

Wheat Market Outlook and Price Report: February 6, 2017

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 February 6, 2017

2016/'17 World Wheat Overview:

➤ **Agricultural Market Information System (AMIS) for February 2017 on wheat:**

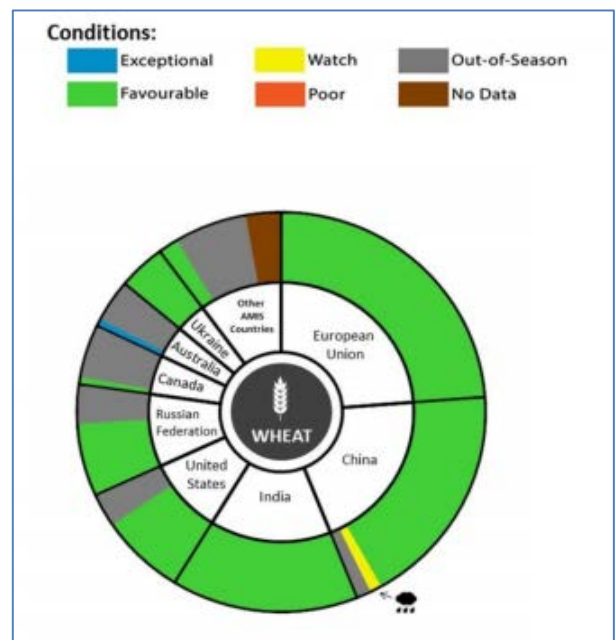
- **Production**
Per AMIS, the wheat production estimate for 2016 was raised by 9 million mt since December '16, mostly on larger-than-expected harvests in Australia and Russia. World wheat output is set to pose a new record for the fourth year in a row.
- **Utilization**
Utilization in 2016/17 was up by 3.1 percent from 2015/16, underpinned by a strong growth in feed use due to large supplies of low-quality wheat this season.
- **Trade**
Trade prospects in 2016/17 (July/June) improved further on bigger anticipated imports by Brazil and India. Export forecast for Australia were lifted sharply since December.
- **Ending stocks**
Stocks (ending in 2017) were raised by 6 million mt, mostly reflecting the latest upward adjustments to 2016 production estimates in several countries.

WHEAT	FAO-AMIS			in million tonnes			
	2015/16	2016/17		USDA		IGC	
	est.	F'cast		2015/16	2016/17	2015/16	2016/17
		8-Dec	2-Feb	est.	F'cast 12-Jan	est.	F'cast 19-Jan
Production	735	749	758	735	753	736	752
Supply	947	976	984	953	993	941	973
Utilization	715	734	736	712	740	720	738
Trade	168	168	171	173	178	164	168
Stocks	226	239	245	240	253	221	235

Source: AMIS, Feb.'17

➤ **World Wheat Crop Conditions (AMIS, Feb. '17):**

- **EU:** Overall conditions are favourable for the dormant winter wheat crop.
- **US:** Winter wheat is dormant and under favourable conditions and planted area is down.
- **Canada:** Winter wheat is under favourable conditions with a minor area currently monitored for winterkill in Alberta.
- **China:** Conditions for winter wheat are generally favourable, though there are some concerns due to excessive rain in parts of the South western growing region.
- **India:** Winter wheat is in the jointing stage under generally favourable conditions.
- **Russian Federation and Ukraine:** Conditions are favourable with adequate snow cover providing protection from low temperatures.
- **Australia:** Harvest is complete with a bumper crop owing to excellent growing conditions through the season including good rainfall that began early in the season and continued through critical growing stages.
- **Argentina:** Harvest is all but complete under generally favourable conditions, reduced yields occurred in some main producing areas, however reductions were offset by recent expansions of wheat growing areas further north.



