



Wheat Market Outlook and Price Report: February 12th, 2018

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

i) Background and Rationale for the Report

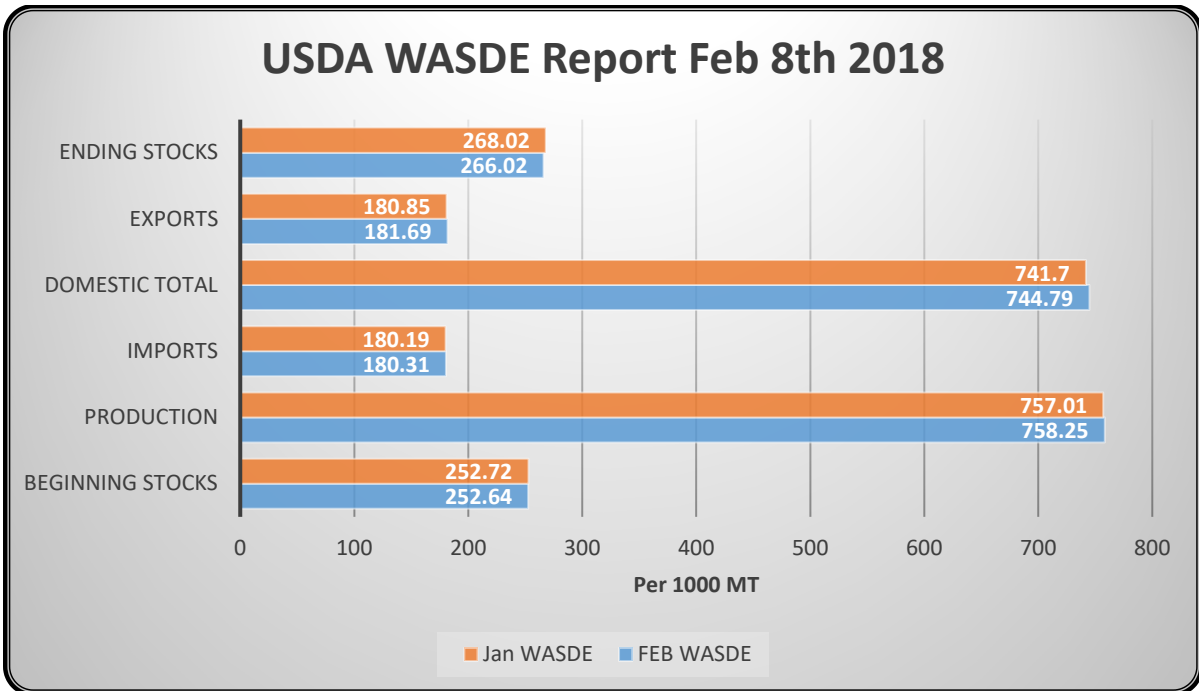
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 Feb. 12/18

