demand. Reacting to tight supplies, the government eliminated its import duty in December 2016. Imports are estimated at min. 3.7 million

mt in 2016/17, which would be the highest in 10 years. This is particularly noteworthy given that just 3 years ago India was exporting over 6 million mt, making it the eighth

India: Marketing Year (MY) Wheat Exports, Imports & Ending Stocks



Source: USDA

largest exporter at the time.

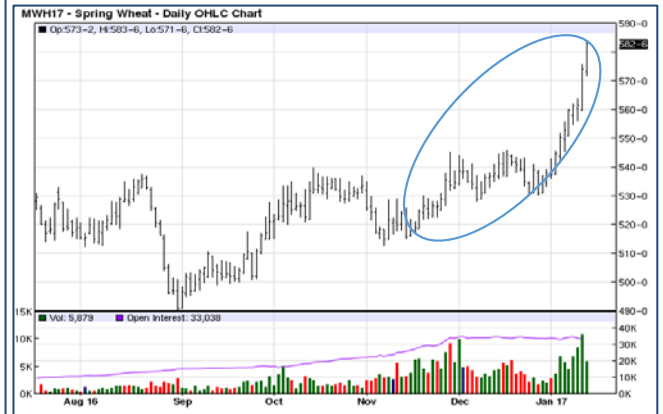
➤ **Outlook:**

- We note that spring wheat values have gained a lot of ground since mid-November last year. Dark Northern Spring wheat values in the Pacific Northwest in the US (PNW) are showing very good values. We would like to see the Canadian trade sell into the higher markets.
- *The 14% protein wheat listed above to Turkey equals a price of about C\$270/mt or C\$7.35 per bushel Vancouver, and the Durum sale to Tunisia about C\$315.00/mt or C\$8.57 per bushel Thunder Bay.*

Forward cash markets will be driven by:

- Weather: Cold temperatures in Europe and rain in South America
- Fund buying of wheat contracts: As of January 10th, Index Funds bought 5.1 million mt of wheat on the week and Spec Funds bought 5.1 million mt of wheat during the week. The Spec Fund short was -23 million mt in mid-November, and now has dropped to -11.2 million mt! This lent support to wheat futures prices.
- Final numbers of the Argentine and Brazilian wheat harvests

Minneapolis March '17 Wheat



Source: Barchart

- **US winter plantings got positive headlines and supported wheat markets late last week. However, with US wheat stocks set to increase over last year's by 200 million bu and world wheat stocks by 13 million mt, there is a significant supply cushion. The world needs a major weather problem to change/ tighten the overall balance sheet.**
- **That said, Europe will be watching the upcoming old blast very closely.**
- **Hard wheat values have improved significantly over the past 2 months. This should generate decent values at the farm level as well. We do not expect the markets to rally much further on old crop wheat and corn, and this suggests producers should look at pricing out some protein wheat over the next while. Feed grains in Canada are too cheap at present.**

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 16, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '17 (bu.)	Mch.'17 (mt)
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	\$6.76	\$248.39
1 CWAD 13.0	\$7.93	\$291.38	1 CWAD 13.0	\$8.17	\$300.20
1 CPSR 11.5	n/s	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	\$6.72	\$246.92
1 CWAD 13.0	\$7.97	\$292.85	1 CWAD 13.0	\$8.14	\$299.10
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
NE Sask			NE Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.55	\$240.67
1 CWAD 13.0	\$7.80	\$286.60	1 CWAD 13.0	\$7.95	\$292.11
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$6.40	\$235.16	1 CWRS 13.5	\$6.55	\$240.67
1 CWAD 13.0	\$7.83	\$287.71	1 CWAD 13.0	\$7.98	\$293.22
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a

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)
 - 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:

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."

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				Jan. 16, 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	\$345.46	\$311.64		
HRS	\$332.89			
HRW 11.5	\$264.77			
SWW 12.0	\$227.08			
1 CWRS 13.5³	\$345.46		\$230.75	\$114.70
2 CWRS 13.0³	\$332.89		\$210.18	\$122.72
3 CWRS³	\$264.77		\$205.40	\$59.37
CPS³	\$220.32		\$164.98	\$55.34
1 CWAD⁴		\$403.44	\$296.16	\$107.28
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$183.00			
French 11.0 (Rouen)	\$190.89			
ASW 10.5 (W Coast) Jan.	\$187.00			
Argentine 12.0	\$167-\$175.00			

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					Jan. 16, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.22	\$8.88	\$7.02	\$6.00	\$6.00
Parity Track Rosetown	\$7.72	\$7.38	\$5.53	\$4.50	\$4.50
Track Bid Rosetown Area	\$6.28	\$5.72	\$5.59	\$4.49	\$4.49
Gross Margin at Elevator (\$/bu)*	\$1.44	\$1.66	-\$0.06	\$0.01	\$0.01
Gross Margin at Elevator (\$/mt)*	\$52.96	\$60.97	-\$2.38	\$0.35	\$0.35

* to cover elevation, elevator market risk, margin