

Wheat Market Outlook and Price Report: June 26th, 2017

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i) Background and Rationale for the Report

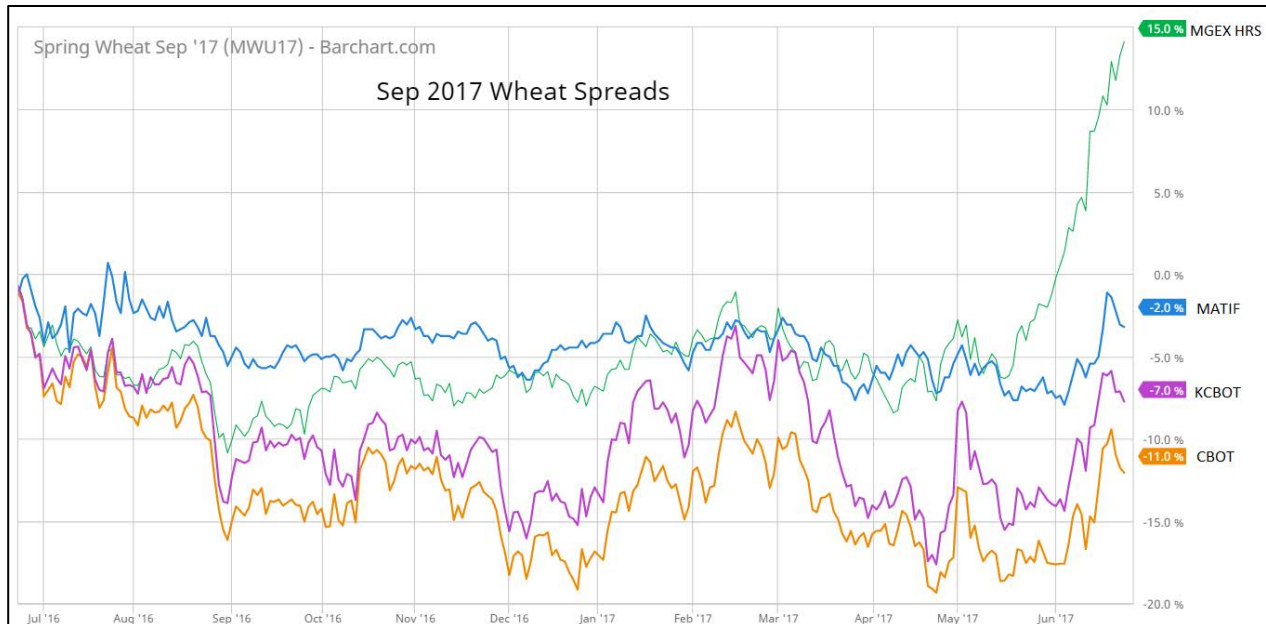
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 June. 26/17

2017/18 World Wheat Overview:

- **Wheat** has continued to rally over the week still largely driven by drought concerns in the HRS growing regions of the US. Minneapolis HRS has led the rally with the HRS spread continuing to widen over Matif French wheat, Kansas City HRW, and Chicago wheat.



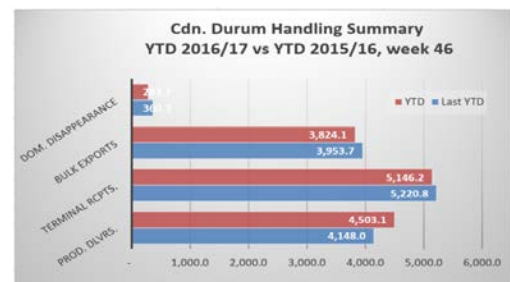
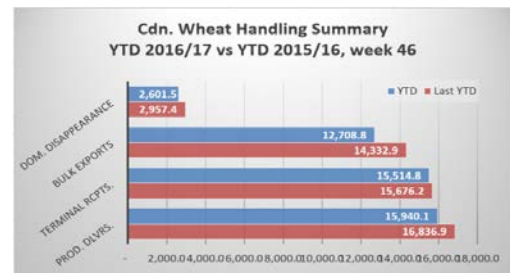
Global wheat events and trade:

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

- **Futures:** Minneapolis wheat closed higher on Friday, up 5 cents, and up 19 cents for the week. Chicago wheat closed down 2 cents on Friday, and down 8 cents for the week, while Kansas HRW wheat closed down 3 cents on Friday's trade, and down 9 cents for the week.
- **Funds:** Index Funds were small sellers. Overall, specs have reversed from buying to selling and have increased their overall net short. However, in wheat, the spec funds bought another 4.6 million mt of wheat since June 20th to get close to even (-0.2 million mt).
- **Matif:** Matif September wheat has traded largely unchanged, up 0.25 cents for the week.

