



## Wheat Market Outlook and Price Report: January 22nd, 2018

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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.

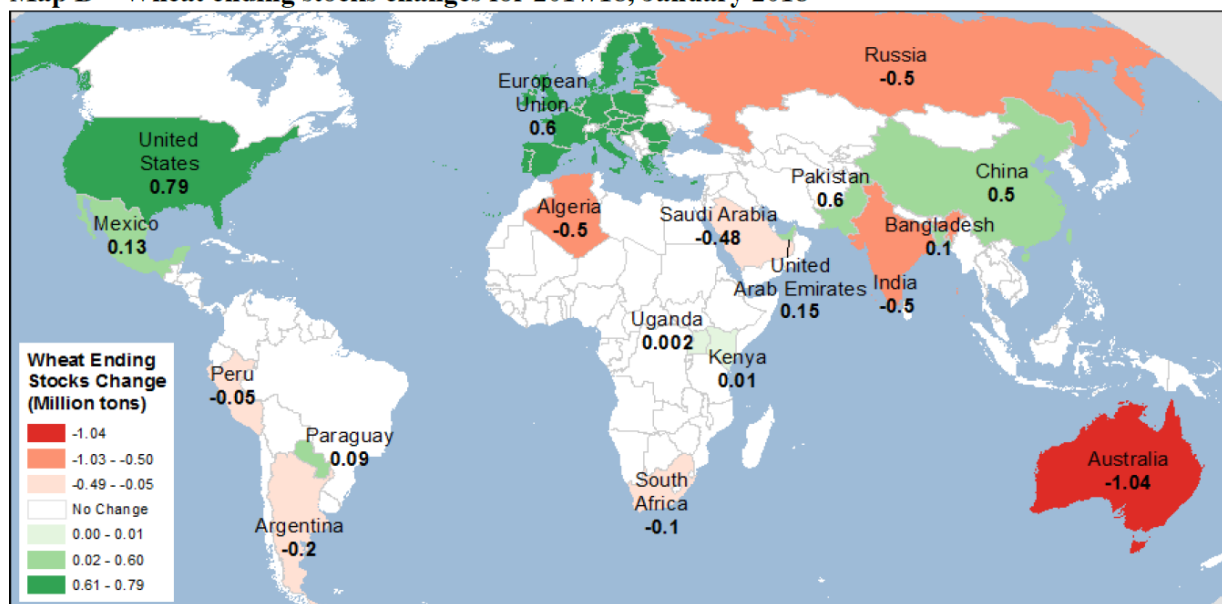
### **ii) Wheat Market Outlook Jan. 22, 2018**

#### **World Wheat Overview:**

##### **➤ USDA Wheat Outlook Report January 17<sup>th</sup>/2018**

- The USDA has lowered projections for wheat ending stocks in Russia, Australia, Algeria, Argentina, Peru, and India, while upping projected ending stocks in the US, Mexico, the EU, China, and Pakistan.
- According to a preliminary report by the Russian Statistical Agency, both harvested area and final wheat yield in Russia turned out to be higher than previously suggested by harvest reports.

