

Wheat Market Outlook and Price Report: August 21st, 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 July. 14/17

2017/18 World Wheat Overview:

- **August 14th 2017, USDA World Wheat Outlook Report:**
World wheat production is forecasted be near record with production advances in the major wheat producers of the former Soviet Union more than offsetting the reductions in North America, Brazil, and the EU.

Map A – Wheat production changes for 2017/18, August 2017

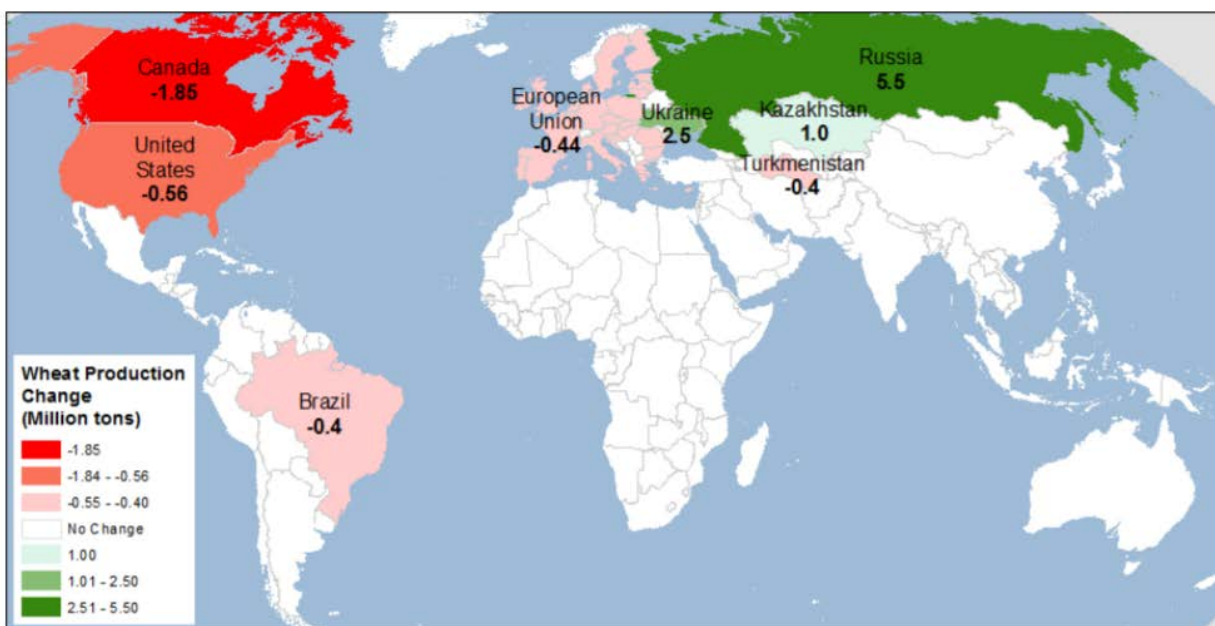
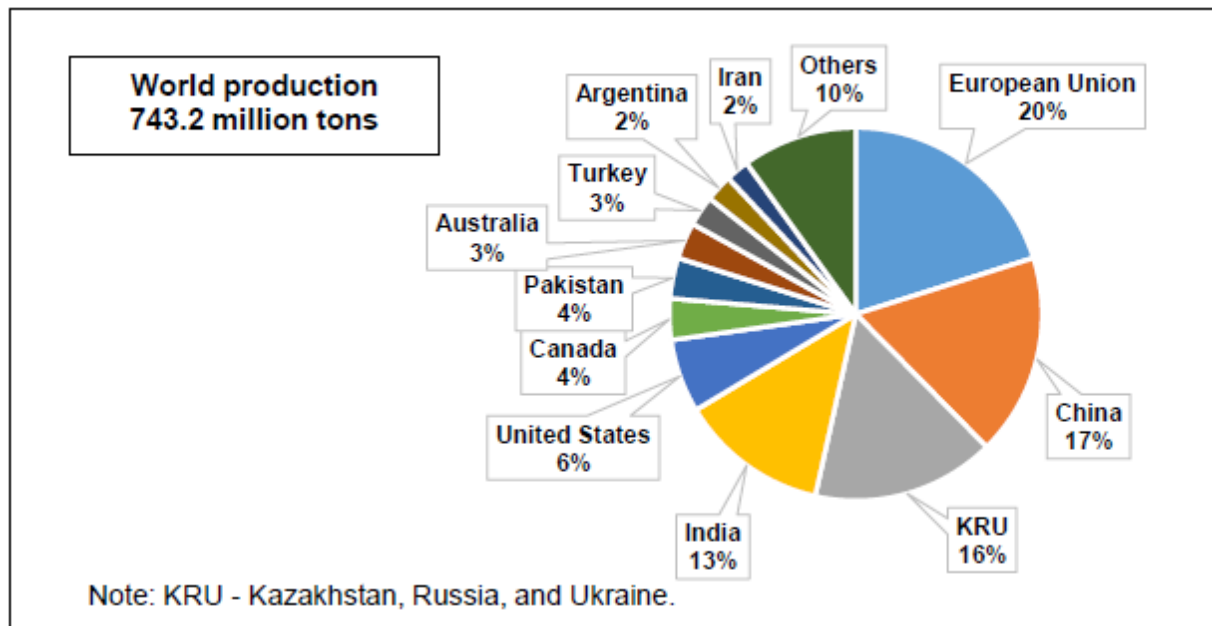


