

Wheat Market Outlook and Price Report: November 27th, 2017

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

i) Background and Rationale for the Report

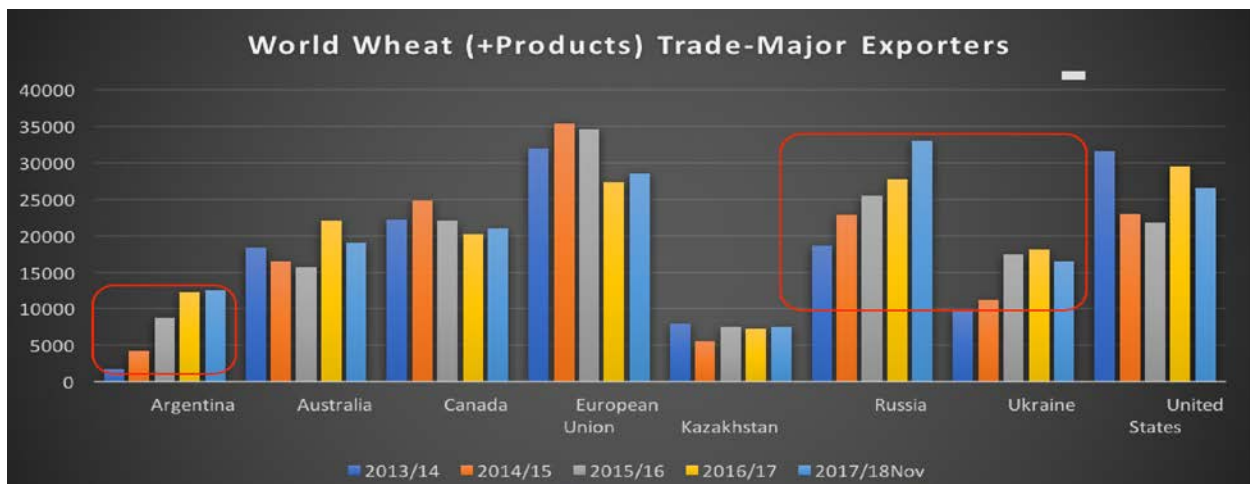
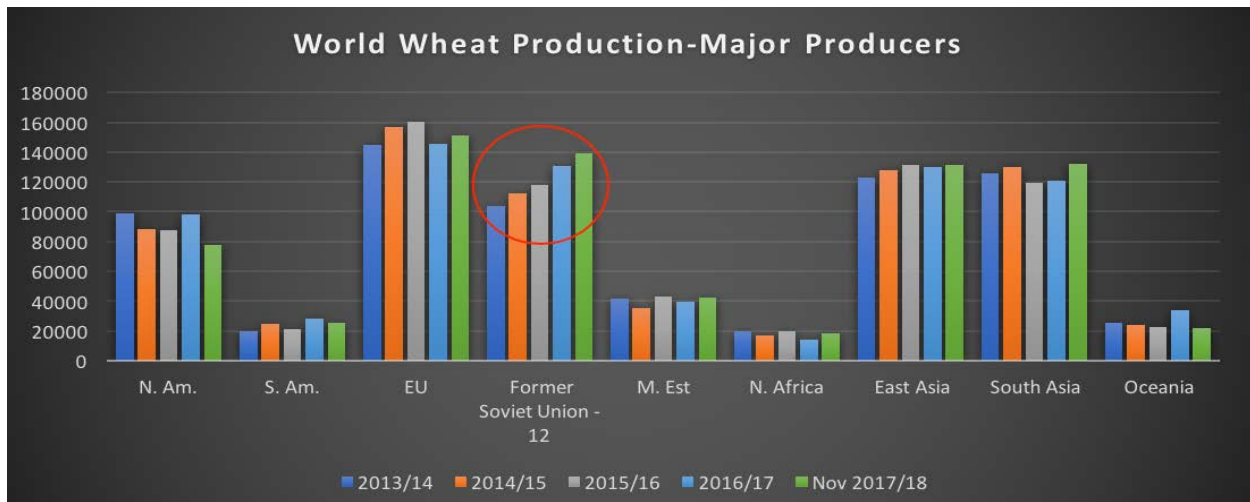
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 July. 14/17

2017/18 World Wheat Overview:

- **Summary of the substantial fundamental changes in world wheat markets that have occurred over the past 5 years, using USDA/ WASDE numbers:**
 - **World wheat production** has increased from 715 mln mt in 2013/14 to 754 mln mt in '16/17 and 752 mln mt in P'17/18, a 5.2% increase. Most of the increase comes from FSU-12, where production grew from 104 mln mt to 139 mln, a 34% increase. Asian production also increased by 6% from 249 mln mt to 264 mln mt. Meanwhile, North American production dropped by 11% from 99 mln mt to 78 mln mt.
 - **Traded wheat volume** increased by 12% from 162 mln mt to 182 mln mt over the same time period. *Most of the increase in traded volume is attributable to Russian and the Ukraine; an 81% move from 28 mln mt combined exports in '13/14 to 49.5 mln mt in P'16/17.* Argentina has also substantially increased exports from 1.7 mln mt to 12.5 mln mt.
 - **Canadian wheat exports** dropped over the same time period from 22 mln mt in 2013/14 to a projected 21 mln mt for 2017/18.