**Map B – Wheat ending stocks changes for 2017/18, January 2018**

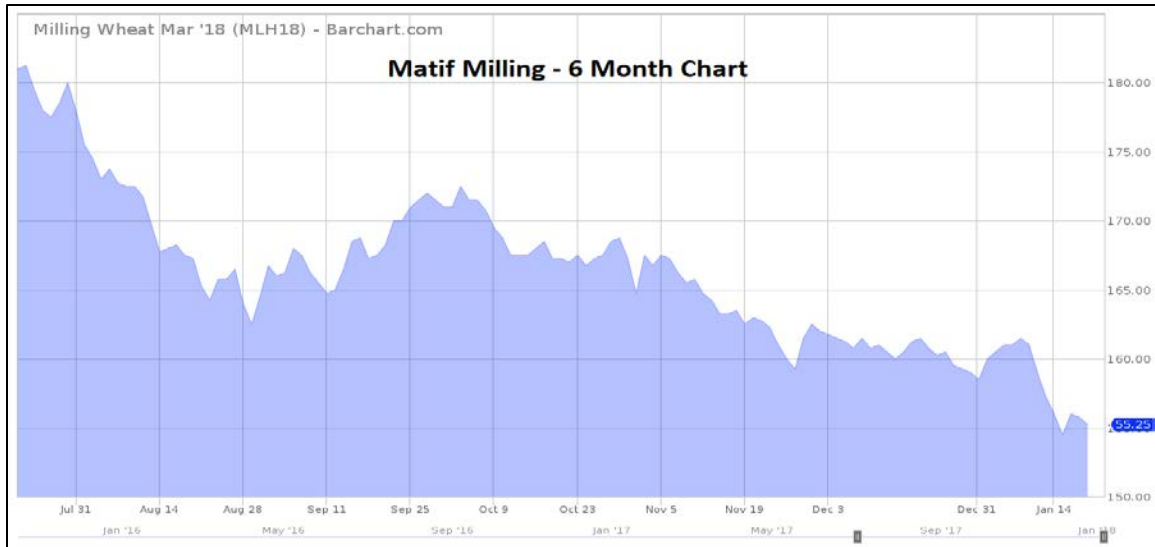


Source: USDA, Foreign Agricultural Service, Production, Supply and Distribution online database.

➤ **Global wheat production and trade:**

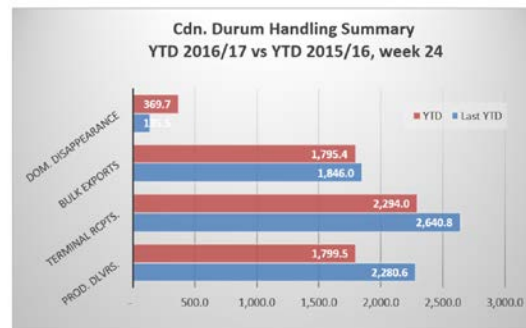
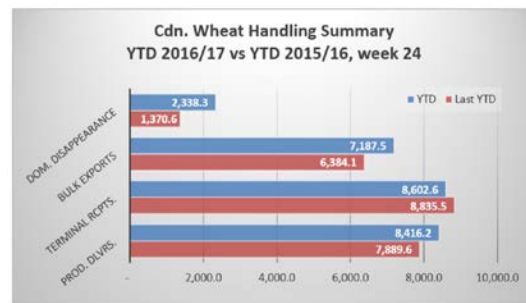
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Wheat moved quietly lower on Friday with the weekend approaching. Mar'18 contract Chicago winter wheat closed at 422.75 which was down by 2.5 cents in Fridays trade and down by 10.4 cents for the week. Meanwhile, Mar'18 contract Kansas hard red winter wheat closed down by 2 cents at 427.5 and down by 12.6 cents for the week. In Minneapolis, Mar'18 contract hard red spring wheat closed at 608.5, which was down by 2 cents in Fridays trade, and was down by 20.4 cents for the week.
- **Funds:** Speculative funds are still heavily short, while Index Funds increased their overall long slightly. Specs sold corn and beans on the rally. We don't see either party making any major changes in their positions in the short term.
- **Matif:** Matif milling wheat futures closed at €155.25, down by €0.50/mt on Friday and down by €2.00 for the week. French wheat is still overvalued vs Black Sea and Argentine counterparts.