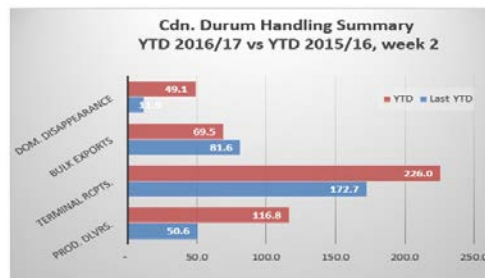
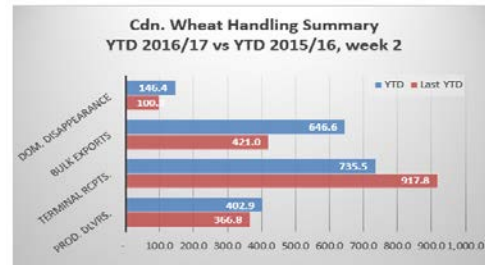
Figure 4: Wheat production shares, August 2017/18



- **World wheat** supply remains adequate at 743.2 million mt, but the final production estimates for US hard red spring wheat remains unknown due to the issue of acreage abandonment in the US.
- **In the EU**, France and Germany are forecasted to have above average wheat crops, while the UK crop is expected to be average.
- **Foreign wheat use** is estimated to be up by 1.8 million mt for 2017/2018, while domestic consumption is estimated lower in by 0.4 million mt in Canada and by 0.14 million mt in the US.
- Russia's world share of wheat exports is estimated to be 17% for 2017/2018, and continues to increase up from 15% last crop year, and up from the 2001-2005 5-year average of 7%.

- **Futures:** On the futures markets last week, September contract Chicago wheat closed up by 2 cents in Fridays trade, but was down by 23.2 cents for the week, while September contract Minneapolis hard red spring wheat closed down by 1.4 cents in Fridays trade, and down by 5.2 cents for the week.
- **Funds:** Index Funds did nothing on the week while speculators and speculative funds were again large sellers. With good carrying charges in the futures markets, we expect these funds to roll their September short to December and to increase their overall short against the December. The speculative funds current wheat short is 4.7 million mt, and the short for all commodities is 17.2 million tonnes which is small. We expect them to go to at least 50 million tonnes short for all commodities.
- **Matif:** September contract milling wheat on the Matif exchange in Europe closed at 155.75 which was down by 0.75 on Fridays trade, and down by 4.75 for the week

- **Canadian wheat:**
- According to the CGC, producers delivered 186k mt of wheat into the handling system, which is down from last week's 213k mt. Exports for week 2 were 387k mt, up from last week's 259k mt, and up by 226k mt from last year's YTD exports.
- Elevator stocks are currently at 2.8 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 251k mt at Thunder Bay, 579k mt at the St Lawrence, and 220k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 332k mt at port, which is comparatively small.
- Producers delivered 51k mt of **durum** into the handling system over the past week. Durum *exports* during week 2 amounted to 40k mt; 70k mt year-to-date. This is close to last years year to date exports of 81.6k mt.



- In Manitoba, warm weather has advanced crops, but has also damaged some canola crops. Scattered showers were experienced across most of the province, but more rain is needed in most regions. Harvest is now well underway for cereals and peas, as well as some canola swathing. Initial yield reports have been slightly above average for most regions.
- The August 14th Saskatchewan crop progress report indicates that harvest is well underway with 82% of fall rye and 50% of winter wheat already harvested. 35% of lentils, 28% of field peas, 3% of durum, and 2% of mustard have also now been harvested. Most harvest activity to-date has been centered in the dryer southwest regions of the province where 17% of the crop has now been harvested.
- The August 15th Alberta crop progress report indicates that the Alberta harvest is now 9.8% complete. 7.7% of spring wheat, 14% of barley, 2.3% of oats, 5.5% of canola, and 32% of peas have now been harvested. Provincially, Alberta growing conditions didn't change in the past week and crops are currently rated as 56% good/excellent which his below the 5-year average of 67% good or excellent.