➤ **Global wheat production and trade:**

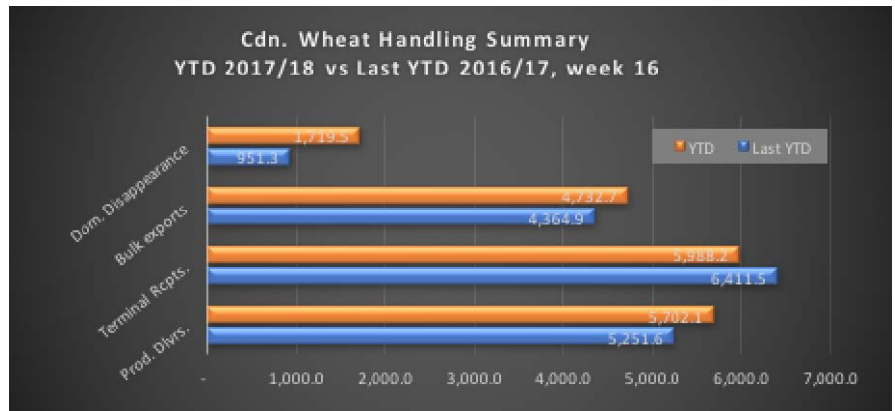
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** It was a short week due to the US Thanksgiving weekend. Wheat futures fell 5 to 7 cents in most CBT and KC contracts on Friday, as MPLS was 2 to 4 cents lower. Chicago wheat settled at \$4.15 3/4, down 7 cents, Dec 17, Kansas wheat settled at \$4.14 1/2, down 6 1/2 cents, Dec 17 Minneapolis wheat settled at \$6.23 1/2, down 3 1/4 cents.
- **Funds:** Speculative Funds sold a bit of wheat (-800k mt), keeping their net short at about 21 mln mt.
- **Matif:** Matif wheat futures in Europe drifted 50¢/mt as the €uro firmed to a 6-week high close.

Canadian wheat:

- Given the CGC handling data for week 16, Canadian wheat had a decent week, with 312,600 mt loaded for export, and 74,100 mt of wheat used domestically. 225k mt of the export wheat were loaded in St. Lawrence elevators, 26,000 mt in Thunder Bay, and 35,400 mt on the Pacific Coast.

- 176k of the wheat loaded was No. 2 spring wheat (61.5%), while the remainder was primarily winter wheat and feed quality wheat. Most of the spring wheat was loaded in the St. Lawrence.



- A total of 145k mt of wheat were loaded onto rail at primary elevators during week 16, with 90k mt moving east, and 55k mt moving to the west coast. YTD total wheat exports are at 4.7 million mt vs. 4.4 million mt last YTD.

(CGC) Grain Handling Summary Durum				week 16	(to Nov.19/17)
('000 mt)	Terminal Rpts.		Bulk exports	Dom. Disappearance	
	Prod. Divrs.				
week 16	83.2	99.3	117.9	5.0	
Week ago	84.6	49.2	25.3	7.4	
YTD	1,082.5	1,509.4	1,184.9	247.0	
Last YTD	1,377.0	1,561.0	1,108.5	98.0	
YTD less Last YTD (k mt)	-294.5	-51.6	76.4	149.0	
YTD over Last YTD (%)	79%	97%	107%	252%	

Mercantile based on weekly CGC Handling Data

- We note that since July 1, Russian wheat exports have increased by 3.9 mln tonnes. Russian wheat exports year to date beginning July 1 have reached 14.9 mln tonnes. In comparison, Canada's Aug. 1 year to date wheat exports are 4.7 myn.

- In grain shipping week 16, Canadian producers delivered 83k mt of durum into the handling system while Canadian Durum exports amounted to a decent 118k mt and 1,185k mt year-to-date. This is 7% ahead of last year's year to date exports of 1.1 mln mt.

US wheat:

- US wheat sales were just 200k mt (7.3 mln bu), a disappointing week. Market expectations had been at 350-550k mt. This was the 3rd lowest of the first 25 weeks of the '17/18 marketing year.
- The early season surge of US wheat exports has dwindled and the export pace is barely keeping up with USDA forecasts. Ultimately, as long as Russia's logistics hold up, there is no need for extra volumes of wheat from the US/ Canada or from the EU. Overall, there is no shortage of wheat and the EU and Russia are still looking for additional demand.

Australian wheat:

- The chances of a La Nina event were increased to 70% by the MET Bureau; this is 3 times normal. La Nina tends to produce very wet conditions in Australia. Farmers are trying to get their harvest done as quickly as possible to avoid problems.
- Aussie Fob and futures ended the week higher with offers of APW into Asia up around A\$5/mt.