Global wheat and trade:

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

Canadian wheat:

- *Statistics Canada* published the *stock numbers* last Friday for principal grains as of December 31/16 last Friday. Total wheat stocks combined climbed by 17% or 3.6 million mt over the previous year. Wheat stocks excluding durum rose by 5.4% or 930k mt over last year, while durum wheat stocks are up by a huge 63.1% or 2.7 million mt. While Canadian stocks are rising, US wheat exports are up by almost 30% over last year's. This tells us that the reduction in Canadian wheat exports this crop year is not necessarily a function of lack of markets. The delayed harvest, currency differences and logistics are generally quoted as the reason, but the lack of offers on ongoing tenders is conspicuous as well.
StatsCan's all-wheat stocks of 25 million mt were 800k mt above trade guesses; hence the weakness in Minneapolis wheat values.
- *Canadian wheat exports* during week 26 amounted to a small 149k mt and 6.7 million mt year-to-date. This is 20% or 1.6 million mt lower than last year-to-date.
Durum exports during week 26 amounted to 113k mt and 2.0 million mt year-to-date. This is 13% or 312k mt lower than last year-to-date.
- **Japan's** Ministry of Agriculture purchased 108,442 mt of food wheat, consisting of 64,120 mt U.S., 23,482 mt *Canadian* and 20,840 mt Australian wheat.
- **Indonesia** reportedly purchased Canadian CWRS with 13.5% protein at US\$275/mt a week ago.
- **US wheat:**
US HRS is quoted at US\$275/mt FOB, which makes the CWRS sale look cheap.
USDA export sales numbers:
US weekly export sales were 451k mt for a season total 841 million bu, up 37% on last year against USDA's 26% projected increase.

USDA Export Sales										
		Current Marketing Year						Next Marketing Year		
(Figures in MT)	Estimates	Net Sales	Outstanding Sales		Weekly Exports	Accumulated Exports		Estimates	Net Sales	Outstanding Sales
			Current	Year Ago		Current	Year Ago			
WHEAT										
HRW		170,100	2,244,900	1,121,100	109,200	6,976,800	3,601,400			81,100
SRW		33,000	639,600	507,000	21,100	1,336,300	2,284,900		4,000	53,100
HRS		159,600	2,553,400	1,403,200	128,000	4,785,900	4,051,200		38,000	141,500
WHITE		88,600	1,334,800	932,900	65,800	2,613,700	2,251,800		17,000	130,600
DURUM		-	136,800	76,300	-	265,400	546,700		-	1,500
TOTAL	250,000	450,000	451,200	6,909,600	4,040,400	324,200	15,978,100	12,736,000	50,000	150,000
									59,000	407,800

- **EU wheat:**
Weekly wheat shipments were 515k mt for a season soft wheat total 14.7 million mt, still down 1 million mt on last year.
European traders reported that OAIC (**Algerian** state grains agency) purchased 585,000 mt of optional origin Milling Wheat for April shipment at prices between \$203 and \$207/mt C & F Algiers for April '17. *At least two cargoes were reported as HRW wheat.* The tender was for a nominal 50,000 tons.
- **Ethiopia** tenders Sunday for 400k mt,
- **Iraq** has extended it's tender deadline for 50,000 mt of wheat to February 12th from an original closing date of February 5th. Additionally, a clause that had specified the origins from which the wheat is bought limited to the U. S., Australia and Canada has been modified to all origins.

Wheat Market Outlook:

- Significant events this past week:

- **Futures:** US wheat ended mixed with Minneapolis slightly lower, but Kansas City and the CBOT up 6-10¢/bu, despite funds being net sellers of 10,000 contracts in each.
 - **US wheat:** US wheat remained expensive against other origins although the rally in Argentina kept some focus for HRW on Brazil.
Monday's monthly winter wheat ratings remained well below last year, the drought monitor showed moderate/severe drought still positioned across the HRW Belt, with little hint of any change for the next 2 weeks.
The US has agreed to send 100,000 mt of wheat to **Jordan** as a food aid donation.
 - **Egypt:** The Egyptian Minister of Supply stated that the country has sufficient wheat reserves for 5 months of use.
 - **Argentina:** Argentine Fob values for wheat increased on ongoing demand from Brazil, but these levels are no longer sustainable even with the Mercosur¹ tax structure. 12% protein wheat for March-April '17 delivery is now US\$5/mt above Russian 12.5 protein wheat versus a US\$15/mt discount just 2 months ago.
 - **Russia:** Russian 12.5% protein wheat remained firm at US\$186-188/mt basis February '17 less \$1-2 per month going forward. New crop wheat is priced at US\$175-179/mt. The 11.5 protein wheat was still a US\$4/ mt.
 - There was still no sign of Russian farmers getting nervous as:
 - they don't seem to need the money,
 - logistics will increasingly push exporters to bid up replacement,
 - even at current higher prices, Russian wheat remains competitive against other origins and
 - there was concern over ongoing very cold temperatures.
 - There are reports from **Turkey** about increasing problems with fusarium in Russian wheat. This will not go unnoticed by the region's other major importers.
 - **India:** Showers favoured much of the wheat belt in northern India late last week, leading to improvements in soil moisture across Punjab, Haryana, Uttar Pradesh, and Rajasthan, the largest wheat producing states in India. The rains did not completely replenish soil moisture reserves in most areas, but did provide sufficient moisture for development of the wheat crop. South eastern portions of the wheat belt did miss out on the rainfall, however. A return to a dry weather pattern is expected over the next 10 days.
- **Outlook:**
- "Cheap wheat" in the cash markets (Argentine and Russian wheat) has increased in value.
 - At the same time, premiums for the best quality wheat continue to increase as well [see CWRS sale to Indonesia at US\$275/mt].
- There is plenty of wheat against tepid demand, except for high quality product.
- **Wheat buyers are still looking to purchase HRW & HRS wheat, and to a lesser extent for SRW.**