2017/18 World Wheat Overview: USDA WASDE Report February 8th 2018

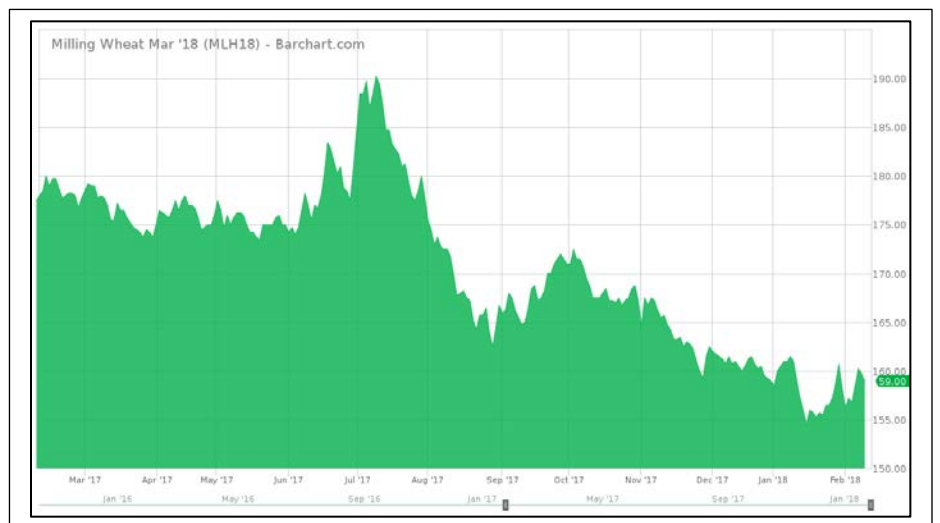
- **2017/18 World Wheat production** has been increased to 758.25 million mt, up from 757.01 million mt in the January WASDE report.
- **World wheat supplies** have also been increased to 1,011 million mt, up from last month's 1010 million mt due to projections for production increases in Argentina and the Ukraine.
- **World ending wheat stocks** have been projected at 266.10 million mt *down* from January's estimate of 268 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:** Mar'18 contract Chicago winter wheat closed at 449 which was down by 7.25 cents in Fridays trade, but up by 2.2 cents for the week. Meanwhile, Mar'18 contract Kansas hard red winter wheat closed down by 9 cents at 465.5, but was also up by 2.2 cents for the week. In Minneapolis, Mar'18 contract hard red spring wheat closed at 603.5, which was down by 9.5 cents in Fridays trade, and down by 0.2 cents for the week. Meanwhile May'18 hard red spring wheat closed at 615.75, down by 9.5 cents on Friday, but up by 1 cent for the week.
- Funds:** Index funds were little changed last week, while speculative hedge funds have slightly increased their short position in wheat over the past week. As of February 9th, speculative hedge funds are reported to be short 13.8 million mt of wheat, which is up by 1 million mt from February 6th.
- Matif:** Matif wheat futures in Europe closed at €159.00 which was down by €0.75/mt on Friday, but were up by €1.75 for the week. EU exports continue to lag behind projections.



- **Canadian wheat:** In grain shipping week 27, Canadian producer deliveries are reported at 374k mt, which is down from last week's 438k mt.
- Total exports are reported at 389k mt, which is up significantly from last week's 296k mt. As of week 27, Canadian non durum wheat exports are on pace to achieve 16.27 million mt, which is below the AAFC prediction of 17.2 million mt. However, it should be noted that AAFC estimates also include 1.2 million mt of exports which are not included in CGC weekly shipping data, as well as 0.3 million mt of flour

(CGC) Grain Handling Summary Wheat			Week 27 (to Feb 4/'18)	
('000 mt)	Prod. Dlvr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 27	322.2	198.3	218.2	56.7
Week ago	374.4	246.1	388.6	54.6
YTD	9,550.1	9,272.8	8,102.5	2,525.6
Last YTD	9,041.3	9,423.0	6,866.0	1,537.6
YTD less Last YTD (k mt)	508.8	-150.2	1,236.5	988.0
YTD over Last YTD (%)	106%	98%	118%	164%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum			Week 27 (to Feb 4/'18)	
('000 mt)	Prod. Dlvr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 27	74.0	66.9	153.9	7.0
Week ago	127.1	58.6	16.8	1.0
YTD	2,139.5	2,470.9	2,021.2	423.7
Last YTD	2,665.6	2,970.1	2,171.9	170.7
YTD less Last YTD (k mt)	-526.1	-499.2	-150.7	253.0
YTD over Last YTD (%)	80%	83%	93%	248%

exports which could potentially put total exports as high as 17.4 million mt, and which could explain the USDA adjusting Canadian ending wheat stocks downwards to 6.14 million mt from the previous 6.64 million mt in Thursdays USDA WASDE report.

