

Wheat Market Outlook and Price Report: February 13, 2017

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i) Background and Rationale for the Report

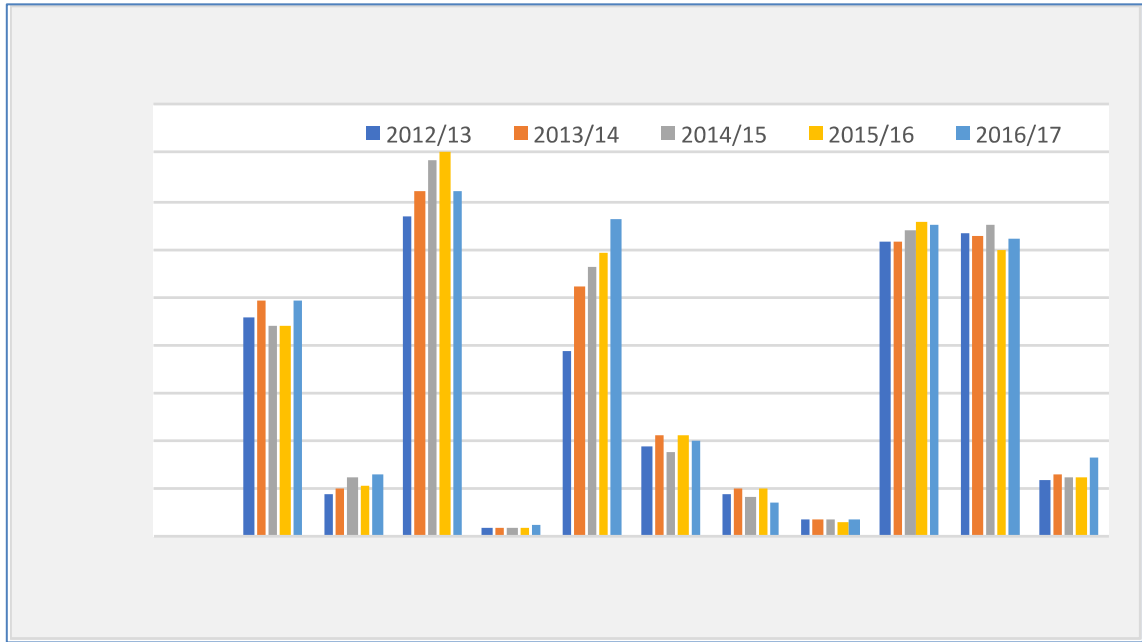
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 February 13, 2017

2016/'17 World Wheat Overview:

- **We receive the monthly USDA report last week.**
For wheat, the highlights affecting the global wheat balance sheets are as follows:
 - **Production**
World wheat production for 2016/17 was assessed at *down by 4.5 million mt* from the previous report due to reductions in India (-3 million mt) and in the FSU (-1.5 million mt in Kazakhstan).
 - **Usage**
World wheat usage for feed was increase by 1.5 million mt, with a 1 million mt increase in China.
 - **Trade**
Trade prospects for 2016/17 were raised for the USA (+1.4 million mt) based on current commitments that are running 37% ahead of last year's; Russia was lowered by ½ million mt; Kazakhstan was lowered by 1 million mt, the Ukraine was raised by 800k mt. Net result a 700k mt increase.
 - **Ending stocks**
Stocks fell by 4.7 million mt, roughly in line with the decrease in production. Most of this is due to the lowering of wheat production in India and 1.2 million in the US due bigger exports.



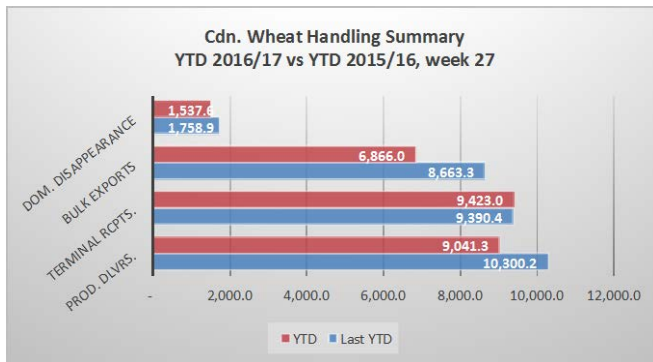
Source: Mercantile, Based on USDA data

Global wheat and trade:

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

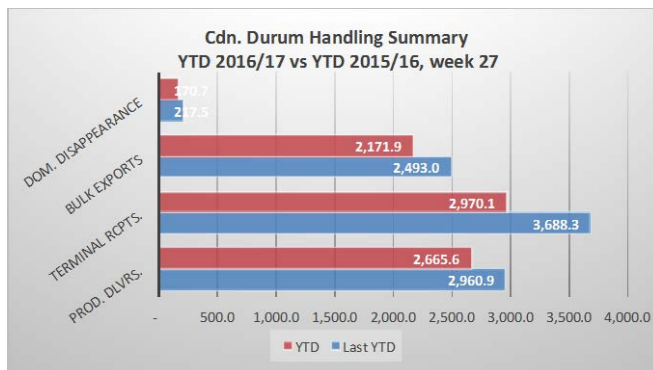
Canadian wheat:

- The week 27 CGC report shows that Canadian wheat exports lag last year's by 1.8 million mt or 21%. Durum exports as of week 27 lag last year's by 321k mt or 13%.
- Minneapolis spring wheat futures were only up 14 1/4 cents last week. (Chicago wheat was up by 18 3/4 cents/ bu.) Traders in the US are noting increasing basis premiums for high protein HRW, with a smaller crop expected in 2017.



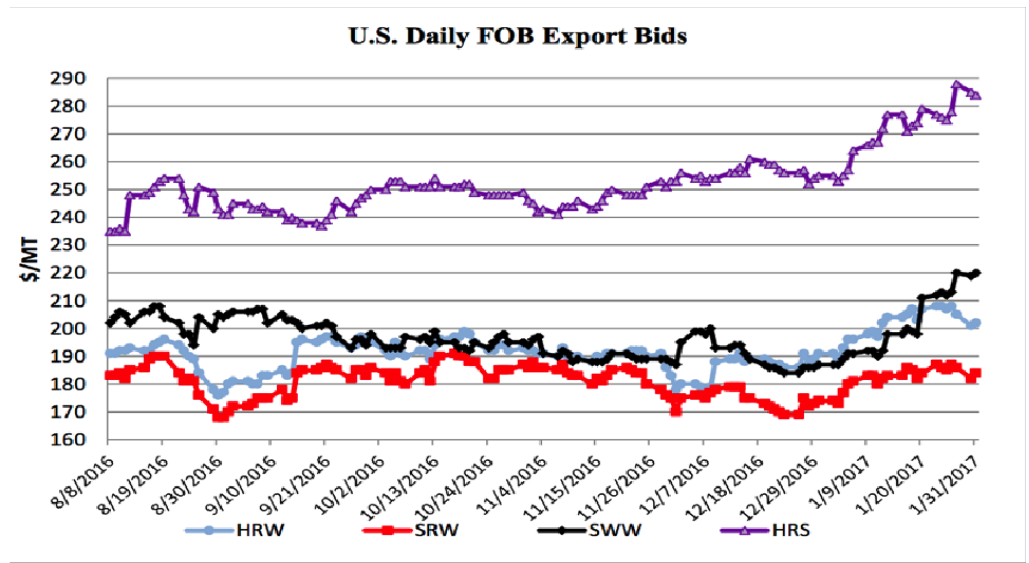
US wheat:

- USDA's wheat numbers provided some surprises and the market reacted with futures rising by 8-12¢. USDA raised US exports by 50 million



bushel (+25 million bu HRW, +15 million bu HRS, +10 million bu SWW) and lowered US ending stocks. Total US stocks are still over 100 million bu higher than last year, with HRS the only class to decline. And despite ongoing export business, HRW stocks remain burdensome as evidenced by domestic cash basis. And while US acres will drop sharply, US stocks will likely remain above 1 billion bu next year. The biggest excitement in the market centered around the 4.5 million mt drop in world end stocks; 3 million mt of this drop is due to a drop in wheat production in India.

- In the weekly export report early on Thursday, wheat sales of 19.4 million bushels were up 17% from a week ago and topped trade forecasts.