**Canadian wheat:**

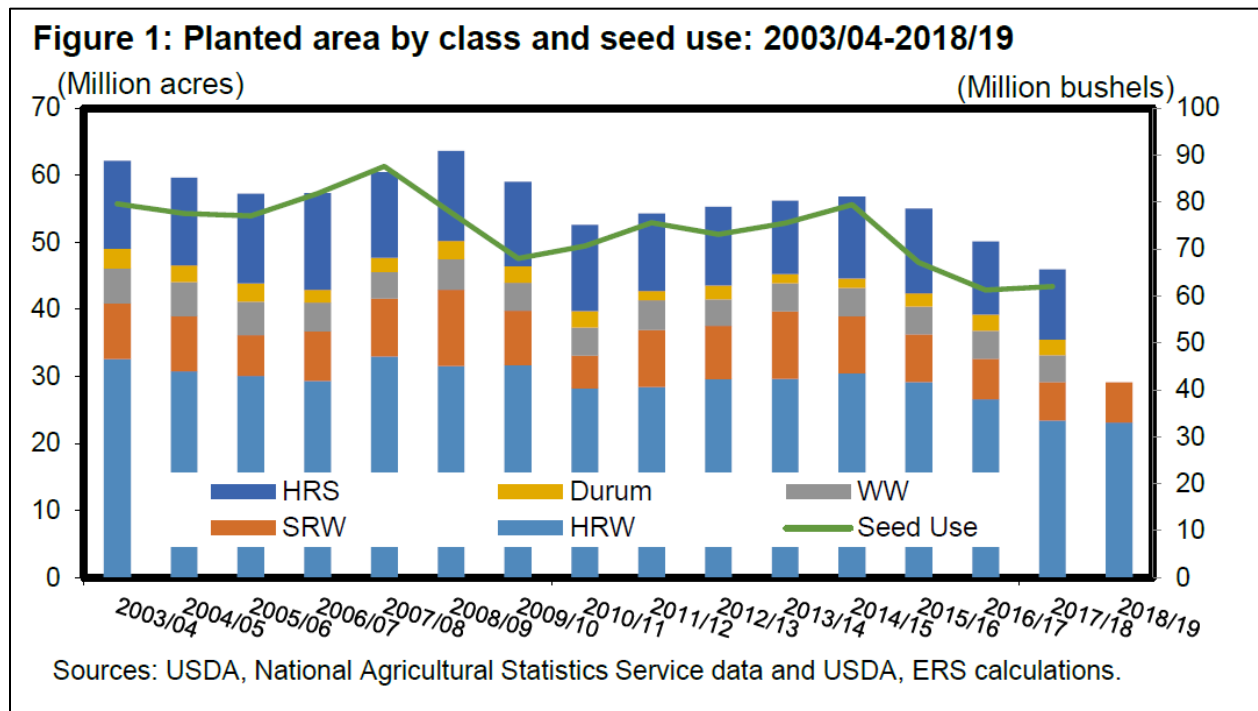
- Canadian producer deliveries of wheat in grain shipping week 24 are reported at 323k mt, which is up slightly from last week's 311k mt.
- However, one significant change in week 24, is the increase in Canadian wheat exports at 450k mt, up considerably from last week's 128k mt. Shipping week 24 exports outpaced producer deliveries by 127k mt - only the 4th time this shipping season that exports have outpaced deliveries. On average we have seen higher producer deliveries vs exports over the past 24 weeks, which is brought about a significant buildup of commercial wheat stocks.
- Commercial wheat stocks in week 24 are reported at 3.004 million mt, down slightly by 66k mt from the last weeks 3.070 million mt.
- Durum: Exports are still lagging last week's by 51k mt. *The durum trade to Algeria reflects about C\$7.85/bu ex Elevator Saskatchewan.*



**US wheat:**

- US export inspections were reported at 369k mt which leaves the YTD total at 556 million bushels, down 7% from last year's 595 million bushels. Reported sales of US wheat were just 153,115 mt, the fourth smallest sale this crop year. *It was better than last week, but still lags last years by 36.9%.*
- Most of the US has been blanketed by a cold front which has brought below normal temperatures to much of the Midwest and US plains. While this could have brought some winterkill, most regions didn't experience the extreme cold that would be required for a widespread crop problem, and the amount of winterkill will remain unknown for several more months.

- In their monthly wheat outlook letter, the USDA breaks down the results of last weeks WASDE and details plantings by class. Although US plantings were higher than trade expectations, US plantings are still exceptionally low from a historical standpoint.