Canadian wheat:

- According to the CGC, producers delivered 421k mt of wheat into the handling system, which is down from last week's 525k mt. Exports for week 46 were 374k mt, up from last week's 334k mt, and down 11.3% (-1.6 million mt) from last year's YTD exports.
- Elevator stocks are currently at 2.6 million mt with 1.36 million mt at primary elevators and most of the remaining inventory at port.
- The bulk of wheat inventory at port is located on the east coast with 256k mt at Thunder Bay, 509k mt at the St Lawrence, and 128k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 103k mt at port, which is comparatively small.
- Producers delivered 109k mt of **durum** into the handling system over the past week. Durum exports during week 46 amounted to 81k mt; 3.95 million mt year-to-date. This is 21% or 130k mt lower than last year-to-date.



- The June 20th **Alberta** crop progress report was positive, with 82% of the province's wheat rated as good or excellent which is up 2% from last week's report and above the 5 year average of 74%. Rain has been widely reported across the province with most regions receiving 10 – 20 millimeters of moisture. Soil moisture reserves have remained mostly unchanged since the last report with the wettest regions of the province still being the north east and north-west regions where some acres went unseeded due to the wet conditions.
- **Saskatchewan's** most recent crop progress report indicates that crop conditions across the province have improved in the past week due to recent rainfalls. Most crops are rated as at or ahead of normal development for this time of year. Dry conditions still prevail in regions of southern Saskatchewan where 80 – 90% of crops are reported to be short or very short of moisture. The most affected regions are in the Assiniboia and Shaunavon regions with some reports indicating that crops are beginning to head due to drought stress.
- Rain has continued to fall across **Manitoba**, with all regions of the province reporting rainfall amounts of 15 – 55 mm. Cool weather has persisted over the past week which has slowed crop development. Crops in most areas have received one herbicide application and fungicide application is now beginning.

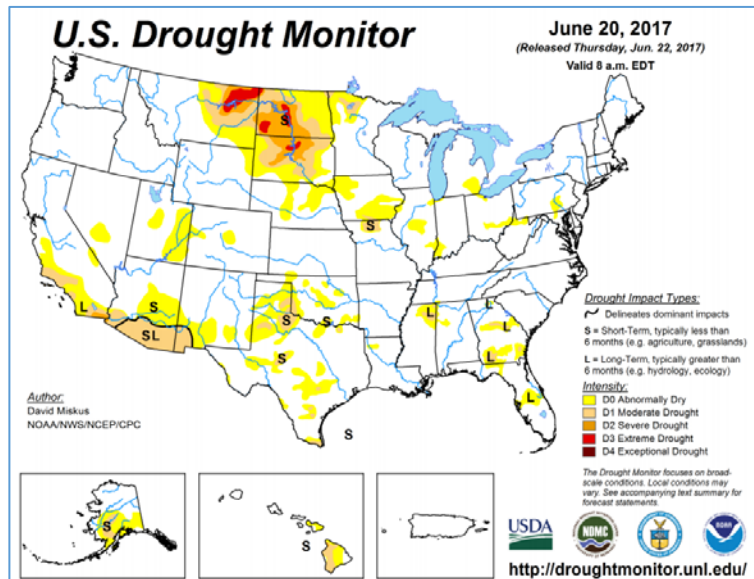
US wheat:

- **The US winter wheat crop** is rated as 97% headed as of June 18th, which is up from the previous weeks estimates of 92% headed. 49% of the US crop is rated as good or excellent, which is down slightly from the previous weeks estimates of 50% Good/Excellent. Approximately 28% of the US winter wheat crop is now reported to be harvested, which is up from 17% last week and ahead of the 5 year average of 25% for this year to date. The US custom wheat harvest has continued to move northward into regions or northern Kansas and it is thought that some harvesting might begin

in regions of southern Nebraska in the coming week. The Texas wheat harvest is now estimated to be 83% complete and the Oklahoma harvest 91% complete. 483 wheat samples have now been analyzed, with recent samples from northwest Texas indicating higher than expected wheat proteins. The average protein level is now 11.2 which is up from 10.8 last week and bushel weights have also improved over the past week. The average test weight is now 60.9 lbs/bushel, which is up from last weeks estimate of 60.6 lbs per bushel due to better quality wheat. The harvest in Kansas is now reported to be 44% complete with variable yields reported. However, most yields have been in the range of 30 – 40 bushels per acre with test weights consistently above 60 lbs per bushel.

