

## Wheat Market Outlook and Price Report: August 8th, 2017

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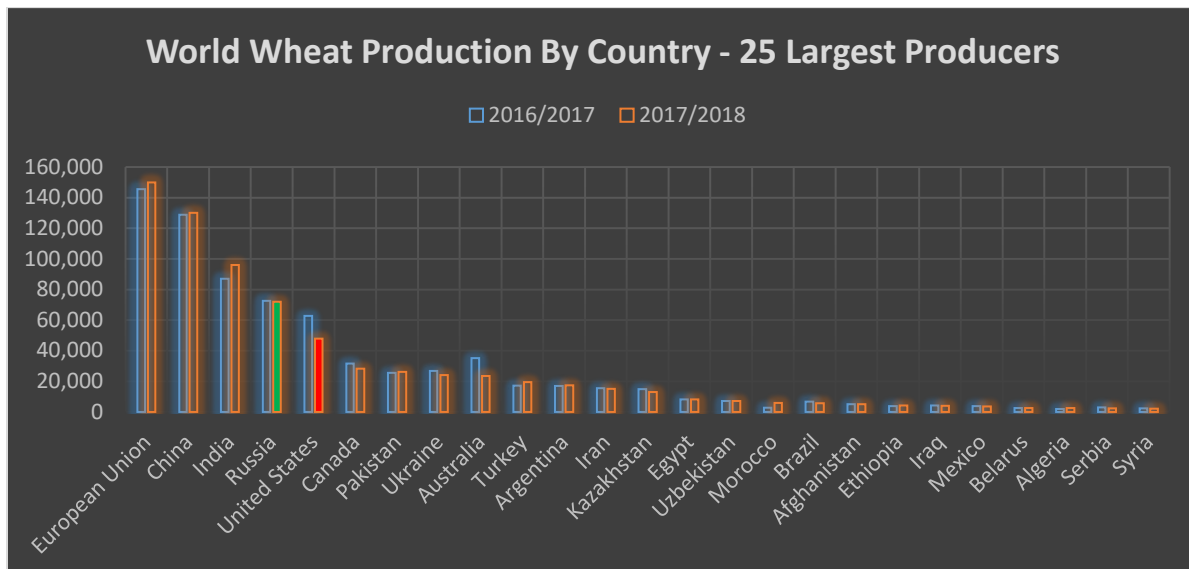
### **i) Background and Rationale for the Report**

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 August 8/17**

#### **2017/18 World Wheat Overview:**



#### ➤ **Top 25 wheat producing countries:**

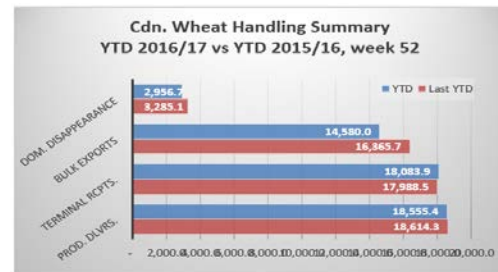
- **While US wheat production** has been affected by drought, the US is of lesser concern to world production vs the EU, China, India, and Russia.
- **World wheat supply** is expected to remain stable in the coming USDA WASDE report, with Russia projected to set second consecutive wheat production record according to all reports.
- **The USDA** is expected to slightly reduce projections for global wheat production in upcoming WASDE report on August 10<sup>th</sup>, but global ending stocks are expected to remain relatively unchanged with only minor adjustments.

- **Funds:** Index Funds did some profit taking in the past week, but we don't see them reducing the size of their long. Specs and Spec funds were big sellers of corn and wheat last week based on increased estimates of Eastern European production.

- **Matif:** Matif exchange in Europe closed at 163.25 which was down by 0.25 on Fridays trade, but down by 7.00 or 4.11% for the week.

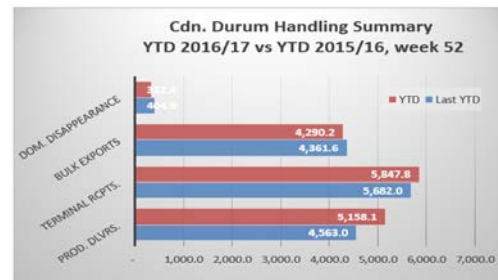
- **Canadian wheat:**

- According to the CGC, producers delivered 315k mt of wheat into the handling system, which is down from last week's 388k mt. Exports for week 52 were 247k mt, up from last week's 200k mt, and down 11% (-1.8 million mt) from last year's YTD exports.



- Elevator stocks are currently at 2.99 million mt with 1.6 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 130k mt at Thunder Bay, 596k mt at the St Lawrence, and 192k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 307k mt at port, which is comparatively small.



