



## Wheat Market Outlook and Price Report: February 26, 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 Feb. 26/18**

#### **2017/18 World Wheat Overview:**

##### **International Grains Council Grain Market Report – February 22, 2018**

- **Estimates for 2017/18 world wheat production** remain unchanged at 757 million mt.
- **World ending stocks** for 2017/18 are unchanged from last month at 254 million mt.
- **Projections for 2018/19** are for a smaller seeded wheat area and for average yields.
- **Ending stocks for 2018/19** are seen as smaller vs last year, which would be the first year over year decline in stocks since the 2012/13 crop year.

## WORLD ESTIMATES

	14/15	15/16	16/17 est.	17/18 f'cast	
million tons				18.01	22.02
<b>TOTAL GRAINS <sup>a)</sup></b>					
<b>Production</b>	2056	2016	2140	<b>2100</b>	<b>2094</b>
<b>Trade</b>	322	346	352	<b>360</b>	<b>361</b>
<b>Consumption</b>	2010	1986	2085	<b>2104</b>	<b>2104</b>
<b>Carryover stocks</b>	536	566	621	<b>617</b>	<b>610</b>
<b>year/year change</b>	<b>47</b>	<b>30</b>	<b>55</b>		<b>-11</b>
<b>Major exporters <sup>b)</sup></b>	151	152	180	<b>184</b>	<b>181</b>
<b>WHEAT</b>					
<b>Production</b>	730	737	754	<b>757</b>	<b>757</b>
<b>Trade</b>	153	166	176	<b>174</b>	<b>174</b>
<b>Consumption</b>	714	720	738	<b>744</b>	<b>743</b>
<b>Carryover stocks</b>	207	224	240	<b>254</b>	<b>254</b>
<b>year/year change</b>	<b>16</b>	<b>17</b>	<b>16</b>		<b>14</b>
<b>Major exporters <sup>b)</sup></b>	67	66	75	<b>76</b>	<b>76</b>

### ➤ 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:** May'18 contract Chicago winter wheat closed the week at 464.25 which was unchanged in Friday's trade, but down by 11 cents for the week. Meanwhile, May'18 contract Kansas hard red winter wheat closed down by 8.2 cents for the week and was also down by 1.5 cents in Friday's trade at 484.75. In Minneapolis, May'18 contract hard red spring wheat closed the week at 613.25, which was down by 2.5 cents in Friday's trade, and down by 5.4 cents for the week, while Jul'18 hard red spring wheat closed at 623 down by 2.6 cents on Friday, and down by 4.4 cents for the week.
- **Funds:** In wheat, speculative funds have increased their short position by 0.5 million mt over the past week and currently hold a net short position in wheat of 10.5 million mt as of Feb 23rd. We expect to see specs buying more wheat if dryness continues in the USA hard wheat areas.
- **Matif:** Matif wheat futures in Europe closed at €164.75 which was up by €0.50/mt on Friday, and up by €2.75 for the week. Matif wheat has been trading higher over the past month.



- **In Canada**, week 29 exports are reported at 244.8k mt, which is down from last week's 299k mt, and which puts Canada on pace to achieve exports of 17 million mt (a bit below AAFC projections of 17.2 million mt).

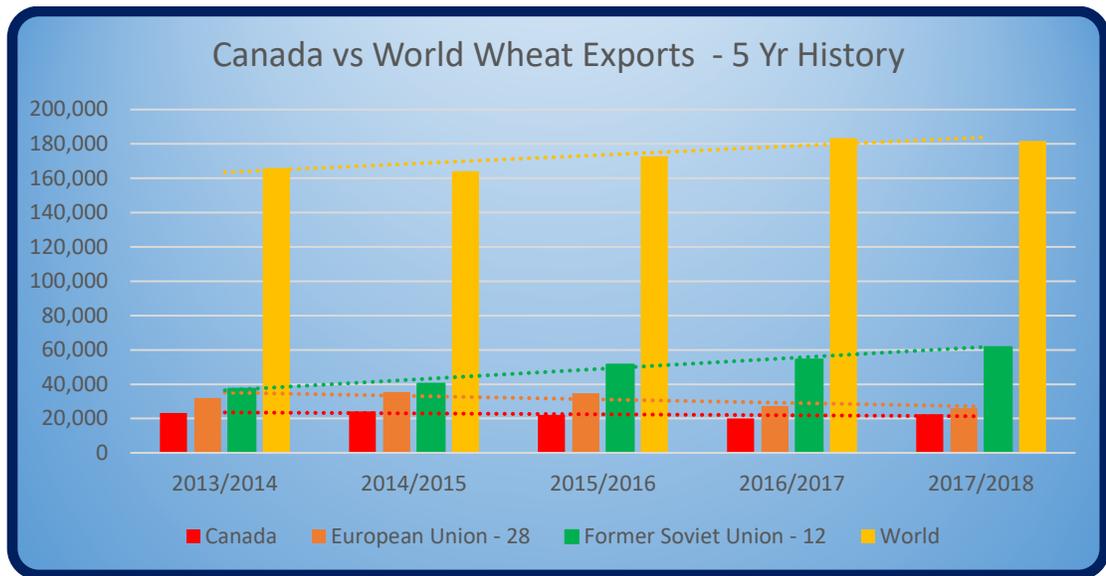
(CGC) Grain Handling Summary Wheat			Week 29 (to Feb 18/'18)	
('000 mt)	Prod. Dlvs.	Terminal	Bulk exports	Dom.
		Rcpts.		Disappearance
Week 29	308.1	195.0	244.8	29.2
Week ago	317.9	176.5	298.7	27.0
YTD	10,195.2	9,651.5	8,645.8	2,584.6
Last YTD	9,774.4	9,771.6	7,252.0	1,617.3
YTD less Last YTD (k mt)	420.8	-120.1	1,393.8	967.3
YTD over Last YTD (%)	104%	99%	119%	160%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum			Week 29 (to Feb 18/'18)	
('000 mt)	Prod. Dlvs.	Terminal	Bulk exports	Dom.
		Rcpts.		Disappearance
Week 29	58.6	56.2	29.6	2.1
Week ago	63.6	58.0	235.0	2.4
YTD	2,276.4	2,584.8	2,285.5	429.6
Last YTD	2,805.6	3,157.1	2,314.4	184.9
YTD less Last YTD (k mt)	-529.2	-572.3	-28.9	244.7
YTD over Last YTD (%)	81%	82%	99%	232%