Source: USDA, FAS, Office of Global Analysis, Feb. '17

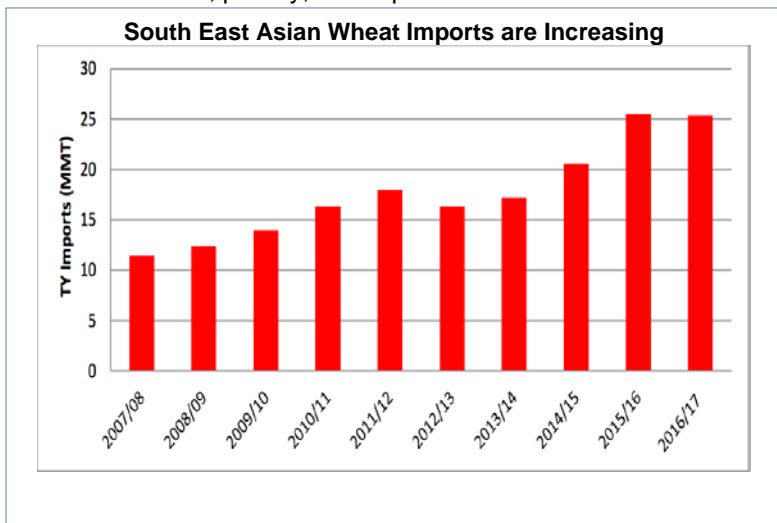
- **EU wheat:**
Strategy Grain (a European Analyst company) estimated French soft winter wheat area at 12.8 million acres, which is above the 5-year average acreage. Using trend yields, this would generate a 38-40 million mt wheat crop. If this comes to pass, it would be the second largest French wheat crop ever. A crop of this size would certainly reinstate the EU as a credible wheat sourcing option after the quality debacle this year.
- **Russia:**
According to official customs data, Russia exported 25.3 million mt of wheat in calendar year 2016, versus 21.5 million mt in 2015.
- **Brazil:**
Brazil, traditionally one of the world's largest wheat importers, has exported several shipments of the grain recently as a large domestic crop and a government subsidy makes the exports competitive abroad. Brazil exported 338,000 mt of wheat in December and January and is expected to ship 244,000 mt more during February, according to shipping agency Wilson Sons. China, South Korea and Vietnam are among the main destinations of the grain.
- **India:**
Wheat imports by India have already topped 5 million mt this year, and we think they could reach 6.5-7 million mt. India imported 6.7 million mt of wheat during the 2006/07 crop season.
- The 5 million mt (+) imports are the biggest annual purchase in a decade, after India began an import campaign to meet a supply shortfall left by two years of lower production. According to traders, the country is slowing down imports ahead of the harvest in April and purchases in the months ahead will depend on production this year.

Bangladesh:

- Bangladesh and Russia reached at government to government deal to export 200k mt of Russian wheat to Bangladesh at US\$245/mt CIF. The first 55k mt cargo is to arrive on Feb. 18th.
- Bangladesh generally imports as much as 90 percent of its total consumption needs. For the Marketing Year (MY) 2016/17, USDA's estimate of wheat imports was raised to 5 million mt on increased consumer demand and lower world prices. For the latest five-month period for which there was data (July–November, MY 2016/17) total wheat imports were 32% higher year on year.
- **Tunisia** bought 100,000 tonnes of Mar-May durum at \$267-271 (*calculates to about C\$6.50 per bushel Elevator Saskatchewan basis #3 quality*).
- **Korea** bought 67,000 tonnes of feed wheat at US\$200/mt.
- **Ethiopia** got offers ranging from US\$219 to \$249/mt.
- **Morocco** returns Feb 16 for 264,000 mt EU wheat.
- **Iraq** tendered Sunday and will likely buy US origin wheat.

Observations on South East Asia:

- Per USDA, Southeast Asian wheat imports have more than doubled over the past decade. Milling-quality wheat demand has grown as diets have shifted towards more wheat products. Furthermore, feed and residual use in the region has more than doubled due to rapidly rising demand from the livestock, poultry, and aquaculture sectors. While food use is expected to continue rising, the growth of feed and residual use for the region is forecast to slow in 2016/17. Lower imports for Indonesia and Thailand are offset by surging imports for Vietnam, where demand for feed grains continues to rise. Increased wheat imports by Asian importers should be positive for Canadian exports.



Wheat Market Outlook:

- Significant events this past week:
 - **Futures:** Wheat futures added 3 1/4 to 9 cents in most contacts on Friday. From a week earlier, March17 KC futures were up 20 cents (4.54%), and CBT futures were 18 3/4 cents higher. MPLS futures were only up 14 1/4 cents on the week.
 - **EU:** EU futures were mixed with Matif firm.
 - Much of Western Europe is still perceived to be in drought conditions, and as warming temperatures threaten to bring crops out of dormancy, moisture requirements will increase significantly.

