



Wheat Market Outlook and Price Report: December 22th, 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).

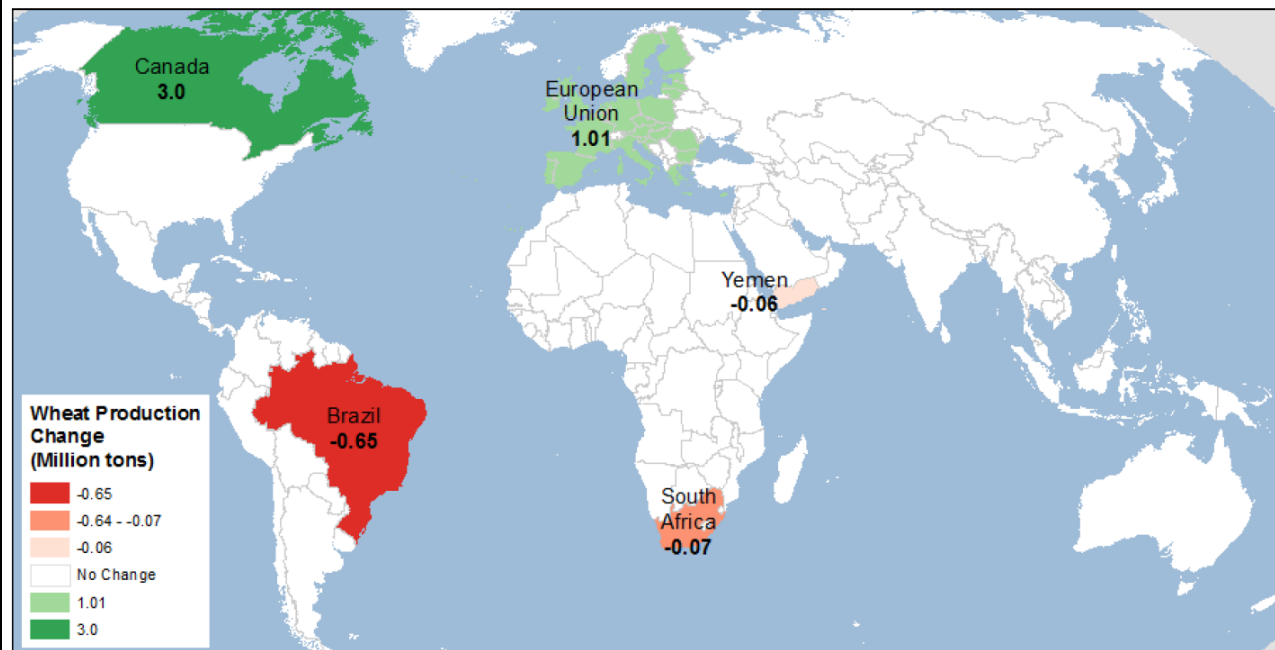
The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various 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 14th USDA World Wheat Outlook Report**
- The world wheat production forecast for 2017/18 has been increased by 3.5 million mt to 755.2 million, exceeding last year's record by 1.6 million mt.
- This month's changes were largely driven by increases in Canadian wheat production, which the ratio of harvested to planted acres in Canada being at 99% vs a more typical number of 94% last year.

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



Source: USDA, Foreign Agricultural Service, Production, Supply and Distribution online database.

➤ **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.