Mercantile based on weekly CGC Handling Data

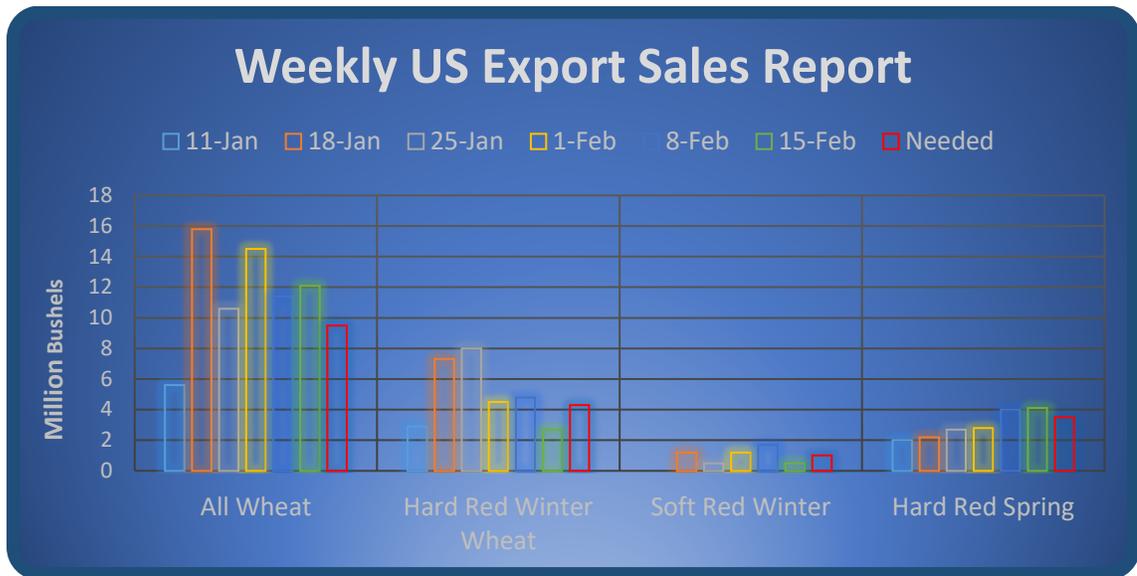
- The Canadian share of world wheat exports has remained relatively flat over the past 5 years, while world wheat exports have continued to increase. In 2013/14, total Canadian wheat exports were reported at 23.27 million mt, while in 2017/18 they were reported at just 22.5 million mt (3% decrease). Meanwhile, over this same time period, world wheat exports have increased by 9%, while exports from the former Soviet Union nations have increased by 65%. Although Canadian exports have failed to grow, they have fared better than EU exports which have shrunk by 19% over the same 5 year period. EU exports have continued to suffer a loss of market share due to rising Russian and Black Sea exports which are more cost competitive.



### US wheat:

- The Western US winter wheat belt remains dry. Some showers have been reported in the Midwest as well as in South Eastern winter wheat belt, but regions of the Texas Panhandle and parts of western Oklahoma have now been reported at 100 days without any rain or snow. Kansas is also reported very dry although some snow was received midweek.
- In the USDA's weekly export sales report, US all-wheat sales are reported at 12.1 million bushels, which is up slightly from last week's 11.4 million bushels, but also falls behind 2016/17 same week sales of 16.5 million bushels. US hard red spring wheat sales are reported at 4.1 million bushels, which is up from last week's 4.0 million bushels, and is also ahead of the

needed sales of 3.5 million bushels required to remain on pace with USDA projections. US wheat inspections are on target, but commitments are slipping, and wheat exports will be doing well if they achieve USDA numbers.