- **The US spring wheat crop** is now rated as 15% headed, which close to the 5-year average of 17% headed for this YTD. Only 41% of the US crop is rated as good or excellent, which is down from last week's estimate of 45% and well below the 5-year average of 76% good or excellent for this YTD. The underlying reason for the reduced quality is drought conditions which have prevailed across much of the spring wheat

growing regions of western North Dakota and eastern Montana. While US drought concerns have played significantly into the spring wheat markets in the past few weeks, the US supply of spring wheat still seems adequate from a fundamental supply and demand viewpoint. USDA NASS reports indicate that the US planted approximately 10.6 million acres of spring wheat for the 2017/2018 crop year which is down only slightly from 10.67 million acres the year prior. Later released June 9th USDA forecasts pegged the US new crop spring wheat production at 493 million bushels with ending stocks of 215 million bushels. While the recent drought will drastically reduce these ending stocks, it seems unlikely that the entire ending surplus will be eliminated. Based on the June 19th state by state USDA crop progress ratings and our best estimates, it would seem probable that US spring wheat production might be reduced by a total of 168 million bushels due to drought losses. This would reduce total US spring wheat production to 325 million bushels (down from 493) and would reduce US ending wheat stocks to 47 million bushels (down from 215 million bushels). While this is a significant reduction, ending stocks are still positive and it seems likely that MGEX spring wheat is overvalued due to large spreads and thin trade.



- **US Drought Analysis** - There is no question that spring wheat in the Tri-State area is suffering from dry conditions. However, we also need to understand that the US domestic demand is limited. *Spring wheat needs exports and we believe that the current premium for Minneapolis over Kansas is too high.*

Australian wheat:

- Australia continues to be dry with showers being very limited and hot dry conditions prevailing across much of the country.
- Australian new crop futures closed A\$7/mt off the midweek highs, but still up A\$6/mt on the week as dryness continued and trade estimates of the crop began to fall below 24 million mt.

Argentine wheat:

- The harvesting of summer crops continues in Argentina, with warm dry weather has being beneficial to crop dry down.
- Exports from the port of Rosario resumed as the Govt. ordered port workers to halt their strike for 15 days and return to the negotiating table.
- Argentine old crop 12% protein wheat was unchanged with the 11.5% protein discount still at US\$6/mt. But new crop wheat was firmer with Dec-Feb up US\$5/mt in the interior at

US\$170/mt and Fob offers also up US\$5/mt at US\$185/mt. Farmer sales of wheat rose to 13.8 million mt against 7.6 million mt last year.

EU wheat:

- Matif wheat rose €6.50/mt on Tuesday to its highest level since July 2016 as significant heat covered the whole of western Europe, along with expectations that it would push into the Black Sea from next week. *But the market progressively gave it all back as the GFS model turned much cooler and wetter.*
- **Black Sea wheat:**
- Drought has intensified in regions of northern Ukraine while additional beneficial rains have fallen in western regions of the former Soviet Union.
- In the Black Sea, Russian milling wheat prices continued to creep higher, and the cheapest Russian offer to Egypt (GASC) at US\$196/mt Fob reflected the US\$10/mt GASC costings. Egypt still carries the risk of a reversion to zero ergot criteria if the quarantine Dpt. takes back control of imports. GASC now has 1 million mt on the books for shipment July-Aug. 5th.
- The discount for 11.5 protein wheat remained around US\$8/mt with feed a further US\$8/mt less.
- **India:** Some Indian states have waived repayment on farmer loans to help fight current unrest, but there are fears this will encourage widespread farmer default and with public sector banks already holding \$150 billion of stressed loans. Concern is growing over a possible banking crisis.

