



Wheat Market Outlook and Price Report: December 18th, 2017

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i) Background and Rationale for the Report

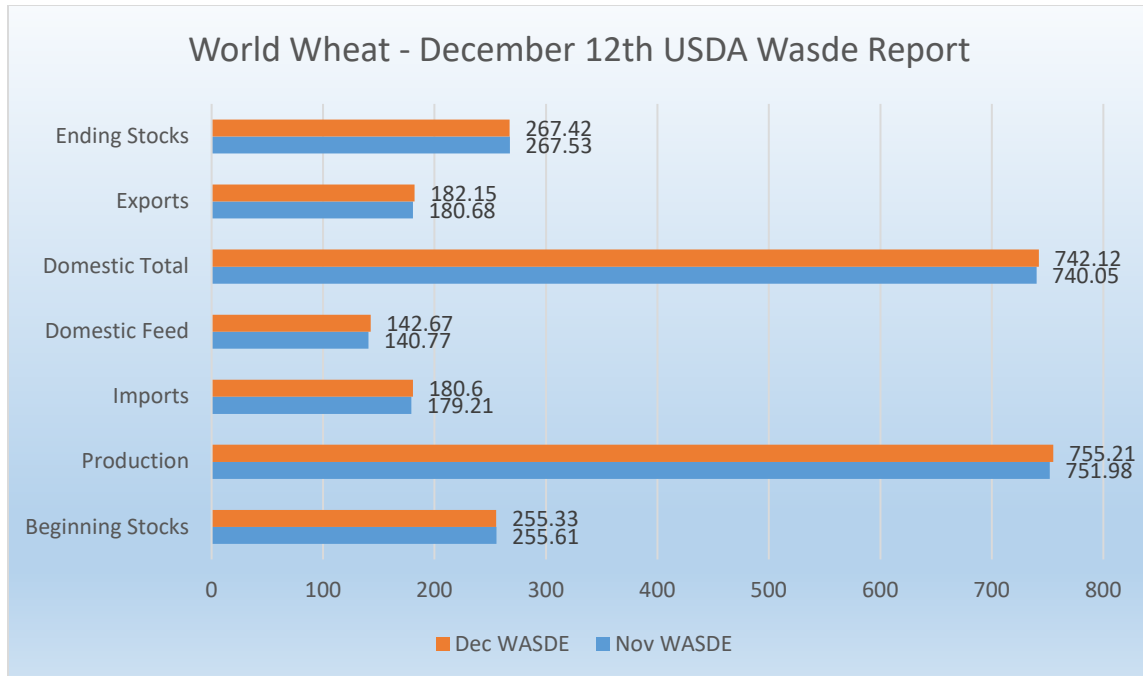
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 Dec. 11/'17

2017/'18 World Wheat Overview:

- **December 12th USDA WASDE Report**
- Total global wheat production was increased from 752 mln mt (the second-largest crop in history) to being the largest wheat crop in history at 755.2 mln mt. wheat supplies are adjusted higher on Canadian and EU production, which more than offset reductions in Brazil, South Africa, and Yemen
- World trade has been adjusted higher on Canadian, Russian, and Ukrainian exports, which offset reductions in US exports.
- World ending wheat stocks have been adjusted higher by 0.9 million mt



➤ **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:** March 2018 Chicago wheat closed the week at 418-2, down by 0.6 cents for the week and unchanged in Fridays trade. Kansas wheat traded similarly, with the March contract closing at 417-4, down by just 0.4 cents for the week, and down by 0.6 cents in Fridays trade. In Minneapolis, March 2018 hard red spring wheat, closed at 620 up by 8.6 cents for the week, and up by 3 cents in Fridays trade.
- **Funds:** Index funds remain mostly unchanged for the week, while speculative funds have continued to sell and currently hold their largest short position in months.
- **Matif:** Matif wheat futures in Europe were up just €0.50/mt on Friday, but moved lower by €1.00 for the week. EU shipment continue to be weak as Russian and Argentine wheat are currently the most cost competitive.

Canadian wheat:

