

Wheat Market Outlook and Price Report: November 13th, 2017

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

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).

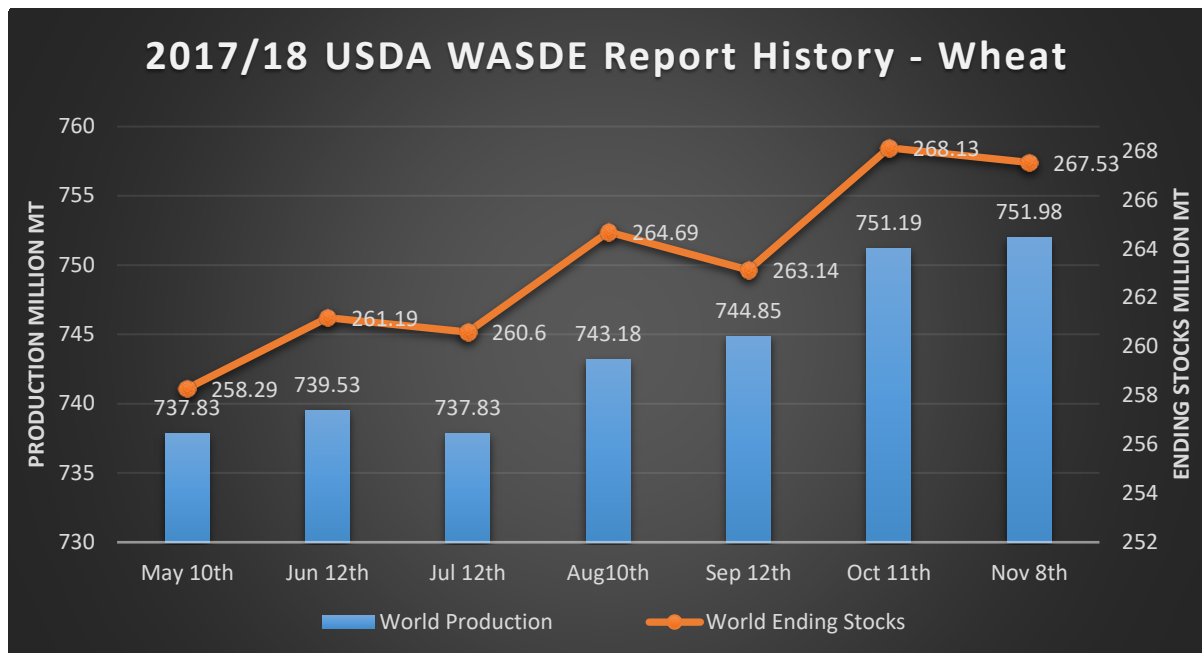
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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 Nov. 13, 2017

2017/18 World Wheat Overview:

➤ **November 8th USDA WASDE Report**

- **Projections for world wheat production** have been raised again slightly to 751.98 million mt, up from last month's 751.19 million mt.
- **World ending wheat stocks** have been lowered by 0.6 million mt to 267.53 million mt due to a decrease in total wheat supplies and increases in total use.
- **US ending wheat stocks** have been adjusted lower by 25 million bushels (680k mt) due to projections for increased exports of hard red winter wheat.

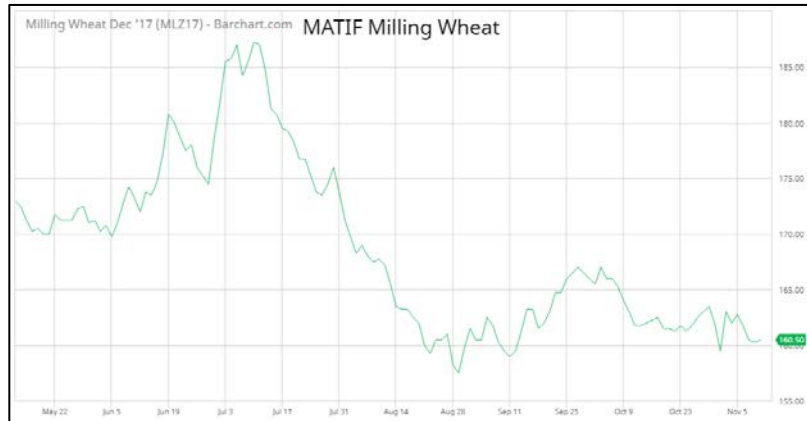


➤ **Global wheat production and trade:**

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.