**Australian wheat:**

- The Australian harvest is complete and there is been little news since the recent cut in ending stocks.
- In the January 12<sup>th</sup> WASDE report, Australian beginning stocks for 2017/18 are projected at 4.37 million mt, down from the previous 7.10 million mt. This is carried through and results in a 1.5 million mt reduction in Australian exports (16 million mt, vs previous 17.5) as well as a decrease in 17/18 ending stocks, down to 3.22 million mt from the previous December projection of 4.25. Australian wheat is currently trading at \$225 - \$235 Fob Western Australia.
- Australian Fob values and futures have gained about \$5.00 per mt since the Australian Stats Bureau revised 2016/17 Australian ending wheat stocks 3 million mt lower, with the USDA following this lead.

**Argentine wheat:**

- There is little new to report in Argentina, weather is still a focus, with much of Argentina still struggling under dry conditions. Northern parts of Argentina have received more rainfall than southern regions, and the 24-hour weather map looks mostly dry with no major widespread rains expected until this coming weekend.
- Wheat is currently trading at \$179 US per mt for 12.0 Protein Fob Argentina.

**EU wheat:**

- Concerns about winterkill in the EU seem to of no concern for now, as unseasonably mild weather has blanketed most of the continent. Rainfalls in Europe remain normal with the exception of Iberia and some parts of the Baltics.
- Strategie Grains is reported to have cut their soft wheat export outlook for the EU by 750k mt, to 21.6 million mt – a 2.5 million mt reduction from last year’s exports due to increased competition from Russia.
- French 11.5 protein wheat is currently trading at \$194.8 per mt, while German 12.5 protein is at \$200.3.

### **Black Sea wheat:**

- Black sea exports continue to be strong, but even with 35 million mt of exports, Russian wheat ending stocks are projected to increase by roughly 6 million mt over last year to 16.33 million mt (almost as large as all of Argentine total wheat production).
- Favorable weather has extended the Russian shipping season. But Russian replacement of wheat in the country's interior and a firming Ruble are slowly pushing prices higher.
- Russian wheat is currently trading at \$194 per mt, which is up slightly from last week.

### ➤ **Significant purchases/ trades:**

- **Thailand** purchased 60k mt of Argentine 10.5 protein feed wheat at \$170 Fob (\$212 C & F).
- **GASC (Egypt)** tendered and purchased 295k mt of Russian wheat at \$197-198 Fob (about \$5 above last week's GASC tender).
- **Korea** bought 65k mt of feed wheat at \$212.50 which is thought to be of Argentine Origin.
- **Tunisia** canceled a tender for 92k mt of soft wheat as well as 75k mt of durum.
- **Algeria** is reported to have bought 74-100k mt of durum wheat was purchased at \$300 - \$305 per mt.
- **US export inspections** were reported at 369k mt which leaves the YTD total at 556 million bushels, down 7% from last year's 595 million bushels. It was better than last week, but still lags last years by 36.9% Reported sales of US wheat were just 153,115 mt, the fourth smallest sale this crop year. At 97,200 mt, Japan was the main buyer of that total. There was an additional 37,500 mt of new crop sales, bringing the total '18/19 sales to 241,252 mt, 1.5% smaller than last year.
- Re. spring wheat, **Japan** purchased 24,160 mt of US wheat in their recent MOA tender; the total purchase volume was 91,733mt bought from Australia, Canada, and the US.

### ➤ **Wheat Market Outlook:**

#### **Significant events:**

- Algeria bought 75-100,000 tonnes of durum at \$300-305. *The durum trade to Algeria reflects about C\$7.85/bu ex Elevator Saskatchewan.*
- Russian prices have moved higher in the face of no competition from other origins. However, with favorable weather, Russian exports continue at a record pace.
- In the US, the funds are still heavily short, HRW basis is rising, and it is harvested, not planted acres that will be the key to the US crop. Weather and potential winter kill remains an issue.
- EU/French farmers look to be in real trouble as they keep seeing new lows in domestic prices without gaining in export competitiveness.
- The IGC report on January 18<sup>th</sup> projects world wheat production to drop by 2% in the 2018/19 crop year. If this prediction proves true, it could break the recent trend towards ever higher production.