- Producers delivered 131k mt of **durum** into the handling system over the past week. Durum *exports* during week 52 amounted to 27k mt; 4.29 million mt year-to-date. This is very close to last years year to date exports of 4.36 million mt.

- Manitoba's harvest of winter wheat and fall rye has now begun in central regions of the province. Most of the province is reporting below normal precipitation and would benefit from additional rains. Most crop are off flower and are currently in the podding and filling stages of development.

- The weekly Saskatchewan crop progress report indicates that harvest has now begun in some southern regions of the province with reports from these regions indicating average to below average yields. Most of the province had little or no rain over the weekly reporting period with many southern regions continuing to be in drought. Topsoil moisture across the province is now reported to be 29% adequate, 41% short, and 29% very short. Crops across the province are turning quickly due to warm conditions and dry weather.

- The August 1st Alberta crop report indicates crop conditions have declined an additional 3% across Alberta. 57% of Alberta crops are now reported to be good or excellent, which is down from 60% good/excellent last week. Hot dry conditions continued in the southern and central regions of the province where crop condition ratings declined by 6% and 14% respectively. While rain is needed in both the southern and central regions, it is considered to be too late for crops in the southern region.

➤ **Global wheat production and trade:**

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **US wheat:**

The US winter wheat crop is now reported to be 88% harvested which is up from 84% last week. 15% of the US winter wheat crop is now reported to be within drought affected regions, which is up from 13% last week. The south Dakota winter wheat harvest is now reported to be 95% complete, while Montana is reported at 78% harvested as of August 4<sup>th</sup>. South Dakota

and Montana winter wheat yields are reported to be good with protein being higher in the range of 12 – 13%. The average protein of the US winter wheat harvest is now reported to be 11.4% which is up from 11.3% last week. Average protein has been steadily increasing as the harvest moved northward into drought affected regions. The US spring wheat crop is now reported to be 9% harvested, which is up from 0% last week. The US spring wheat crop condition is reported to be 31% good/excellent, which is down slightly from last week's estimates of 33% good/excellent. Meanwhile, the crop percentage rated as poor/very poor, has increased from 40% last week, to 43% this week. According to the August 1<sup>st</sup> USDA drought monitor report, 56% of US spring wheat acres lie within the drought affected regions of the northern US plains

- **Australian wheat:**

Australia has continued to have some rains, but the northeast region of the country is still reported to be dry and rain would benefit all regions. While last months WASDE report lowered Australian production estimates to 23.5 million mt, Australian wheat production is now thought to be in the range of 20 million mt and thought to be getting smaller due to dryness.

- **Argentine wheat:**

- According to a July 26th USDA gain report, Argentine wheat production is projected at 16.65 million mt due to lower seeded acreage. About 90% of Argentine wheat has been planted, but 100,000-150,000 hectares may not be planted due to excess rain. Half of Argentine exports are expected to ship to Brazil which will likely increase its imports due to excess rain followed by harsh frosts.

- **EU wheat:**

While France and Spain have had a dry season and disappointing yields, overall projections for the European wheat crop are still thought to be higher vs last year with some northern regions of Europe reporting persistent showers. Harvest of European winter wheat is now estimated to be about 50% complete.

- **Black Sea wheat:**

Russian wheat yields and crop estimates continue to rise and a pro-rata of Russia's current yield increase would argue for a crop close to 80 million mt vs the USDA's last month estimate of 72 million mt. The trade seems increasingly comfortable with a 75+ million mt number which would leave an exportable surplus of over 35 million mt. The Black Sea ended the week lower with September Russian 12.5 paper buyable down to \$195 and with most of the selling interest in the past week being in the 11.5 pro and feed wheat markets. 11.5 pro closed the week at a \$15 discount to 12.5 pro, and feed wheat closing a further \$13 less.

### **Wheat Market Outlook:**

- Significant events:

- The stats Canada jobs report on Friday revealed the lowest unemployment rate in 9 years which is a sign of current economic strength. While the value of the Canadian dollar has dropped slightly against the US dollar over the week (currently at .7908 and down by 0.01385 for the week) the recent jobs report does lend some strength to the Canadian dollar against the US greenback. However, the August 4<sup>th</sup> US jobs report indicates that US unemployment also fell to 4.3% from last months 4.4%. While US unemployment was already at 4.3% in May, this was a 16-year low and it's likely that both Canada and the US will continue with slow interest rate hikes to steady economic growth and combat inflation. Any hike in interest rates will increase the value of the currency in that country and will make that countries grain exports more expensive on the world market.

