

Wheat Market Outlook and Price Report: August 28th, 2017
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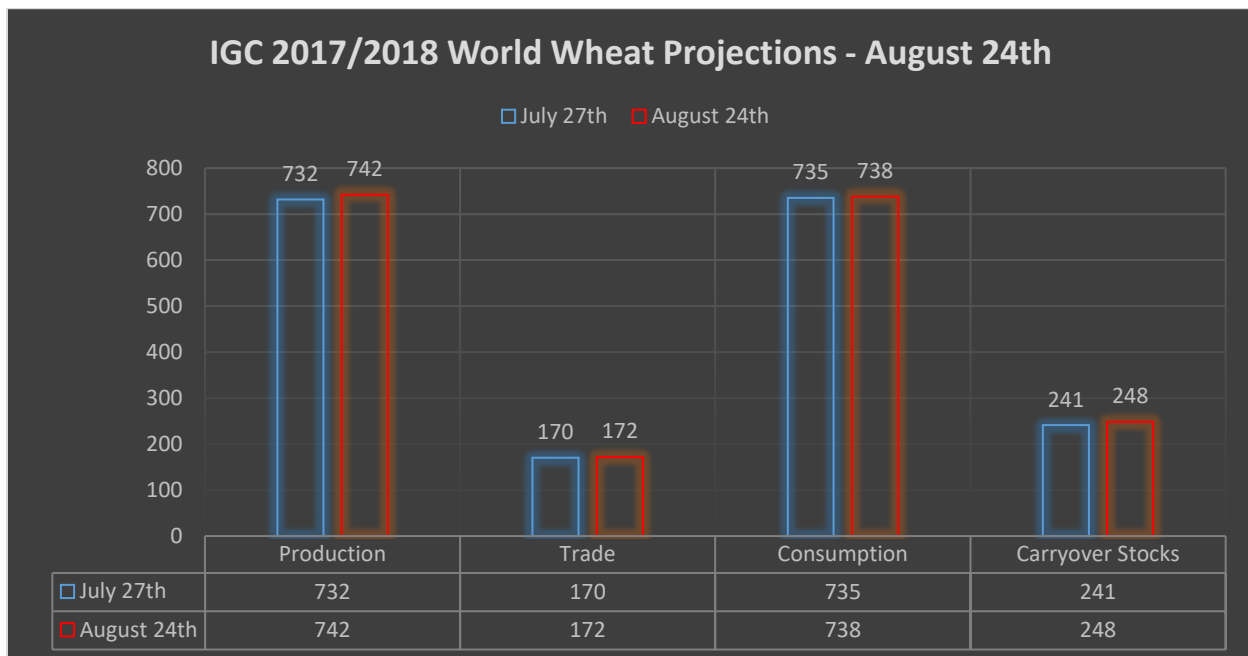
i) Background and Rationale for the Report

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) Global Wheat Markets - August 28, 2017

2017/18 World Wheat August Production Update – International Grains Council (IGC):



- **August 24th International Grains Council Grain Market Report:**
 - **Projections for 2017/2018 World wheat production** have been increased by 10 million mt to 742 million mt on better than expected harvests in the black sea region of Russia and the former Soviet Union.

- **World ending wheat stocks** are now estimated to be 248 million mt, which is an increase of 7 million mt from last month's report.

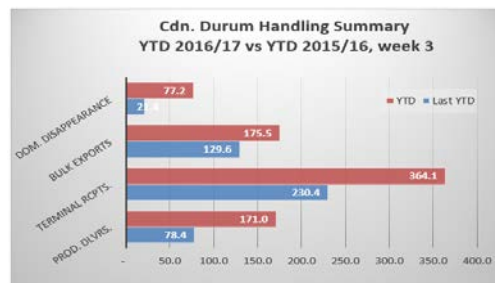
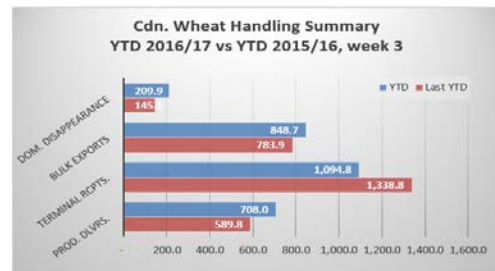
Global wheat production and trade:

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

- **Futures:** On the futures markets, December contract Chicago wheat closed the week at \$4.35 US\$ per bushel which is down by 14 cents for the week, but up by 0.6 cents in Fridays trade. Meanwhile, December contract Minneapolis hard red spring wheat closed the week at US\$6.69 per bushel which is down by 13.2 cents for the week, but up by 0.4 cents in Fridays trade.
- **Matif:** Matif exchange in Europe closed at €161.00/mt which was up by 0.50 on Fridays trade, but down by 1.00 for the week
- **Funds:** Spec Funds were good sellers on the week. They sold 4.9 million mt of wheat during the week. Index Funds sold 1 million mt of wheat.