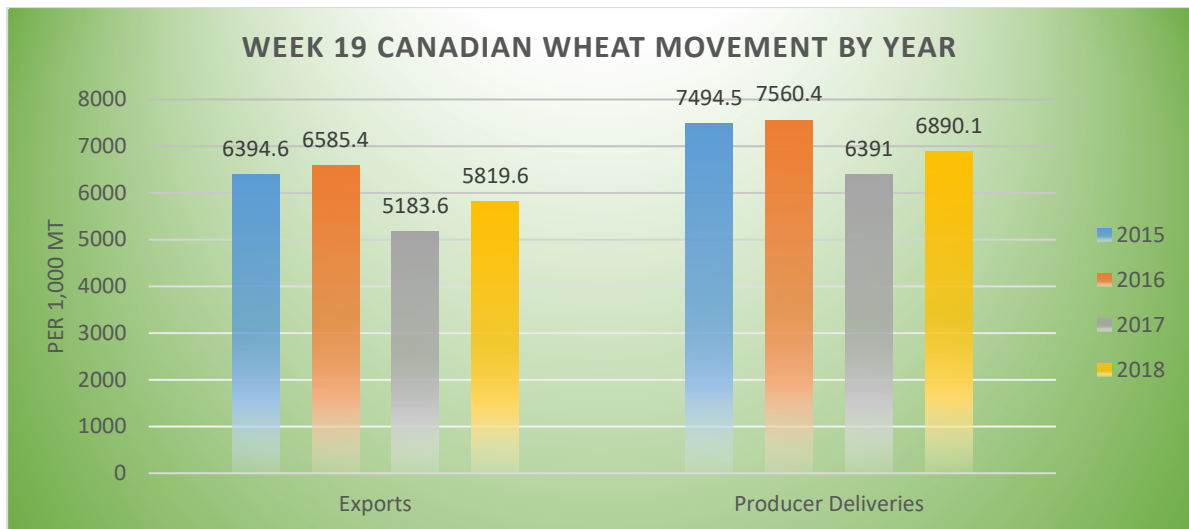
- Canadian producers are reported to have delivered 344k mt of wheat in grain shipping week 19, which is down from 416k mt last week, and also lower than 406k mt two weeks ago. Meanwhile, Canadian exports for week 19 were reported at 319k mt, down from 412k mt in week 18, and 352k in week 17. Total producer deliveries to date, are reported at 6,890k mt, which is behind the 3 year average of 7,149k mt (2014/15 – 2016/17). Meanwhile, total Canadian exports for the current crop year are reported at 5,820k mt, which is also behind the 3-year average of 6054k mt.

(CGC) Grain Handling Summary Wheat			Week 19 (to Dec 10/17)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 19	344.0	330.7	319.4	91.6
Week ago	416.7	402.8	412.0	57.0
YTD	6,890.1	7,107.9	5,819.6	1,953.7
Last YTD	6,391.0	7,401.5	5,183.6	1,128.3
YTD less Last YTD (k mt)	499.1	-293.6	636.0	825.4
YTD over Last YTD (%)	108%	96%	112%	173%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum			Week 19 (to Dec 10/17)	
('000 mt)	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance
Week 19	118.0	80.1	75.8	10.2
Week ago	115.4	100.5	17.1	3.6
YTD	1,441.5	1,799.7	1,391.6	274.5
Last YTD	1,785.4	1,990.1	1,285.5	114.3
YTD less Last YTD (k mt)	-343.9	-190.4	106.1	160.2
YTD over Last YTD (%)	81%	90%	108%	240%

Mercantile based on weekly CGC Handling Data



US wheat:

In the December USDA WASDE report, US ending wheat stocks were increased by 25 million bushels due to weaker exports and increased competition from Canadian wheat. Russian and black sea wheat continues to move to export markets, and this is currently stealing away from North American demand.

Australian wheat:

- o Australia was hot and dry over the past week, and surprisingly, the USDA has left projections for Australian wheat production unchanged at 21.5 million mt, with export projections also remaining at 17.5 million mt. Australian estimates remain entirely unchanged according to the USDA, but other reporting agencies have projected lower yields. Western Australia is now reported to have better than expected yields and harvest is underway.

Argentine wheat:

Weekend rains across Argentina and S Brazil ended up being smaller than expected, but still amounted to good coverage and volume. 1-2 inches of rain fell across approximately 70% of Argentine growing regions and another weather system is expected mid-week, which would

help to further stabilize crop conditions. Far southern regions of Argentina are reported to have received less rain and there are ongoing concerns about dryness in these regions. Meanwhile Brazil is reported to have received rainfalls of 0.35 – 1.5 inches across much of the crop producing regions.

EU wheat:

- YTD French wheat shipments continue to lag, with EU all wheat exports on pace to end 8 million mt behind USDA projections. Russia is maintaining the pace of shipments, and we suspect France will wake up in January to a desperate need for some export business. EU shipments continue to run roughly 25% behind last years numbers, and French wheat remains uncompetitive, except to African destinations.

Black Sea wheat:

- Russian prices for December 12.5% protein wheat were at US\$191/mt FOB with the discount for 11.5% protein wheat at US\$8-9/mt. Feed wheat is worth another US\$2-3/mt less.
- GASC is reported to have purchased 295k mt of Black Sea origin wheat this week, as well as an additional 60k mt of Romanian origin wheat. Black Sea exports have remained strong at the expense of lackluster US and EU sales.
- The Black Sea was little changed and so far, weather has not been an issue hampering shipments. The export pace is expected to remain high, with Ministry estimates putting wheat shipments (through Dec 10th) at 17.6 million mt, up 27% vs last year. If these estimates are correct, and if this pace is maintained, Russian wheat exports could total 35 million mt, which would be an increase of over 7 million mt versus last year's numbers.
- In the December 12th WASDE report, the USDA left Black Sea projections unchanged, but added 500k mt to both Russian and Ukrainian export projections.