Argentine wheat:

- Bage (Buenos Aires Grain Exchange in Argentina) pegged the Argentine wheat harvest at 26% complete. Their wheat crop estimate stayed at 17 mln mt, although some had talked about frost damage this week.
- Argentine FOB wheat values fell by US\$1/mt; quality spreads were unchanged.

EU wheat:

- Fob values of wheat in the EU were higher this week due slow farmers selling, but this is only widening the gap to Black Sea wheat values.
- French wheat remains uncompetitive, except to African destinations.

Black Sea wheat:

- Russian 12.5% protein wheat was priced at US \$191/mt for December shipment. 11.5% protein wheat showed a discount of \$9/mt.
- Russian 12.5% protein wheat generally is about is ~US\$10/mt cheaper than German and Baltic origin wheat.
- Russian 11.5% protein wheat is ~US \$10/mt cheaper than French wheat.
- The bid-offer on Russian new crop was \$186-189.

Significant purchases/ trades:

- Re. spring wheat, **Japan** purchased 68,300 mt of wheat this week.
- **Algeria** bought 62k mt of wheat.
- **Turkey** purchased 230k mt 13.5% protein wheat at US\$235-249/mt
- **Tunisia** bought 4x25k mt of soft wheat at US\$208-208/mt
- **Iraq** will be back tendering this weekend.
- Bangladesh should come back to the market next week for 50k mt, Ethiopia for a big 400k mt, and Jordan for 100k mt wheat.

Wheat Market Outlook:

➤ **Significant events:**

- US wheat sales were just 200k mt (7.3 mln bu), a disappointing week. Market expectations had been at 350-550k mt. This was the 3rd lowest of the first 25 weeks of the '17/18 marketing year. The early season surge of US wheat exports has dwindled and the export pace is barely keeping up with USDA forecasts.
- With no real weather threats, there seem to be no logistic threats to Russian/Black Sea wheat exports, and there seems to be no reason for the current fast export pace not to endure.
- La Nina could present a risk to Southern Hemisphere crops.

➤ *Outlook:*

The cash markets remain dominated by Russian/FSU wheat and Argentine continues to be the cheapest FOB price. Dryness continues to be reported, but it's too early for this to be a market factor at this time. It will be interesting to see the price and origin of the Iraq tender. We expect market to remain ill-defined until the New Year.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: November 27, 2017					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan. '18 (bu.)	Jan. '18 (mt.)
1 CWRS 13.5	\$6.70	\$246.18	1 CWRS 13.5	\$6.83	\$250.96
1 CWAD 13.0	\$7.26	\$266.76	1 CWAD 13.0	\$7.30	\$268.23
1 CPSR 11.5	\$4.83	\$177.47	1 CPSR 11.5	\$4.93	\$181.15
SW Sask			SW Sask		
1 CWRS 13.5	\$6.83	\$250.96	1 CWRS 13.5	\$6.88	\$252.80
1 CWAD 13.0	\$7.52	\$276.31	1 CWAD 13.0	\$7.50	\$275.58
1 CPSR 11.5	\$4.63	\$170.12	1 CPSR 11.5	\$4.71	\$173.06
NE Sask			NE Sask		
1 CWRS 13.5	\$6.55	\$240.67	1 CWRS 13.5	\$6.59	\$242.14
1 CWAD 13.0	\$7.45	\$273.74	1 CWAD 13.0	\$7.31	\$268.60
1 CPSR 11.5	\$4.56	\$167.55	1 CPSR 11.5	\$4.66	\$171.23
SE Sask			SE Sask		
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	\$6.65	\$244.35
1 CWAD 13.0	\$7.56	\$277.78	1 CWAD 13.0	\$7.46	\$274.11
1 CPSR 11.5	\$4.59	\$168.65	1 CPSR 11.5	\$4.68	\$171.96

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:

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."

- 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.

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

Relevant FOB Prices and Export Basis				Nov. 27, 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	\$358.14	\$345.51		
HRS	\$351.12			
HRW 11.5	\$268.37			
SWW 12.0	\$251.07			
1 CWRS 13.5 ³	\$358.14		\$244.72	\$113.42
2 CWRS 13.0 ³	\$351.12		\$213.12	\$138.01
3 CWRS ³	\$268.37		\$209.44	\$58.93
CPS ³	\$244.52		\$164.98	\$79.54
1 CWAD ⁴		\$409.10	\$258.68	\$150.42
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$191.50			
French 11.5 (Rouen)	\$194.33			
APW 10.5 (W Coast)	\$228.00			
Argentine 12.0	\$170-175.00			
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. 27, 2017
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.57	\$9.38	\$7.13	\$6.65	\$6.65
Parity Track Rosetown	\$8.07	\$7.88	\$5.63	\$5.16	\$5.16
Track Bid Rosetown Area	\$6.66	\$5.80	\$5.70	\$4.49	\$4.49
Gross Margin at Elevator (\$/bu)*	\$1.41	\$2.08	-\$0.07	\$0.67	\$0.67
Gross Margin at Elevator (\$/mt)*	\$51.89	\$76.48	-\$2.60	\$24.56	\$24.56

* to cover elevation, elevator market risk, margin