Canadian wheat:

- According to the CGC, producers delivered 286k mt of wheat into the handling system, which is down from last week's 186k mt, and down from 400k mt the week prior. Exports for week 3 were 202k mt, down from last week's 387k mt, but up by 8% from last year's YTD exports.
- Elevator stocks are currently at 2.8 million mt with 1.25 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 224k mt at Thunder Bay, 608k mt at the St Lawrence, and 224k mt at Bay and Lakes. Meanwhile, the Pacific coast has only 271k mt at port, which is comparatively small.
- Producers delivered 54k mt of **durum** into the handling system over the past week. Durum *exports* during week 3 amounted to 105k mt; 175k mt year-to-date. This is up by 35% from last years year to date exports of 130k mt.



- **Manitoba harvest** is advancing quickly and the August 21st Manitoba crop progress report indicates that the harvest of winter cereals and pea's is now nearing completion. The spring cereal harvest is continuing and canola harvest is also now underway in some regions. Yield reports have been excellent with near record yields and very good crop quality. Scattered rain fell throughout the province, but most areas are still dry.
- Saskatchewan's crop progress report indicates that harvest is progressing smoothly. 14% of the **Saskatchewan** crop is now harvested which is ahead of the 5-year average of 8% for this time of year. The southwest region of SK is most advanced with an estimated 30% of the crop already harvested while the southeast region is estimated to be 23% harvested. Provincially, 83% of winter wheat and 14% of durum have already been harvested as of August 21st.
- The August 22nd **Alberta** crop progress report indicates that the Alberta harvest is rapidly progressing. Provincially, Alberta crops are now reported to be 6% swathed and 12% combined and harvest is reported to be most advanced in southern regions which were dryer. Harvest progress is estimated to be 10 days ahead in the south, average in central regions, and 10 days behind in northern regions. Northern crops could be at risk for frost.

○ **US wheat:**

The US winter wheat harvest is now winding. The US spring wheat harvest continues smoothly with the US crop is now reported to be 58% harvested as of August 21st. The South Dakota harvest is now reported to be near completion, while the North Dakota harvest is still in progress. Initial harvest samples from the US spring wheat harvest indicate test weights of 60.7 lbs per bushel *and average protein of 15.1%*. Last years crop yielded average test weights of 61.3 lbs per bushel, and average protein of 14.2%.

Australian wheat:

- Australia is little changed from last week. Rains continue to benefit western regions, while the north east is still reported to be hot and dry. Projections for the Australian wheat crop continue to be reduced and this past week Rabobank forecasted Australia's wheat production to be 22 million mt, which is 27% lower vs last year and 12% below the 5-year average. Rabobank's estimates are also below the National Australian Bank's August 7th estimates of 22.7 million mt, and well below the USDA's August 10th estimate of 23.5 million mt. It is expected that the USDE will lower projections for Australian wheat production in its September WASDE report.
- Aussie new crop futures fell to 4-month lows closing A\$70/mt off the July highs, but while Australian Fob values were also down, they were less well defined.
- The weather models remain dry ahead of the critical growing season and precipitation since July 1 has ranged from just 25-60% of normal.

Argentine wheat:

- Argentine wheat acreage has been cut due to excessive rain in early August, and the USDA has estimated the current crop at 12.8 million acres, which is below last years 13.8 million acres.
- Argentine Fob wheat was weaker with old crop 12% protein offered down to US\$185/mt and new crop at US\$180/mt.
- Farmers sold 190k mt of the 2017 crop for a total 15.7 Mmt (9 million mt last year). New crop farmer sales stand at 3.1 Mmt (just 850kt a year ago), all of which is held by exporters.

Brazil Wheat:

Brazil has reported widespread rainfall in previously dry southern wheat areas, and the recent rains are reported to be excessive in some regions.

○ **EU wheat:**

The European cereal harvest is now complete.

- All Matif and CME futures positions made contract lows early in the week before rallying into the weekend.

○ **Black Sea wheat:**

- Russian 12.5 protein wheat ended the week down US\$2/mt at a nominal US\$180/mt for September, plus US\$2 per month. The 11.5 protein wheat discount is still at US\$10-12/mt depending on destination. Feed wheat was a further US\$10/mt less.
- Even with the €12/mt (US\$14.10/mt) import duty, Ukraine feed was even money with Balkan feed into the EU, but the Fob parity of €150/mt (~US\$180/mt) against Russian 12.5 protein at €154/mt, gave little incentive to the Balkan farmer to sell milling wheat.
- Black Sea port data showed another big Russian export number and the August total could exceed 4 million mt. However, vessel waiting times are now at up to 3 weeks, and the pace remains behind last year compared to the USDA's projected 13% increase.