iii) Primary Elevator Price Tables and Grade Spreads

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

¹ Mercosur is a sub-regional trade bloc. Its full members are Argentina, Brazil, Paraguay, Uruguay and Venezuela (which was suspended on December 1, 2016). It's purpose is to promote free trade and the fluid movement of goods, people, and currency. It is now a full customs union and a trading bloc. Mercosur and the Andean Community of Nations are customs unions that are components of a continuing process of South American integration connected to the Union of South American Nations.

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr. '17 (bu.)	Apr.'17 (mt)
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	\$6.60	\$242.51
1 CWAD 13.0	\$7.46	\$274.11	1 CWAD 13.0	\$7.55	\$277.42
1 CPSR 11.5	\$4.53	\$166.45	1 CPSR 11.5	\$4.82	\$177.11
SW Sask			SW Sask		
1 CWRS 13.5	\$6.35	\$233.32	1 CWRS 13.5	\$6.55	\$240.67
1 CWAD 13.0	\$7.54	\$277.05	1 CWAD 13.0	\$7.64	\$280.72
1 CPSR 11.5	\$4.44	\$163.14	1 CPSR 11.5	\$4.72	\$173.43
NE Sask			NE Sask		
1 CWRS 13.5	\$6.18	\$227.08	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$7.30	\$268.23	1 CWAD 13.0	\$7.40	\$271.91
1 CPSR 11.5	\$4.28	\$157.26	1 CPSR 11.5	\$4.61	\$169.39
SE Sask			SE Sask		
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.49	\$238.47
1 CWAD 13.0	\$7.35	\$270.07	1 CWAD 13.0	\$7.46	\$274.11
1 CPSR 11.5	\$4.28	\$157.26	1 CPSR 11.5	\$4.59	\$168.65

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.

 - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.

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."

- 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			Feb. 06, 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	\$338.59	\$306.80		
HRS	\$331.37			
HRW 11.5	\$260.08			
SWW 12.0	\$230.70			
1 CWRS 13.5 ³	\$338.59		\$228.92	\$109.67
2 CWRS 13.0 ³	\$331.37		\$208.71	\$122.66
3 CWRS ³	\$260.08		\$197.32	\$62.77
CPS ³	\$223.96		\$161.31	\$62.65
1 CWAD ⁴		\$402.17	\$268.60	\$133.57
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)		\$187.00		
French 11.0 (Rouen)		\$192.14		
ASW 10.5 (W Coast) Jan.		\$190.00		
Argentine 12.0		\$180-\$187.00		

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					Feb. 06, 2017
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.03	\$8.83	\$6.89	\$6.10	\$6.10
Parity Track Rosetown	\$7.53	\$7.34	\$5.40	\$4.60	\$4.60
Track Bid Rosetown Area	\$6.23	\$5.68	\$5.37	\$4.39	\$4.39
Gross Margin at Elevator (\$/bu)*	\$1.30	\$1.66	\$0.03	\$0.21	\$0.21
Gross Margin at Elevator (\$/mt)*	\$47.95	\$60.93	\$1.04	\$7.67	\$7.67
* to cover elevation, elevator market risk, margin					