➤ **Significant purchases/ trades:**

- In the past week GASC is reported to have purchased 295k mt of Black Sea origin wheat at an average price of \$208.50 per mt, as well as an additional 60k mt of Romanian origin wheat. Algeria also bought 120k mt of hard red winter, and Tunisia bought 100k mt of soft wheat at \$207 per mt, as well as 50k mt of durum wheat at \$296.65 per mt. Cash trading will probably be quieter over the coming week, although Iraq is expected to tender on December 19th for 50k mt of wheat from Canada, the US, or Australia.
- **US inspections** were reported at 317kt (season total 480 Mbu down 7%), while US sales were at 589kt (season total 664 Mbu down 9% against the USDA's revised 7.5% decline)

➤ **Wheat Market Outlook:**

➤ **Significant events:**

- The Trump White House has made continued progress on their tax reform bill, which (if passed this week) could bring overseas money back into the US and drive the US dollar higher. The US dollar index moved slightly higher on Friday in anticipation, to close at 93.50

➤ **Outlook:**

The USDA WASDE report this past week indicates that wheat is still oversupplied, and markets are suffering from insufficient export demand to match the supply. Recent numbers from Stats Canada put Canadian all wheat production higher at an estimated 29.98 million mt, and adjust Canadian Spring wheat production upwards to 22.2 million mt from the previous 18.9 million mt. If accurate, this reduces the shortage of high protein wheat, as we estimate world demand for strictly spring wheat at roughly 7 million mt. Wheat has been trading quietly as the holidays near and we

don't expect any significant market moves in the coming week. The situation could change in January as cereal markets are fixated on South American weather and with funds holding a near record short for this time of year. A weather situation in South America, or the ongoing dryness in the US plains creates a possibility for a slight weather-related rally in the new year, particularly if a lack of snow cover combines with cold weather in the US plains.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: December 18, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar. '18 (bu.)	Mar. '18 (mt)
1 CWRS 13.5	\$6.69	\$245.82	1 CWRS 13.5	\$6.81	\$250.23
1 CWAD 13.0	\$7.29	\$267.86	1 CWAD 13.0	\$7.34	\$269.70
1 CPSR 11.5	\$4.96	\$182.25	1 CPSR 11.5	\$4.97	\$182.62
SW Sask			SW Sask		
1 CWRS 13.5	\$6.71	\$246.55	1 CWRS 13.5	\$6.78	\$249.12
1 CWAD 13.0	\$7.46	\$274.11	1 CWAD 13.0	\$7.41	\$272.27
1 CPSR 11.5	\$4.69	\$172.33	1 CPSR 11.5	\$4.94	\$181.52
NE Sask			NE Sask		
1 CWRS 13.5	\$6.53	\$239.94	1 CWRS 13.5	\$6.62	\$243.25
1 CWAD 13.0	\$7.31	\$268.60	1 CWAD 13.0	\$7.29	\$267.86
1 CPSR 11.5	\$4.68	\$171.96	1 CPSR 11.5	\$4.70	\$172.70
SE Sask			SE Sask		
1 CWRS 13.5	\$6.57	\$241.41	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	\$7.43	\$273.01	1 CWAD 13.0	\$7.44	\$273.38
1 CPSR 11.5	\$4.70	\$172.70	1 CPSR 11.5	\$4.80	\$176.37

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.

"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."

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.

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

Relevant FOB Prices and Export Basis				December 18, 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	\$361.17	\$347.97		
HRS	\$353.63			
HRW 11.5	\$268.76			
SWW 12.0	\$254.61			
1 CWRS 13.5 ³	\$361.17		\$241.78	\$119.39
2 CWRS 13.0 ³	\$353.63		\$210.54	\$143.08
3 CWRS ³	\$268.76		\$153.59	\$115.17
CPS ³	\$248.01		\$167.92	\$80.09
1 CWAD ⁴		\$497.43	\$279.62	\$217.81
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$191.00			
French 11.5 (Rouen)	\$191.60			
ASW 10.5 (W Coast)	\$225.00			
Argentine 12.0	\$179.00			
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					December 18, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.65	\$9.44	\$7.13	\$6.75	\$6.75
Parity Track Rosetown	\$8.15	\$7.95	\$5.64	\$5.25	\$5.25
Track Bid Rosetown Area	\$6.58	\$5.73	\$4.18	\$4.57	\$4.57
Gross Margin at Elevator (\$/bu)*	\$1.57	\$2.22	\$1.46	\$0.68	\$0.68
Gross Margin at Elevator (\$/mt)*	\$57.81	\$81.50	\$53.58	\$25.10	\$25.10
* to cover elevation, elevator market risk, margin					