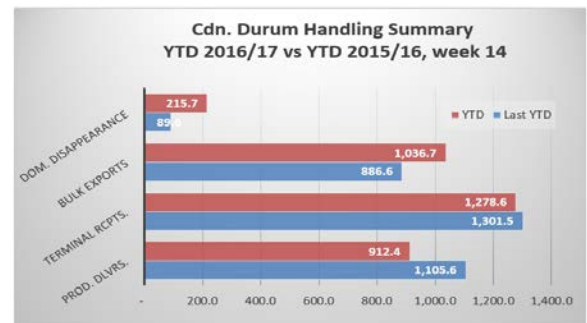
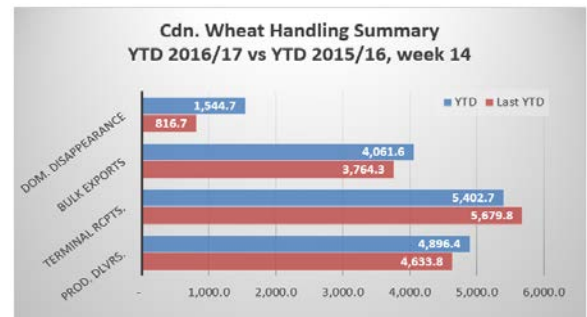
- **Futures:** Wheat futures traded quietly mixed heading into the weekend. December contract Chicago wheat closed at 431.4, up by 2.4 cents in Friday's trade, and up by 5.6 cents for the week, while December contract Kanas hard red winter wheat closed at 433.2, up by 4.2 cents on Friday, and up by 6.4 cents for the week. In Minneapolis, December contract hard red spring wheat closed at 647.4, down by 0.4 cents on Friday, but up by 21.4 cents for the week. March 2018 contract hard red spring wheat closed at 659.2, up by 1.2 cents in Friday's trade, and up by 19.2 cents for the week.

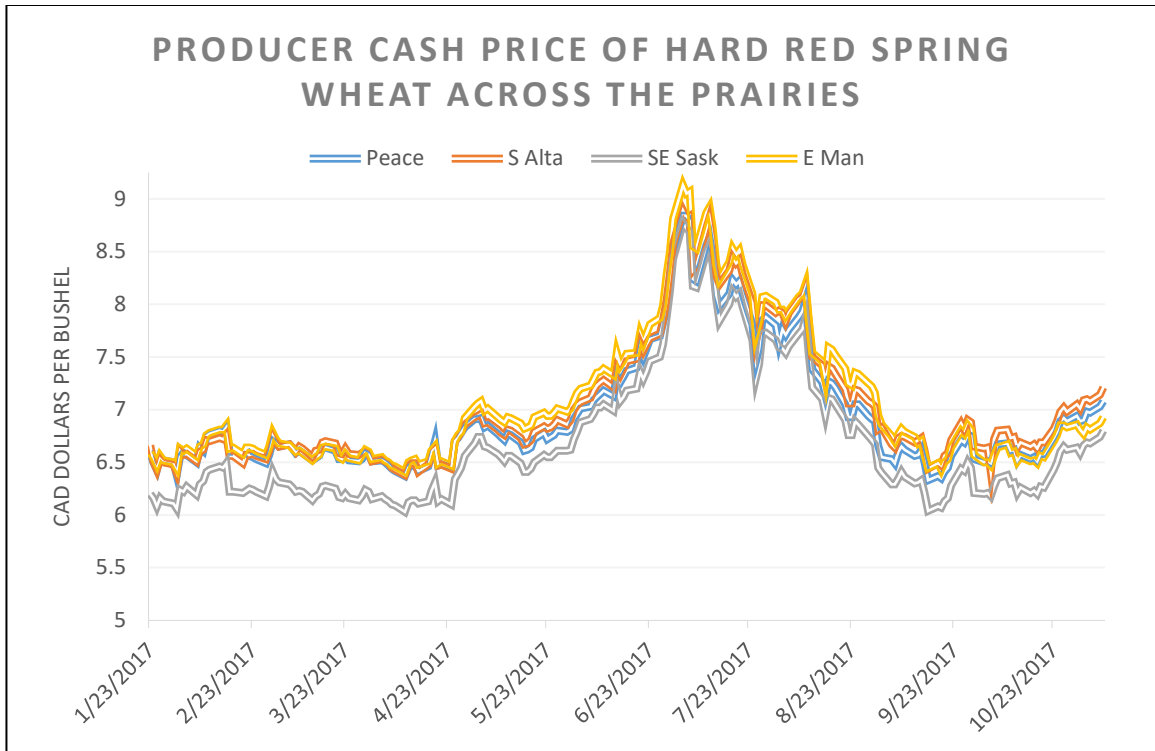
- **Funds:** Very little activity on the week. The Spec element reduced their overall short buying some oilseeds.