US wheat:

- The USDA WASDE report on Thursday showed US ending wheat stocks to be higher by 20 million bushels at 1009 million bushels, as slow US exports took a toll. Meanwhile, USDA export projections for several key US wheat competitors have been increased, which drove winter wheat lower in Thursdays trade. The biggest adjustment to US ending stocks came in Kansas hard red winter wheat which was adjusted upwards by 10 million bushels, while Chicago soft red winter wheat ending stocks were adjusted upwards by 7 million bushels.
- US hard red spring wheat was the only class of wheat to be adjusted lower, with ending stocks being revised downwards by a small 2-million-bushel adjustment. US hard red spring wheat growing regions remain dry, with reports indicating that 48% of the US spring wheat crop area is now in drought. This is up by 4% vs last week's 44%, and indicates that the situation is worsening. However, the US national weather service is forecasting rains for the southern US plains in the 7 – 14 day forecast, and the overall percentage of US winter wheat area experiencing drought is now estimated at 45%, down by 2% vs last week.

Australian wheat:

- There is little crop activity currently happening in Australia. However, Australian wheat futures hit their highest weekly close since Dec 1st (although they were down in US\$ terms due to exchange rate fluctuations).
- Australian Fob values have continued to rise and on the cash market Australian wheat has traded slightly higher at \$230-\$240 US per MT Fob.

Argentine wheat:

- Heat coupled with dryness prompted analysts to cut their estimates of Argentine corn and soybean production. Widespread weekend rains were expected across much of the Argentine growing regions, but turned to be disappointing. While wheat has been trading on concerns about lower Argentine wheat production due to drought, the USDA surprised the markets by raising its estimates of Argentine wheat production by 500k mt, to a new 18 million mt based on higher than expecting yields from later harvest stages.

EU wheat:

- Weekly all-wheat shipments this past week were reported at 243k mt which brings the YTD season total to 13.7 million mt (19% below last year). EU exports are on pace to achieve an annual total of 21-22 million mt which is still well below the USDA's 26 million mt. Given the outlook, it seems likely that the USDA will further reduce EU exports in coming months.

Black Sea wheat:

- Black Sea exports remain strong, with Indonesia is reported to have purchased 50k mt of wheat from Black Sea Origin, while Korea bought 65K mt of Russian origin wheat.
- In the past week, Russia's IKAR has released estimates for the 2018/19 crop year which project Russian wheat production at 73-82 million mt, and with 2018/19 exports of 32-36 million mt - close to this year's exports of 36.5 million mt. Most market analysts are currently working with lower production estimates for Russia for 2018/19 based on the assumption that production records cannot continue indefinitely.
- Russian 12.5% protein wheat traded a fraction higher at US\$197.50/mt for March with the monthly carries and quality spreads unchanged.
- Russian/Romanian wheat traded to Egypt over the weekend (120k mt from Romania and 240k mt from Russia) at prices of around US\$221-223/mt CIF (~US\$208/mt FOB). This is \$2-3/mt higher than on the previous tender on Feb. 2nd.

➤ **Significant purchases/Trades:**

- **Weekly US export sales** were reported at 289k mt, which takes the YTD season total to 750 million bushels (down 11% on last year and below the USDA's projected 6% decline).
- **US export inspections** were reported at 429k mt, which brings YTD inspections to a total of 621 million bushels which is down by 3% vs last year.
- **Iraq** tendered this past week for 50k mt, but results are unknown.
- **Indonesia** is reported to have purchased 50k mt of wheat from Black Sea Origin.
- **Korea** bought 65K mt of Russian origin wheat with prices of these sales unpublished.
- **Tunisia** purchased 125k mt of durum a US \$299 – 303.50 per mt.
- **Japan** tendered for 100,517 mt of wheat from Australia, Canada, and/ or the US. Of this, 33,442 mt are sought from the US.
- **Algeria** also tendered on Thursday for April durum.
- We expect Egypt to confirm prices of Russian/Romanian low quality wheat on Monday; we assume prices of around US\$200.00 CIF.
- **Saudi Arabia** tendered on Friday and purchased 739k mt of **optional origin wheat** at an average price of US\$240.16/mt. *Canadian wheat looks competitive to all markets including Saudi. Wheat should be more competitive when the G3 elevator in Vancouver is completed.*