#### ➤ **Outlook:**

The IGC has recently projected world wheat production to be down by 2% for the 2018/19 crop year. It seems unlikely that Russia will be able to sustain new record wheat production every year, and much of the bearish news already been internalized by the markets. World wheat stocks are ample, but funds still hold a large short and wheat is cheap enough to draw increased consumption. We could be near bottom, but any improvement in new crop prices will take some time due to increased carryovers in

Russia and Canada. We do not expect prices to improve significantly until about December this year. Given this outlook, selling old crop and holding new crop stocks is best thing for cash flow. For old crop sales it pays shop around since there is a big variation in country bids with some being quite good – particularly in Alberta.

### iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 22, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mar. '18 (bu.)	Mar. '18 (mt)
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	\$6.50	\$238.84
1 CWAD 13.0	\$7.28	\$267.50	1 CWAD 13.0	\$7.33	\$269.33
1 CPSR 11.5	\$5.06	\$185.92	1 CPSR 11.5	\$5.12	\$188.13
SW Sask			SW Sask		
1 CWRS 13.5	\$6.49	\$238.47	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.46	\$274.11	1 CWAD 13.0	\$7.42	\$272.64
1 CPSR 11.5	\$4.73	\$173.80	1 CPSR 11.5	\$5.02	\$184.45
NE Sask			NE Sask		
1 CWRS 13.5	\$6.35	\$233.32	1 CWRS 13.5	\$6.25	\$229.65
1 CWAD 13.0	\$7.21	\$264.92	1 CWAD 13.0	\$7.25	\$266.39
1 CPSR 11.5	\$4.83	\$177.47	1 CPSR 11.5	\$4.88	\$179.31
SE Sask			SE Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.28	\$230.75
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	\$7.38	\$271.17
1 CPSR 11.5	\$4.89	\$179.68	1 CPSR 11.5	\$5.04	\$185.19

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 Basis<sup>1</sup> (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

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<sup>1</sup> 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."

- 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				January 22, 2018
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$343.55	\$318.42		
HRS	\$336.24			
HRW 11.5	\$272.28			
SWW 12.0	\$248.52			
1 CWRS 13.5 <sup>3</sup>	\$343.55		\$234.79	\$108.75
2 CWRS 13.0 <sup>3</sup>	\$336.24		\$203.56	\$132.68
3 CWRS <sup>3</sup>	\$272.28		\$152.86	\$119.42
CPS <sup>3</sup>	\$242.13		\$175.27	\$66.86
1 CWAD <sup>4</sup>		#VALUE!	\$255.00	#VALUE!
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)	\$194.00			
French 11.5 (Rouen)	\$194.80			
ASW 10.5 (W Coast)	\$230.00			
Argentine 12.0	\$179.00			
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price <sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS <sup>4</sup> Values derived to Lakehead FOB				

ADDENDUM

**Futures Driven Basis Calculation, Canadian Dollars per MT**  
**Canadian Wheat - World Price Parities**

<b>Canadian Wheat - World Price Parities</b>					
	January 22, 2018				
<b>Canadian Funds</b>			<b>Grade</b>		
<b>PNW value/Vancouver</b>	<b>1CWRS13.5</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>Dec./Jan. delivery</b>	\$9.18	\$8.98	\$7.24	\$6.59	\$6.59
<b>Parity Track Rosetown</b>	\$7.68	\$7.48	\$5.74	\$5.09	\$5.09
<b>Track Bid Rosetown Area</b>	\$6.39	\$5.54	\$4.16	\$4.77	\$4.77
<b>Gross Margin at Elevator (\$/bu)*</b>	\$1.29	\$1.94	\$1.58	\$0.32	\$0.32
<b>Gross Margin at Elevator (\$/mt)*</b>	\$47.37	\$71.30	\$58.04	\$11.87	\$11.87
* to cover elevation, elevator market risk, margin					