- **Matif:** The Matif exchange in Europe closed at 160.50 which was up by 0.25 on Friday's trade, and down by 1.50 for the week.

- **Canadian wheat:**
- Producers delivered 316k mt of wheat into the handling system, which is down from last week's 336k mt. Exports for week 14 were 238k mt, down from last week's 397k mt, but up by 7.9% from last year's YTD exports.
- Elevator stocks are currently at 2.986 million mt with 1.4 million mt at primary elevators and most of the remaining inventory at port.
- Producers delivered 63k mt of **durum** into the handling system over the past week. Durum exports during week 14 amounted to 61k mt; 1,037k mt year-to-date. This is ahead of last year's year to date exports of 887k mt.





- **US wheat:**
 - US winter wheat is reported to be 91% planted as of November 5th, up from 84% last week. US export all wheat sales this past week were expected to be in the range of 350-550k mt, but came in at an excellent 782k mt, the biggest week of the year.
 - In the November 8th WASDE report, the USDA lowered projected US ending wheat stocks due to expectations for higher exports of US hard red winter wheat.
 - US wheat inspections for the week were 284,000 tonnes (season total 420 myn bushels, down 6%), export sales were 782,000 tonnes (season total 599 myn bushels, down 4.5%).

- **Australian wheat:**
 - In the November 8th WASDE report, the USDA left Australian wheat production estimates unchanged at 21.5 million mt, which was unexpected. The USDA estimates are currently some of the highest, and analysts were expecting the USDA to at least slightly lower Australian production forecasts. However, the WASDE did bring some changes to the Australian wheat balance sheet. Australian beginning stocks have been increased from 6.73 million mt, to 7.1 million mt, while export projections have been lowered by 500k mt to 17.5 million mt. The result is higher ending stocks for the 2017/18 crop year that are projected at 4.25 million mt (a 0.87 million mt increase).
 - *Australian wheat futures ended with a 10-week low close, and Fob values have also dropped sharply.*

- **Argentine wheat:**
 - Argentine wheat production estimates were also left unchanged in the USDA WASDE report. Argentine wheat production is still set at 17.5 million mt, with the only real change being a 200k mt decrease in domestic use, and a 200k increase in export projections. In the past week, the Buenos Aires Grain exchange (BAGE) reported the Argentine wheat harvest to be 8.2% complete, and estimated Argentine wheat production at 17 million mt, which is lower vs the USDA's WASDE estimate. CONAB has projected Brazilian wheat production at 4.6 million mt, which is down from their previous estimate of 4.9 million mt, and is also lower vs the USDA's Nov WASDE estimate of 4.9 million mt.

- Argentine Fob wheat price levels fell in spite of despite Brazil's quota decision to drop plans for a tax free 750k mt open wheat import quota.
- **EU wheat:**
- EU wheat futures (Matif) slipped €1.50/mt, French premiums were unchanged, but the discount for Baltic 12.5 pro against German narrowed to €1/mt.
- EU wheat exports are under fierce competition from the black sea, and EU weekly soft wheat shipments have been reported at 335k mt this past week. This leaves the season total soft wheat shipments at 7 million mt, *which is down by 25% vs last year.*
- France and Ukraine have given up on the Egyptian tender business and Romania will probably follow soon, thus leaving Russia on its own for Egypt for the rest of the season.
- **Black Sea wheat:**
- In the Black Sea, Russian 12.5 protein wheat values were roughly unchanged, but the carrying charges for forward wheat continued to erode and Russian wheat was again offered to Egypt (GASC) was again aggressively.
- New crop Russian wheat was bid at US\$185/mt.

Significant purchases/ trades:

- **Egypt** (GASC) bought 120,000 mt of Russian wheat at US\$210/mt C&F.
- **Algeria** bought 210,000 mt at US\$210.50/mt.
- **Ethiopia** bought 400,000 mt at US\$297-309/mt delivered interior.
- **Tunisia** purchased 100,000 mt of soft wheat at US\$207-209/mt and 100,000 mt of durum wheat at US\$288-291/mt. *The Tunisian durum trade was cheap and we expect it was low grade French origin wheat.*
- **US** inspections were 284,000 mt (season total 420 myn bushels, down 6%), sales were 782,000 mt (season total 599 myn bushels, down 4.5%).