Significant purchases:

It was a quiet week again in the markets:

- **Egypt** (GASC) bought 175,000 mt at an average price of \$208 C&F. Note that Russia did not sell any wheat on this tender despite the Russian ruble losing 5% against the U.S.\$ since the last GASC tender on June 13th. This is only the second time in the past 25 tenders that the Egypt did not book any Russian wheat. Instead, Egypt bought 60,000 mt of Ukrainian wheat and 120,000 mt of Romanian wheat at an average delivered price of just over US\$208/mt (~ Cdn\$7.50/bu).
- **Japan** was seeking wheat from the US, Australia, and Canada last Thursday, with 69,961 mt of the 135,747 mt total coming from the US.
- We did not hear of any other major cash business.

Wheat Market Outlook:

- Significant events:
 - The major weather models agree on hot dry conditions in the Black Sea next week, whilst the European model remains much drier than the GFS in Western Europe. *Focus in wheat will be almost exclusively on upcoming weather, along with the yield and quality data as the Northern Hemisphere harvest progresses.*
 - At month-end, USDA will release their quarterly stocks report and final planted acreage numbers for corn, soybeans, and spring wheat. Given the crop conditions for spring wheat are not great, the market will be looking to see whether any additional acres were lost to soybeans versus the March projections.
- **Outlook:**
 - There is no question that spring wheat in the Tri-State area is suffering from dry conditions. However, we also need to understand that the US domestic demand is limited. *Spring wheat needs exports and we believe that the current premium for Minneapolis over Kansas is too high to warrant a lot of business. We think sales of cash Canadian wheat at Cdn.\$8.00 per bushel are very good sales, or if sellers still worried about their crop, sell Canadian cash buy Kansas futures.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: June 26, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$7.62	\$279.99	1 CWRS 13.5	\$7.48	\$274.85
1 CWAD 13.0	\$7.04	\$258.68	1 CWAD 13.0	\$6.77	\$248.76
1 CPSR 11.5	\$5.12	\$188.13	1 CPSR 11.5	\$5.13	\$188.50
SW Sask			SW Sask		
1 CWRS 13.5	\$7.68	\$282.19	1 CWRS 13.5	\$7.50	\$275.58
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$5.10	\$187.39	1 CPSR 11.5	\$5.10	\$187.39
NE Sask			NE Sask		
1 CWRS 13.5	\$7.46	\$274.11	1 CWRS 13.5	\$7.28	\$267.50
1 CWAD 13.0	\$7.14	\$262.35	1 CWAD 13.0	\$6.85	\$251.70
1 CPSR 11.5	\$4.93	\$181.15	1 CPSR 11.5	\$4.89	\$179.68
SE Sask			SE Sask		
1 CWRS 13.5	\$7.54	\$277.05	1 CWRS 13.5	\$7.41	\$272.27
1 CWAD 13.0	\$7.25	\$266.39	1 CWAD 13.0	\$6.97	\$256.11
1 CPSR 11.5	\$5.00	\$183.72	1 CPSR 11.5	\$4.88	\$179.31

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				June 26, 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	\$389.16	\$364.38		
HRS	\$381.87			
HRW 11.5	\$273.53			
SWW 12.0	\$252.15			
1 CWRS 13.5³	\$389.16		\$278.89	\$110.27
2 CWRS 13.0³	\$381.87		\$254.64	\$127.23
3 CWRS³	\$273.53		\$237.37	\$36.16
CPS³	\$245.35		\$173.43	\$71.92
1 CWAD⁴		\$391.10	\$260.15	\$130.95
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$186.00			
French 11.0 (Rouen)	\$188.91			
ASW 10.5 (W Coast)	\$216.00			
Argentine 12.0	\$188-193			

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						June 26, 2017
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$10.41	\$10.21	\$7.26	\$6.68	\$6.68	
Parity Track Rosetown	\$8.91	\$8.71	\$5.76	\$5.18	\$5.18	
Track Bid Rosetown Area	\$7.59	\$6.93	\$6.46	\$4.72	\$4.72	
Gross Margin at Elevator (\$/bu)*	\$1.32	\$1.78	-\$0.70	\$0.46	\$0.46	
Gross Margin at Elevator (\$/mt)*	\$48.48	\$65.45	-\$25.63	\$16.93	\$16.93	

* to cover elevation, elevator market risk, margin