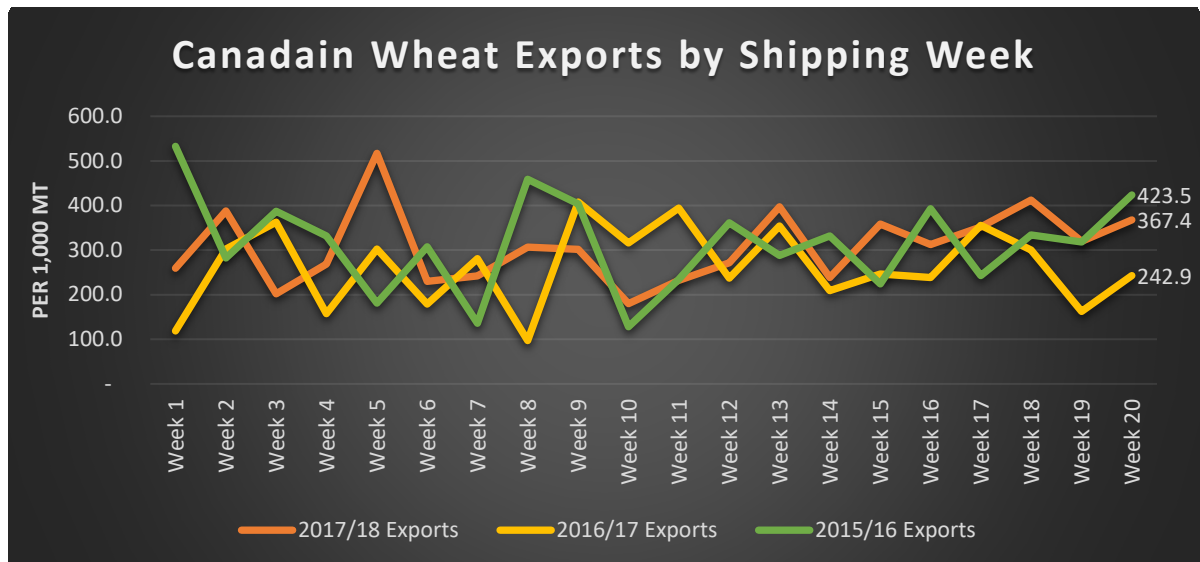
- **Futures:** March contract Chicago wheat closing at 424-6 down by 2.2 cents for the day, but still up by 6.4 cents for the week. Meanwhile March contract Kanas hard red winter wheat closed at 422-2, down by 2.0 cents for the day, but up by 4.6 cents for the week. In Minneapolis, March '18 hard red spring wheat closed 5.2 cents lower to end the week at 611-6, which is down by 8.2 cents for the week.
- **Funds:** Funds currently hold a near record short position for this time of year and it will take some type of a production or weather scare to prompt any fund buying.
- **Matif:** Matif wheat futures in Europe were up by just €0.25/mt on Friday, but were unchanged for the week. French and European exports are lagging and France is expected to wake up to a need for fresh export demand in January.

Canadian wheat:

- Canadian wheat exports in shipping week 20 were reported at 367k mt, which is up from last week's 319k mt, but still below this same week in 2015/16. As of shipping week 20, the CGC reported total Canadian YTD wheat exports at 6.187 million mt, which is up from last year's YTD exports of 5.426 million mt. However, we are still lagging behind 2015/16 YTD exports of 7.02 million mt. The 5 Year average Canadian wheat exports for this YTD (including the current year) average 6.313 million mt, and current year exports of 6.187 are trailing slightly behind average. World wheat markets are saturated, but the quality of Canadian wheat combined with a stronger demand for protein have helped to keep Canadian exports from dropping further behind.

(CGC) Grain Handling Summary Wheat				
('000 mt)	Wheat		Week 20	(to Dec 17/17)
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 20	387.1	337.4	367.4	105.8
Week ago	344.0	330.7	319.4	91.6
YTD	7,314.8	7,485.5	6,187.2	2,092.1
Last YTD	6,757.1	7,677.0	5,426.1	1,183.5
YTD less Last YTD (k mt)	557.7	-191.5	761.1	908.6
YTD over Last YTD (%)	108%	98%	114%	177%

(CGC) Grain Handling Summary Durum				
('000 mt)	Durum		Week 20	(to Dec 17/17)
	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance
Week 20	91.2	122.9	87.3	25.2
Week ago	118.0	80.1	75.8	10.2
YTD	1,530.0	1,952.6	1,476.7	316.0
Last YTD	1,904.3	2,116.7	1,466.0	122.4
YTD less Last YTD (k mt)	-374.3	-164.1	10.7	193.6
YTD over Last YTD (%)	80%	92%	101%	258%



US wheat:

- The US export sales report released this week shows US wheat sales of 796k mt, which beat trade expectations of 300 – 600k mt. The increase in sales is attributed to lower US wheat prices which are starting to draw some buying interest. The ongoing dry conditions in much of the US winter wheat belt are beginning to draw trade attention, and snow cover is needed to avoid winter kill. The forecast for the US plains remains uncertain, with these weather models also giving conflicting 5-10-day outlooks. However, the majority of all models are showing continued dry conditions with a possibility of some precipitation in southern regions.

Australian wheat:

- The Australian wheat harvest continues, with the crop estimated to be 90% harvested, and with most estimates putting Australian wheat production in the range of 20 – 21 million mt, a bit below the USDA's 21.5 million mt estimate.

Argentine wheat:

- Argentina has been mostly dry over the past several days, while rains of 0.2 - 0.6 inches are reported to have fallen on approximately 65% of the Brazilian crop producing regions. Various 5-day forecasts for Argentina are giving conflicting outlooks, with a slight majority of these favoring a dryer outlook which would still leave some regions still suffering from dryness. Most of Argentina received rain last week, and overall soil moisture is improved vs 2 weeks ago.

