

Wheat Market Outlook and Price Report: April 3, 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 3, 2017

2017 US Wheat Overview

- **The March 31/17 USDA reports with estimates on 2016 acreage and current crop stocks was the most anticipated news this week. The main numbers on wheat are featured below.**

US Planting Intentions ('000 acres)	Range of Trade Estimates	Average Estimate	USDA March 31/17	Difference vs trade	USDA Outlook Conference	March 2016	Final 2016
Spring Wheat	9,900-12,200	11,360	11,308	-52	-	11,348	11,605
Durum	1,900-2,500	2,125	2,004	-121	-	1,995	2,412
Winter Wheat	32,000-34,500	32,550	32,747	197	-	36,216	36,167
All Wheat	44,200-48,200	46,150	46,059	-91	46,000	49,559	50,184

US Stocks as of March 1st (mln bu)	Range of Trade Estimates	Average Estimate	USDA March 31/17	Difference vs trade	Mar 2016
Wheat	1,450-1,720	1,625	1,655	30	1,372

- *The big acreage loser in forecast US wheat acreage was durum with more than over 400k acres less than last year.*
- *Many in the trade had expected spring wheat to fall more to- or below 11 million acres this year. 11.3 million acres represents a relatively small 3% reduction in spring wheat acres.*

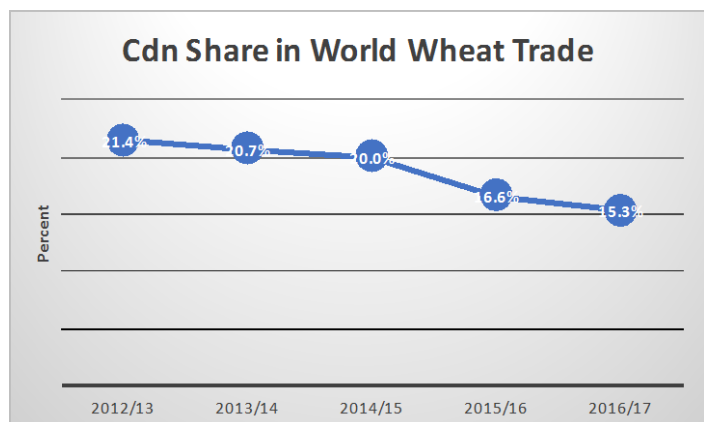
- Winter wheat surprised at 200k acres above the trade estimates, while commercials were expecting a bigger cut in spring acres.
- *Total US wheat acreage is forecast to be 8.22% smaller than a year ago.*
- US wheat stocks came in 30 million bu above the average trade guess and 280 million bu higher than last year's stocks.
- Compared to trade expectations and the earlier Outlook number, this did not look like a bullish report. Yet plantings are still down a full 4 million acres from on last year, and it looks like some of the shorts want to take in their short.
- The market still needs a weather problem to turn around.

Global wheat and trade:

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

Canadian wheat:

- *Canadian wheat exports during shipping week 34 amounted to 292k mt for the week and to 8.7 million mt year-to-date. This is 18% or 1.9 million mt lower than last year-to-date.*
- AAFC estimates all Canadian wheat stocks to be 32% bigger than a year ago: 6.8 million mt this year vs 5.2 million mt at the end of 2015/16.
- It will be impossible to catch up on Canadian wheat exports over the remaining few months of the crop year with new crop European wheat starting to come on stream within only 3-4 months.
- *Durum exports during week 34 amounted to 97k mt and 2.7 million mt year-to-date. This is 13% or 404k mt lower than last year-to-date.*
- AAFC estimates Canadian durum stocks to be 2.5-fold larger from a year ago: 2.8 million mt this year vs 1.1 million mt at the end of 2015/16. Much of this is due to quality.



Source: Mercantile using USDA numbers

US wheat:

- The USDA survey of producers showed that 46.059 million acres are estimated to be seeded to wheat in 2017, down 8.22% from a year ago. Winter wheat plantings are estimated at 32.747 million acres, while producers are estimating to seed 11.308 acres of spring wheat.
- March 1 wheat stocks were a shade higher than expectations at 1.655 billion bu. This is 17.1% larger than stocks last March.
- US inspections were 542k mt (season total 781 million bu, up 29%), sales were 464k mt, season total 965 million bu, up 36%. The USDA projection is for a 32% increase in wheat exports.
- Rain across the Plains sent Kansas City values down US\$0.10 despite HRW becoming increasingly competitive on the export markets.
- The US plains, Delta and Midwest all received much needed rain.

Significant purchases: A somewhat better week again for wheat trade.

- **Iraq** seeks to buy 50,000 metric tons of wheat. *This can be sourced from the U.S., Australia or Canada.* The tender closes April 2. Shipment was not disclosed.
- **Jordan** bought 50k mt optional origin hard wheat at US\$202/mt for LH September shipment.
- **Algeria** bought 200k mt *US/Canadian durum* at US\$250-253/mt, for May shipment. *This sale equals about Cdn\$6.00/bu delivered elevator Saskatchewan for a roughly #3 durum quality.*
- The **Philippines** only bought 45k mt of their 150k mt feed wheat tender at \$186 for 11-31 July shipment.
- **Tunisia** bought 4x25k mt cargoes of soft wheat at US\$187.40-201.68/mt for May-June shipment.
- **Russia and Turkey** are planning to discuss the current impasse over imports in early April.
- **Egypt** said it will 'monitor' not 'ban' imports by private companies (as opposed to state agency GASC) during the harvest period.
- **India** imposed a 10% duty on wheat imports.