- **FSU:** USDA took FSU stocks down by 400k mt, but this concealed some important details: Stocks in Russia (the world's benchmark for milling wheat) actually rose as USDA lowered their exports by 500k mt, while raising Ukraine exports by 800k mt. This looks optimistic because the major reason for Ukraine's current big export program has been Indian demand, which is expected to slow significantly ahead of the Indian harvest (roughly 6 weeks away).
- **Russia:** Russian 12.5% protein wheat traded to new highs of US\$190/mt, but bids March onwards fell by ~\$2 per month. New crop 12.5% protein wheat traded at US\$175/mt. With the old crop-new crop inverse at US\$15, we wonder how much longer Russian farmers will sit on their wheat stocks.
The 11.5% protein discount widened to US\$6-7/mt with old crop feed at \$175.
New crop Black Sea feed wheat traded at US\$165/mt.
The Ruble made 19-month highs which continued to hamper farmer selling.
- **Argentina:** USDA raised Argentine exports by 300k mt, taking stocks down by a similar amount.
- Argentine Fob values were unchanged, although it was increasingly difficult to find firm bids or offers. The base offers for 12% protein wheat remained around US\$187/mt with US\$5/mt up/ down per half point of protein. Bids were some US\$5-8/mt away from offers.
- **Australia:** Australian Fob values were ill-defined. Elevation capacity remains very limited, which makes it tough to pin down exactly where Fob values are. Australian futures rallied to close A\$13/mt above the previous week's contract lows.

➤ *Outlook:*

- Negative market factors

- Last week's bear – wheat spreading by Funds

- Supportive factors

- Reduced global wheat production (-4.5 million mt) per USDA report
- Increased wheat trade prospects (per USDA)
- US wheat inspections were almost double those of the previous week
- Ongoing dryness in the US Plains
- Strong spot Black Sea cash markets due Russian farmer holding

- Last week's USDA report was perceived as bullish, but probably did not significantly change the big picture: That there is plenty of wheat against tepid demand, except for high quality product.
- Nearby cash markets will be driven by Russian farmers while they contemplate their developing new crop wheat against and their potentially big current crop wheat stocks.
- **The strength in wheat is in the nearby positions, which Canada appears unable to participate in. We suggest growers should price out and sell old crop wheat. Bids by Canadian Elevators are still at a big discount to the values bid in the PNW.**
- A lot of market focus will start to shift towards dryness in the US Plains and Western Europe as the Northern Hemisphere wheat crop starts to exit dormancy.

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: 13-Feb-17

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr. '17 (bu.)	Apr.'17 (mt)
1 CWRS 13.5	\$6.50	\$238.84	1 CWRS 13.5	\$6.73	\$247.29
1 CWAD 13.0	\$7.39	\$271.54	1 CWAD 13.0	\$7.46	\$274.11
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$6.50	\$238.84	1 CWRS 13.5	\$6.69	\$245.82
1 CWAD 13.0	\$7.47	\$274.48	1 CWAD 13.0	\$70.57	\$2,593.02
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
NE Sask			NE Sask		
1 CWRS 13.5	\$6.35	\$233.32	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	n/a	n/a	1 CWAD 13.0	n/a	n/a
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	\$7.27	\$267.13	1 CWAD 13.0	\$7.36	\$270.44
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)

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."

- 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 MT

Relevant FOB Prices and Export Basis				Feb. 13, 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	\$326.24		
HRS	\$338.25			
HRW 11.5	\$270.99			
SWW 12.0	\$239.75			
1 CWRS 13.5 ³	\$345.46		\$226.71	\$118.75
2 CWRS 13.0 ³	\$338.25		\$210.18	\$128.08
3 CWRS ³	\$270.99		\$201.36	\$69.63
CPS ³	\$233.03		\$163.51	\$69.52
1 CWAD ⁴		\$401.19	\$268.60	\$132.59
Competing wheat:		US\$/mt		
Russia 12.5 (Black Sea, 25k mt)		\$189.00		
French 11.0 (Rouen)		\$193.29		
ASW 10.5 (W Coast)		\$195.00		
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. 13, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.22	\$9.02	\$7.19	\$6.34	\$6.34
Parity Track Rosetown	\$7.72	\$7.53	\$5.70	\$4.85	\$4.85
Track Bid Rosetown Area	\$6.17	\$5.72	\$5.48	\$4.45	\$4.45
Gross Margin at Elevator (\$/bu)*	\$1.55	\$1.81	\$0.22	\$0.40	\$0.40
Gross Margin at Elevator (\$/mt)*	\$57.04	\$66.36	\$7.92	\$14.53	\$14.53

* to cover elevation, elevator market risk, margin