Significant purchases/ trades:

There were quite a few trades this week in the international cash markets:

- Saudi Arabia bought 490,000 mt at around US\$216/mt basis Jeddah and \$221 basis the Gulf clearly FSU/Russian origin.

- Jordan bought 50,000 mt LH Jan at US\$212.50/mt also FSU/Russian origin.
- Iraq bought 2 x 50,000 mt US/Australian wheat at US\$297.75/mt. *No Canadian wheat was offered.*
- Algeria bought 590,000 mt optional origin wheat for November'17 at US\$200-201/mt; FSU/Russian origin.
- Tunisia bought 75,000 mt Oct-Nov wheat at US\$191/mt; FSU/Russian origin.

Wheat Market Outlook:

- Significant events:
Although the USDA did increase its estimates for the Russian crop to 77.5 million mt in the August WASDE report, Russian wheat yields have continued to surprise. The USDA is now expected to issue further increases for the Russian crop in its September report
- Outlook:
- The cash wheat market remains a little complex regarding quality, however, one thing is clear: *There certainly is no shortage of wheat around.*
- The total available supply now depends on logistics - notably the availability of rail cars and transport to export locations. Russian wheat exports will have difficulty getting more than 30 million mt out, and Canada so far shows no evidence of wanting to ship more to meet demand, rather than allocate railcars to be in accordance with what the elevators/RR want to ship. However, there seems to be more than enough supply to meet milling demand. Feed Wheat is already taking feed demand away from corn.

Spring wheat is still overvalued vs other wheat or corn, and we expect spring wheat to continue to trade lower in coming weeks. Cash wheat is currently trading in the range of \$6.58 - \$7.21 per bushel across the prairies for number 2 CWRS 13.0, and this is still considered to be a good selling opportunity.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: August 28, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '17 (bu.)	Oct. '17 (mt)
1 CWRS 13.5	\$6.87	\$252.43	1 CWRS 13.5	\$6.94	\$255.00
1 CWAD 13.0	\$7.79	\$286.24	1 CWAD 13.0	\$7.82	\$287.34
1 CPSR 11.5	\$4.19	\$153.96	1 CPSR 11.5	\$4.30	\$158.00
SW Sask			SW Sask		
1 CWRS 13.5	\$6.88	\$252.80	1 CWRS 13.5	\$6.97	\$256.11
1 CWAD 13.0	\$7.86	\$288.81	1 CWAD 13.0	\$7.99	\$293.58
1 CPSR 11.5	\$4.13	\$151.75	1 CPSR 11.5	\$4.21	\$154.69
NE Sask			NE Sask		
1 CWRS 13.5	\$6.65	\$244.35	1 CWRS 13.5	\$6.72	\$246.92
1 CWAD 13.0	\$8.18	\$300.57	1 CWAD 13.0	\$8.20	\$301.30
1 CPSR 11.5	\$4.12	\$151.39	1 CPSR 11.5	\$4.17	\$153.22
SE Sask			SE Sask		
1 CWRS 13.5	\$6.80	\$249.86	1 CWRS 13.5	\$6.84	\$251.33
1 CWAD 13.0	\$8.19	\$300.93	1 CWAD 13.0	\$8.26	\$303.51
1 CPSR 11.5	\$4.21	\$154.69	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 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				Aug. 28, 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	\$365.92	\$330.57		
HRS	\$359.04			
HRW 11.5	\$247.01			
SWW 12.0	\$239.66			
1 CWRS 13.5³	\$365.92		\$239.94	\$125.99
2 CWRS 13.0³	\$359.04		\$221.20	\$137.84
3 CWRS³	\$247.01		\$213.12	\$33.90
CPS³	\$233.24		\$144.04	\$89.20
1 CWAD⁴		\$484.38	\$279.62	\$204.76
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$180.00			
French 11.0 (Rouen)	\$191.35			
ASW 10.5 (W Coast)	\$230.00			
Argentine 12.0	\$180-185			

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					Aug. 28, 2017
Canadian Funds					
PNW value/Vancouver	1CWRS13.5	2CWRS	Grade 3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.78	\$9.60	\$6.55	\$6.35	\$6.35
Parity Track Rosetown	\$8.29	\$8.10	\$5.05	\$4.85	\$4.85
Track Bid Rosetown Area	\$6.53	\$6.02	\$5.80	\$3.92	\$3.92
Gross Margin at Elevator (\$/bu)*	\$1.76	\$2.08	-\$0.75	\$0.93	\$0.93
Gross Margin at Elevator (\$/mt)*	\$64.57	\$76.43	-\$27.52	\$34.22	\$34.22

* to cover elevation, elevator market risk, margin