➤ *Outlook:*

- Turkish and Russian wheat crops are both reported to be larger than previous estimates, while north American wheat seems overpriced on the world market. Protein still remains at a significant premium and those with high protein wheat are not selling. North American wheat is currently too expensive and is not competitive on the world market, while Minneapolis HRS is also still overvalued vs HRW. We expect the spread between spring and winter wheat to narrow in the coming 1-2 months as spring wheat harvest nears completion. The USDA's world supply and demand estimate report will be released on August 10<sup>th</sup> and will be closely watched. Expectations are that the USDA will follow the lead of other agencies and will slightly reduce estimates for world wheat production, while keeping estimates for global ending wheat stocks largely unchanged.

***Cash wheat is current in the range of \$7.17- \$7.90 across the praries for 2 CWRS 13.0. Given that there is adequate global supply, and the probabiltly that there is little to no real shortage of high protein wheat, we expect hard red spring wheat to trade steady to lower in the coming weeks.***

**iii) Primary Elevator Price Tables and Grade Spreads**

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

**Date: August 8, 2017**

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$7.59	\$278.89	1 CWRS 13.5	\$7.77	\$285.50
1 CWAD 13.0	\$7.84	\$288.07	1 CWAD 13.0	\$7.95	\$292.11
1 CPSR 11.5	\$4.71	\$173.06	1 CPSR 11.5	\$4.73	\$173.80
SW Sask			SW Sask		
1 CWRS 13.5	\$7.62	\$279.99	1 CWRS 13.5	\$7.79	\$286.24
1 CWAD 13.0	\$8.08	\$296.89	1 CWAD 13.0	\$8.25	\$303.14
1 CPSR 11.5	\$4.77	\$175.27	1 CPSR 11.5	\$4.77	\$175.27
NE Sask			NE Sask		
1 CWRS 13.5	\$7.44	\$273.38	1 CWRS 13.5	\$7.59	\$278.89
1 CWAD 13.0	\$8.70	\$319.67	1 CWAD 13.0	\$8.73	\$320.78
1 CPSR 11.5	\$4.72	\$173.43	1 CPSR 11.5	\$4.65	\$170.86
SE Sask			SE Sask		
1 CWRS 13.5	\$7.61	\$279.62	1 CWRS 13.5	\$7.67	\$281.83
1 CWAD 13.0	\$8.65	\$317.84	1 CWAD 13.0	\$8.79	\$322.98
1 CPSR 11.5	\$4.84	\$177.84	1 CPSR 11.5	\$4.79	\$176.00

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT**

<b>Avg. Grade Spread/ Pro Discounts</b>	<b>Cdn\$/bu.</b>	<b>Cdn.\$/mt</b>
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.20)	(7.35)
<b>1 CWRS 12.5</b>	(0.37)	(13.60)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.03	1.10
<b>2 CWAD 13.0</b>	(0.79)	(29.03)
<b>2 CWAD 12.5</b>	(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 Basis<sup>1</sup> (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.
  - 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

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<sup>1</sup> 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."

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				August 8, 2017
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$401.82	\$363.59		
HRS	\$394.36			
HRW 11.5	\$269.43			
SWW 12.0	\$257.31			
1 CWRS 13.5 <sup>3</sup>	\$401.82		\$264.56	\$137.26
2 CWRS 13.0 <sup>3</sup>	\$394.36		\$246.18	\$148.18
3 CWRS <sup>3</sup>	\$269.43		\$218.99	\$50.44
CPS <sup>3</sup>	\$250.79		\$170.49	\$80.29
1 CWAD <sup>4</sup>		\$491.78	\$269.70	\$222.08
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$194.00			
French 11.5 (Rouen)	\$193.32			
ASW 10.5 (W Coast)	\$245.00			
Argentine 12.0	\$190.00			
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price <sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS <sup>4</sup> Values derived to Lakehead FOB				

**ADDENDUM**

**Futures Driven Basis Calculation, Canadian Dollars per MT**

<b>Canadian Wheat - World Price Parities</b>					August 8, 2017
<b>Canadian Funds</b>	<b>Grade</b>				
<b>PNW value/Vancouver</b>	<b>1CWRS13.5</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>Dec./Jan. delivery</b>	\$10.76	\$10.56	\$7.16	\$6.83	\$6.83
<b>Parity Track Rosetown</b>	\$9.26	\$9.06	\$5.66	\$5.33	\$5.33
<b>Track Bid Rosetown Area</b>	<b>\$7.20</b>	<b>\$6.70</b>	<b>\$5.96</b>	<b>\$4.64</b>	<b>\$4.64</b>
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$2.06</b>	<b>\$2.36</b>	<b>-\$0.30</b>	<b>\$0.69</b>	<b>\$0.69</b>
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$75.75</b>	<b>\$86.66</b>	<b>-\$11.07</b>	<b>\$25.31</b>	<b>\$25.31</b>

\* to cover elevation, elevator market risk, margin