Wheat Market Outlook:

➤ **Significant events:**

- **Brazil** dropped its idea of a 750,000 tonne duty-free non-Mercosur import quota. This is a dissapointment for US HWW sales.
- **India** doubled its import tax on wheat to 20%, and also introduced a 50% import tariff on peas. If these tariff's last, they will cause some acreage shifts in Western Canada.
- **Bangladesh** imports of 2.1 myn tonnes for Jul-Oct '17 were up 30% on last year.

➤ **Outlook:**

- While we think the WASDE report was somewhat bearish to corn, as we do not subscribe to USDA's opinion of the that corn demand will increase. So far, we have seen little evidence of USA corn exports increasing year on year. But we do think that there are signs of stronger wheat prices to come, which we think will take food- and feed grain prices higher. However, some of that is already in the futures deferred carrying charges.
- Wheat has gained on corn, but wheat is still at an attractive price in poultry rations so demand should continue to be good.
- There is still pressure in the market to sell Russian/FSU wheat and it looks like it's going to continue blanking out both North American and EU origin wheat into the Middle East and eastern markets. There are still some homes for hard quality wheat, but demand is limited and sellers need to be sharp when the opportunities arise - which seems to leave Canada in the cold. To really rally prices, we need a weather problem to get the Funds to buy in their short, but at the present there is no pressure on them to buy. *Note Dec Mpls wheat has rallied 40 cents from its Dec lows against Kansas City - expect more - which is creating opportunities to sell cash spring wheat.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: November 13, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan. '18 (bu.)	Jan. '18 (mt.)
1 CWRS 13.5	\$6.99	\$256.84	1 CWRS 13.5	\$7.11	\$261.25
1 CWAD 13.0	\$7.36	\$270.44	1 CWAD 13.0	\$7.38	\$271.17
1 CPSR 11.5	\$4.82	\$177.11	1 CPSR 11.5	\$4.84	\$177.84
SW Sask			SW Sask		
1 CWRS 13.5	\$7.06	\$259.41	1 CWRS 13.5	\$7.09	\$260.51
1 CWAD 13.0	\$7.62	\$279.99	1 CWAD 13.0	\$7.59	\$278.89
1 CPSR 11.5	\$4.65	\$170.86	1 CPSR 11.5	\$4.72	\$173.43
NE Sask			NE Sask		
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	\$6.88	\$252.80
1 CWAD 13.0	\$7.20	\$264.56	1 CWAD 13.0	\$7.54	\$277.05
1 CPSR 11.5	\$4.44	\$163.14	1 CPSR 11.5	\$4.51	\$165.72
SE Sask			SE Sask		
1 CWRS 13.5	\$6.92	\$254.27	1 CWRS 13.5	\$6.91	\$253.90
1 CWAD 13.0	\$7.65	\$281.09	1 CWAD 13.0	\$7.48	\$274.85
1 CPSR 11.5	\$4.56	\$167.55	1 CPSR 11.5	\$4.59	\$168.65

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)

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."

- 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.

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

Relevant FOB Prices and Export Basis				Nov. 13, 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	\$366.83	\$344.87		
HRS	\$359.82			
HRW 11.5	\$276.18			
SWW 12.0	\$254.21			
1 CWRS 13.5³	\$366.83		\$252.80	\$114.03
2 CWRS 13.0³	\$359.82		\$221.57	\$138.26
3 CWRS³	\$276.18		\$217.89	\$58.28
CPS³	\$247.67		\$156.53	\$91.14
1 CWAD⁴		\$411.23	\$256.84	\$154.39
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$192.00			
French 11.5 (Rouen)	\$191.52			
APW 10.5 (W Coast)	\$228.00			
Argentine 12.0	\$173-177.00			

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						Nov. 13, 2017
Canadian Funds		Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Dec./Jan. delivery	\$9.81	\$9.61	\$7.34	\$6.74	\$6.74	
Parity Track Rosetown	\$8.31	\$8.12	\$5.84	\$5.24	\$5.24	
Track Bid Rosetown Area	\$6.88	\$6.03	\$5.93	\$4.26	\$4.26	
Gross Margin at Elevator (\$/bu)*	\$1.43	\$2.09	-\$0.09	\$0.98	\$0.98	
Gross Margin at Elevator (\$/mt)*	\$52.51	\$76.73	-\$3.24	\$36.16	\$36.16	

* to cover elevation, elevator market risk, margin