EU wheat:

- French wheat remains too expensive vs Russian wheat, except to African destinations, and Argentine's wheat crop will also soon be competing on world markets. France is expected to wake up to a need for export demand in the New Year and French prices could see an adjustment lower.
- Germany has recently announced that their winter wheat plantings have declined by 4.7% vs last year, but the overall wheat statistics for the EU are still unknown.

Black Sea wheat:

- Russian exports for the period of July – December are expected to be 20.3 million mt, and reports indicate that the USDA's Russian wheat export forecast for 2017/2018 (33.5 million mt for the year) could be about 2 million mt too low. Russia has announced that Russian grain companies are now ready to begin wheat exports in Saudi Arabia, after Saudi Arabia and Russia agreed just days ago to a trade deal guarantee Saudi food security

➤ **Significant purchases/ trades:**

- The cash markets were quiet this week with little to report. Iraq tendered for 50k mt of wheat from Canada, the US, or Australia, but details are still unknown. The US is expected to win the tender with their offer of \$284 per mt, as Canadian and Australian offers were higher with Canada at \$295 and with Australia at \$288 per mt.

➤ **Wheat Market Outlook:**

➤ **Significant events:**

- Grain markets have been trading quietly this with the Holidays approaching. The most significant event might be the passage of the Trump tax reform bill, which could boost the US economy and cause exchange rate fluctuations. The Dow Jones and other US economic indicators have been trending upwards and this could make the US dollar more expensive against other currencies and hurt US wheat exports.

➤ **Outlook:**

Wheat has been trading quietly and we don't expect any significant market moves until January. Weather will be driving the markets over the next several weeks, with the weather situation in South America and the ongoing dryness/lack of snow cover in the US plains being the main market movers. Grain markets will be closed on Monday for the Christmas holidays. The first wheat trade next week will be at 8:30 AM on Tuesday.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: December 22, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar. '18 (bu.)	Mar. '18 (mt)
1 CWRS 13.5	\$6.64	\$243.98	1 CWRS 13.5	\$6.75	\$248.02
1 CWAD 13.0	\$7.25	\$266.39	1 CWAD 13.0	\$7.33	\$269.33
1 CPSR 11.5	\$4.98	\$182.99	1 CPSR 11.5	\$5.03	\$184.82
SW Sask			SW Sask		
1 CWRS 13.5	\$6.63	\$243.61	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.44	\$273.38	1 CWAD 13.0	\$7.39	\$271.54
1 CPSR 11.5	\$4.72	\$173.43	1 CPSR 11.5	\$4.99	\$183.35
NE Sask			NE Sask		
1 CWRS 13.5	\$6.44	\$236.63	1 CWRS 13.5	\$6.52	\$239.57
1 CWAD 13.0	\$7.21	\$264.92	1 CWAD 13.0	\$7.26	\$266.76
1 CPSR 11.5	\$4.72	\$173.43	1 CPSR 11.5	\$4.74	\$174.17
SE Sask			SE Sask		
1 CWRS 13.5	\$6.47	\$237.73	1 CWRS 13.5	\$6.53	\$239.94
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	\$7.41	\$272.27
1 CPSR 11.5	\$4.74	\$174.17	1 CPSR 11.5	\$4.85	\$178.21

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 22, 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	\$352.90	#VALUE!		
HRS	\$345.43			
HRW 11.5	\$267.01			
SWW 12.0	\$252.07			
1 CWRS 13.5 ³	\$352.90		\$234.06	\$118.84
2 CWRS 13.0 ³	\$345.43		\$204.66	\$140.77
3 CWRS ³	\$267.01		\$152.49	\$114.52
CPS ³	\$245.54		\$166.82	\$78.72
1 CWAD ⁴		#VALUE!	\$253.17	#VALUE!
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			
<p>¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency</p> <p>² Export Basis = FOB Prices CDA minus Cdn. Street Price</p> <p>³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS</p> <p>⁴ Values derived to Lakehead FOB</p>				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities

Canadian Wheat - World Price Parities					December 22, 2017
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.43	\$9.22	\$7.09	\$6.68	\$6.68
Parity Track Rosetown	\$7.93	\$7.73	\$5.59	\$5.19	\$5.19
Track Bid Rosetown Area	\$6.37	\$5.57	\$4.15	\$4.54	\$4.54
Gross Margin at Elevator (\$/bu)*	\$1.56	\$2.16	\$1.44	\$0.65	\$0.65
Gross Margin at Elevator (\$/mt)*	\$57.32	\$79.25	\$53.00	\$23.73	\$23.73

* to cover elevation, elevator market risk, margin