➤ **Wheat Market Outlook:**

➤ **Significant events:**

The past week was marked by some major fund short covering, as funds were previously holding near record short positions. Funds were estimated to have bought back 50,000 contracts (250 million bushels) of corn in Tuesdays and Wednesdays trade, and also engaged in some wheat short covering early in the week. However, speculative hedge funds increased their short position by 1 million mt from Feb 6th – Feb 9th and funds still remain short on both corn and wheat.

➤ **Outlook:**

Going forward, markets will begin to focus increasingly on the 2018/19 crop year and on new crop yield estimates.

Russia will be closely watched, as trade expectations for the 2018/19 Russian wheat crop vary widely. Trendline yields would take Russian wheat production 10 million mt lower, but some analysts are projecting next year's yields to be comparable to this years.

EU ending stocks are expecting to be revised higher going forward due to increased competition from the Black Sea regions, and funds remain short.

Argentine and US weather are still a factor with dry conditions prevailing in much of the southern US wheat belt, and with the current outlook for Argentina once again turning dry. Widespread weekend rains were expected across much of the Argentine growing regions, but turned to be disappointing.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: February 12, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr. '18 (bu.)	Apr. '18 (mt)
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.24	\$266.03
1 CPSR 11.5	\$5.41	\$198.79	1 CPSR 11.5	\$5.49	\$201.72
SW Sask			SW Sask		
1 CWRS 13.5	\$6.49	\$238.47	1 CWRS 13.5	\$6.58	\$241.78
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	\$7.30	\$268.23
1 CPSR 11.5	\$5.12	\$188.13	1 CPSR 11.5	\$5.24	\$192.54
NE Sask			NE Sask		
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	\$6.43	\$236.26
1 CWAD 13.0	\$7.12	\$261.62	1 CWAD 13.0	\$7.16	\$263.09
1 CPSR 11.5	\$5.15	\$189.23	1 CPSR 11.5	\$5.26	\$193.27
SE Sask			SE Sask		
1 CWRS 13.5	\$6.41	\$235.53	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.28	\$267.50	1 CWAD 13.0	\$7.32	\$268.97
1 CPSR 11.5	\$5.16	\$189.60	1 CPSR 11.5	\$5.19	\$190.70

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

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."

- 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				February 12, 2018
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	\$348.89	\$328.86		
HRS	\$341.48			
HRW 11.5	\$298.91			
SWW 12.0	\$258.66			
1 CWRS 13.5 ³	\$348.89		\$238.47	\$110.42
2 CWRS 13.0 ³	\$341.48		\$207.24	\$134.25
3 CWRS ³	\$298.91		\$173.06	\$125.85
CPS ³	\$252.18		\$200.25	\$51.92
1 CWAD ⁴		\$384.05	\$251.33	\$132.72
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$197.50			
French 11.5 (Rouen)	\$203.40			
ASW 10.5 (W Coast)	\$242.50			
Argentine 12.0	\$190.00			
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					February 12, 2018
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.32	\$9.12	\$7.96	\$6.86	\$6.86
Parity Track Rosetown	\$7.82	\$7.62	\$6.46	\$5.37	\$5.37
Track Bid Rosetown Area	\$6.49	\$5.64	\$4.71	\$5.45	\$5.45
Gross Margin at Elevator (\$/bu)*	\$1.33	\$1.98	\$1.75	-\$0.08	-\$0.08
Gross Margin at Elevator (\$/mt)*	\$48.95	\$72.78	\$64.39	-\$3.06	-\$3.06
* to cover elevation, elevator market risk, margin					