Wheat Market Outlook:

➤ **Significant events this past week:**

- **Futures:** Wheat futures finished Friday mixed, with both Kansas City and Chicago futures higher. Minneapolis was the weakest, down 9 1/2 cents in the front month. Chicago was the only class of wheat that ended the week higher, up 1 3/4 cents. Kansas City May lost 7 1/2 cents since last Friday. Chicago was the firmest market over the month of March, gaining 1 3/4 cents, while Kansas City was the biggest loser, down 30 3/4 cents.
- **Funds:** Funds bought an estimated 7,000 contracts on Friday. But for the week, Friday's CFTC report showed funds having sold another 15kt for a net short 136,000 contracts.
- **Technically,** wheat is nearing major support at the December lows. There is virtually no weather premium remaining – but then there is no weather threat on the horizon either.
- **EU:** The European futures market Matif fell to new contract lows in wheat in spite of the Euro retreating sharply from Monday's 20-week highs. Export demand remained thin, and the weather was mostly favourable.
- Brussels' crop unit, MARS, put its first 2017 all-wheat yield estimate at 5.76 mt per hectare, reflecting a big improvement over last year's rain-reduced yields.
- **Argentina:** Argentine Fob wheat values dropped by US\$5/mt, with April 12% protein wheat offered down to US\$190/mt, but with a wide monthly carry of US\$4/mt. The 11.5% protein wheat discount narrowed to US\$10/mt with 11% protein a further US\$3/mt less. Farmer selling was put at 11.1 million mt against 5.4 million mt last year!
- **Russia:** Russian 12.5 protein wheat for April was available below US\$190/mt for optional ports. The deferred discount was US\$4/mt per month. New crop was a carbon copy of last year with sellers trying to build in big carries which no one was prepared to pay.
- Russian domestic wheat values did slide as the absence of Turkish buying particularly hit the coaster market.
- **Egypt:** Egypt's government is considering raising monthly food subsidies by 29% to prevent unrest. The approximate cost would be UD\$280 million. The Egyptian Pound was stable.

➤ **Outlook:**

- US and EU wheat futures are historically cheap and the funds have extended their shorts, leaving the market increasingly vulnerable to any kind of weather problem.
 - Speculators in Chicago wheat futures have rebuilt their large net short position, now short 157k contracts versus their record short in October of 166k contracts. This should provide some good fuel for a rally this spring if bullish news come along that make them want to cover their position.
 - We will need to watch seeding and crop development in the Northern Hemisphere and then planting in the Southern Hemisphere.
 - Regarding market demand, Egypt, Turkey and India will be a major focus, but a weather problem is needed to turn the markets.
- For now, there are no real issues in the wheat markets, but April rains in Europe will be important to support forecast production levels.
 - Following last Friday's USDA planting and stocks report, weather will now be the markets prime 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: 3-Apr-17

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '17 (bu.)	June '17 (mt)
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$6.92	\$254.27	1 CWAD 13.0	\$6.90	\$253.53
1 CPSR 11.5	\$4.39	\$161.31	1 CPSR 11.5	\$4.45	\$163.51
SW Sask			SW Sask		
1 CWRS 13.5	\$6.34	\$232.96	1 CWRS 13.5	\$6.24	\$229.28
1 CWAD 13.0	\$7.01	\$257.58	1 CWAD 13.0	\$7.00	\$257.21
1 CPSR 11.5	\$4.34	\$159.47	1 CPSR 11.5	\$4.39	\$161.31
NE Sask			NE Sask		
1 CWRS 13.5	\$6.19	\$227.45	1 CWRS 13.5	\$6.17	\$226.71
1 CWAD 13.0	\$6.85	\$251.70	1 CWAD 13.0	\$6.88	\$252.80
1 CPSR 11.5	\$4.11	\$151.02	1 CPSR 11.5	\$4.23	\$155.43
SE Sask			SE Sask		
1 CWRS 13.5	\$6.20	\$227.81	1 CWRS 13.5	\$6.19	\$227.45
1 CWAD 13.0	\$6.89	\$253.17	1 CWAD 13.0	\$6.91	\$253.90
1 CPSR 11.5	\$4.19	\$153.96	1 CPSR 11.5	\$4.29	\$157.63

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*

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,

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.
 - 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.

Vancouver FOB, minus the elevator bid prices representative measure of the "export" basis for grains in Western Canada."

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				03-04-2017
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	\$336.79	\$306.30		
HRS	\$329.41			
HRW 11.5	\$252.22			
SWW 12.0	\$242.88			
1 CWRS 13.5 ³	\$336.79		\$236.26	\$100.52
2 CWRS 13.0 ³	\$329.41		\$219.73	\$109.68
3 CWRS ³	\$252.22		\$204.30	\$47.92
CPS ³	\$236.00		\$149.55	\$86.45
1 CWAD ⁴		\$393.33	\$256.47	\$136.85
Competing wheat:		US\$/mt		
Russia 12.5 (Black Sea, 25k mt)	\$190.00			
French 11.0 (Rouen)	\$182.25			
ASW 10.5 (W Coast)	\$193.00			
Argentine 12.0	\$195-\$190.00			

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 3, 2017
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$8.98	\$8.78	\$6.68	\$6.42	\$6.42
Parity Track Rosetown	\$7.48	\$7.28	\$5.18	\$4.93	\$4.93
Track Bid Rosetown Area	\$6.43	\$5.98	\$5.56	\$4.07	\$4.07
Gross Margin at Elevator (\$/bu)*	\$1.05	\$1.30	-\$0.38	\$0.86	\$0.86
Gross Margin at Elevator (\$/mt)*	\$38.65	\$47.81	-\$13.94	\$31.46	\$31.46
* to cover elevation, elevator market risk, margin					