➤ **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 harvest is now rapidly winding down, with 97% of the crop reported to be harvested as of August 14th. This is up from 94% harvested last week and most remaining crop is located in Washington, Oregon, and Idaho. The US Winter wheat crop showed improved protein as the harvest moved north. The current 11.5-percent protein average is up from last year's 11.2% average, but is still below the long-term average of 12 - 12.5 percent protein. The average test weight for the US winter wheat crop is 60.6 lbs per bushel, which is similar to last year's 60.7 lbs per bushel. In the August 14th USDA crop progress report, the US spring wheat crop is now reported to be 40% harvested, which is up from 24% harvested last week. The condition of the US spring wheat crop is reported to be 33% good or excellent, which is up by 1% from last weeks numbers. While the US spring wheat harvest has been held up by rain, the forecast has cleared and it

looks as if there will be good weather for the US harvest going forward. Initial samples from the spring wheat harvest indicate that average test weights are 61.6 lbs per bushel, and average protein of 15.4% which is up from last years average of 14.1%. The average grade of initial samples is reported to be US No 1 Dark Northern Spring.

- **Australian wheat:**

Western regions of Australia have had favorable rains, while dryness persists in eastern regions of the country. While Australia doesn't have a crop failure, projections for the Australian wheat crop continue to be progressively lower and the USDA is expected to lower its projections for Australian production in next months report.

- **Argentine wheat:**

- Argentina has had favorable rains while Brazil has been dry across most of its wheat growing regions.

- **EU wheat:**

Very little has changed in Europe and the same weather pattern continues. Northern Europe continues to have favorable conditions, while dryness persists in southern regions. Overall crop prospects for Europe are favorable and harvest is progressing rapidly.

- **Black Sea wheat:**

The Black Sea fell sharply last week with Russian 12.5 pro offers now down to \$184 and the highest bids at \$181-182. The 11.5 pro discount was narrow at around \$13 but the feed wheat discount to 11.5 protein was wider at \$10. Large crop projections in Russia and the former Soviet Union are weighing on the market.

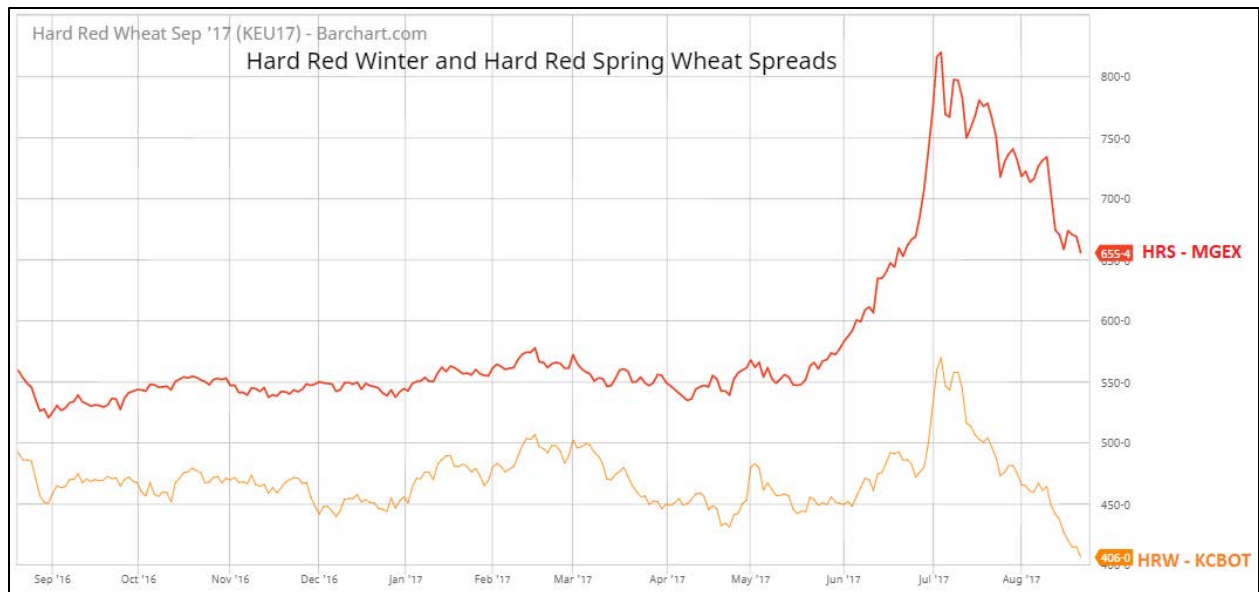
Wheat Market Outlook:

- Significant events:

The US Federal Reserve continues to be split over the timing of future interest rate increases as they struggled to understand why inflation has been so weak. The central bank has raised rates twice this year and has penciled in a third rate increase in 2017 as well as three in 2018, but there is widespread uncertainty about their resolve to carry through. Meanwhile, it seems increasingly probable that there will be further interest rate hikes in Canada which would drive the Canadian dollar higher and make our grain less competitive on the world market. The Canadian dollar increased in value over the past week from .7889 cents to .7967 cents US and most short-term projections indicate that it may continue upwards over 80 cents.

- *Outlook:*

Spring wheat has shown surprising strength over the past week and hasn't declined on pace with winter wheat values, largely due to trader concerns over undefined spring wheat acreage abandonment in the northern US plains. The strength in Minneapolis wheat could continue until the issue of acreage abandonment is resolved or until harvest pressure increases. However, the Russian winter wheat harvest is reported to be past 60% complete nationally, and the Russian harvest is 90% complete in the major winter wheat producing regions. Russian winter wheat harvest reports are indicating yields that are 6% higher vs last years record crop. Meanwhile the USDA wheat outlook report indicates that the normalized difference vegetation index for the main spring wheat production regions of Siberia and northern Russia are showing near record yield potential. Based on most reports the Russian spring wheat crop is in excellent condition. Reports this past week also indicate that Indian farmers harvested a record 98.38 million mt of wheat in the crop year to June, which is up from 97.44 million mt estimated in May. Europe has also continued to have showers in central and northern wheat growing regions and it seems unlikely that there will be any real global shortage of wheat or of high protein wheat.



Looking forward, we are still expecting spring wheat to drop to more typical historic premiums over Kansas hard red winter wheat. Cash bids for 2CWRS 13.0 are currently in the range of \$6.72 - \$7.35 per bushel across the prairies, and although prices have declined significantly over the past weeks, the current values are probably still some good selling opportunities. Spring wheat is expected to trade steady to lower with harvest in progress, and spreads between hard red spring and hard red winter are expected to narrow post harvest and once questions surrounding the issue of acreage abandonment in the northern US have been resolved.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: August 21, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$6.98	\$256.47	1 CWRS 13.5	\$7.11	\$261.25
1 CWAD 13.0	\$8.26	\$303.51	1 CWAD 13.0	\$8.31	\$305.34
1 CPSR 11.5	\$4.15	\$152.49	1 CPSR 11.5	\$4.21	\$154.69
SW Sask			SW Sask		
1 CWRS 13.5	\$6.97	\$256.11	1 CWRS 13.5	\$7.17	\$263.45
1 CWAD 13.0	\$8.44	\$310.12	1 CWAD 13.0	\$8.34	\$306.44
1 CPSR 11.5	\$4.08	\$149.92	1 CPSR 11.5	\$4.20	\$154.32
NE Sask			NE Sask		
1 CWRS 13.5	\$6.78	\$249.12	1 CWRS 13.5	\$6.89	\$253.17
1 CWAD 13.0	\$8.60	\$316.00	1 CWAD 13.0	\$8.61	\$316.37
1 CPSR 11.5	\$4.13	\$151.75	1 CPSR 11.5	\$4.09	\$150.28
SE Sask			SE Sask		
1 CWRS 13.5	\$6.96	\$255.74	1 CWRS 13.5	\$7.02	\$257.94
1 CWAD 13.0	\$8.56	\$314.53	1 CWAD 13.0	\$8.63	\$317.10
1 CPSR 11.5	\$4.24	\$155.79	1 CPSR 11.5	\$4.24	\$155.79

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*

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.

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.

"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."

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

Relevant FOB Prices and Export Basis				August 21, 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	\$365.27	\$340.80		
HRS	\$357.88			
HRW 11.5	\$244.74			
SWW 12.0	\$241.97			
1 CWRS 13.5 ³	\$365.27		\$267.13	\$98.14
2 CWRS 13.0 ³	\$357.88		\$262.72	\$95.16
3 CWRS ³	\$244.74		\$253.53	-\$8.79
CPS ³	\$235.51		\$141.46	\$94.04
1 CWAD ⁴		\$487.18	\$279.62	\$207.56
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$183.00			
French 11.5 (Rouen)	\$188.64			
ASW 10.5 (W Coast)	\$235.00			
Argentine 12.0	\$195.00			
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

Canadian Wheat - World Price Parities					August 21, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.76	\$9.56	\$6.48	\$6.41	\$6.41
Parity Track Rosetown	\$8.27	\$8.07	\$4.99	\$4.91	\$4.91
Track Bid Rosetown Area	\$7.27	\$7.15	\$6.90	\$3.85	\$3.85
Gross Margin at Elevator (\$/bu)*	\$1.00	\$0.92	-\$1.91	\$1.06	\$1.06
Gross Margin at Elevator (\$/mt)*	\$36.69	\$33.71	-\$70.24	\$39.06	\$39.06
* to cover elevation, elevator market risk, margin					