**Australian wheat:**

- Australian wheat futures closed the week slightly lower, while Fob values were little changed. Export data continues to show Ukrainian wheat making in-roads into Australia's traditional Asian demand base (primarily Indonesia, Malaysia, the Philippines and Singapore).
- Australian futures closed slightly lower on the week, but Fob values were little changed.

**Argentine wheat:**

- Argentina still continues to be dry, with no significant moisture expected in the 6-10-day forecast and with producers now facing the worst-case scenario. Expectations are that we could see some significant yield reductions in Argentina going forward.
- Fob values for Argentine wheat rose by US\$5/mt with 11.5% protein wheat closing at last week's 12% protein value.

**EU wheat:**

- Weather in the EU continues to look increasingly threatening to EU winter wheat crops, with forecasts turning increasingly cold, and with little to no protective snow cover. Temperatures in some regions of the Ukraine are expected to drop as low as -35 C, and the system could be accompanied by heavy snowfall which might slow Russian wheat exports. The most at risk regions appear to be Germany and Poland, which will likely see minus 20°C, while France expecting minus 10°C. EU weather will be closely watched by the trade over the coming week.
- Matif wheat increased almost €4/mt on the weak Euro and the threatening weather outlook.

**Black Sea wheat:**

- Temperatures across Europe and the Black Sea are plummeting, with readings next week in Ukraine expected as low as minus 35°C. Most of the Black Sea will see some very heavy snow falls which may protect crops but which will add to logistics problems. In the past week.
- According to reports this past week, Russian wheat exports recently hit their highest weekly total since before Christmas as weather cleared and as sellers cleared a backlog of delayed vessels. Weekly Russian wheat export volumes were reported at 914k mt, with YTD total exports now reported at 25.43 million mt (a 39% increase vs this same week last year).
- In the past week Egypt (GASC) bought 120,000 tonnes of Russian wheat at US\$208/mt Fob (\$223.50/mt C&F) for late March, and **Russian prices are much firmer and should be supportive of Canadian prices ex Vancouver.**

➤ **Significant purchases/Trades:**

- **Egypt** (GASC) bought 120,000 tonnes of Russian wheat at US\$208/mt Fob (\$223.50/mt C&F) for late March.
- **Algeria** bought 340,000 tonnes of May at US\$223-226/mt.
- **Tunisia** bought 75,000 tonnes of at US\$220-224.
- **UAE** bought 30,000 optional 12.5 pro at around US\$232.
- US inspections were 422,000 mt (season total 644 mln bushels, down 4.5%) sales were 329,000 mt (season total 788 mln bushels down 12% against USDA's projected 10% fall).

**Wheat Market Outlook:**

➤ **Significant events:**

- **Weather:** Rains in the USA were restricted to the East (i.e. SRW) and forecasted temperatures across Europe and the Black Sea are expected to plummet -in the Ukraine predictions are as low as minus 35°C, while Germany and Poland are expected to see minus 20°C and France minus 10°C. Most of the Black Sea will see some very heavy snow falls (with the possible exception of Southern Russia), which may protect crops but which will add to logistics problems. There is little snow expected in the north or Western Europe and this is where crop damage could be greatest. These conditions plus the continuation of poor prospects in Argentina will keep sellers reluctant for now.
- **Prices:** *Russian prices are much firmer and should be supportive of Canadian prices ex Vancouver.*

➤ **Outlook:**

- Looking forward, world weather is looking bullish: Argentina remains dry, and there is no rain yet in the southern and western US winter wheat belt. The USDA will be releasing their state by state winter wheat crop ratings at 4:00 on Monday which will be closely watched.
- Forecasts also show that parts of Europe and the Former Soviet Union are in for a very cold week with limited snow cover, which could be damaging to winter wheat crops. The most at risk regions appear to be Germany and Poland, and EU weather will also be closely watched by the trade over the coming week. These conditions plus the continuation of poor prospects in Argentina will keep sellers reluctant for now.
- *We don't see the Argentine situation being very supportive of grains, so we continue to suggest selling old crop Canadian grain. Futures markets are technically showing as overbought, so one rain in the hard wheat area would push prices down. Unfortunately, Canadian prices are way below world values, but with the low car allocation export elevators don't need to compete with world prices. We do not suggest selling any Canadian new crop at this time.*

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

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

Date: February 26, 2018

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr. '18 (bu.)	Apr. '18 (mt)
1 CWRS 13.5	\$6.61	\$242.88	1 CWRS 13.5	\$6.61	\$242.88
1 CWAD 13.0	\$6.94	\$255.00	1 CWAD 13.0	\$7.01	\$257.58
1 CPSR 11.5	\$5.57	\$204.66	1 CPSR 11.5	\$5.63	\$206.87
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$6.54	\$240.31	1 CWRS 13.5	\$6.54	\$240.31
1 CWAD 13.0	\$7.15	\$262.72	1 CWAD 13.0	\$7.09	\$260.51
1 CPSR 11.5	\$5.32	\$195.48	1 CPSR 11.5	\$5.37	\$197.32
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.02	\$257.94	1 CWAD 13.0	\$7.05	\$259.05
1 CPSR 11.5	\$5.30	\$194.74	1 CPSR 11.5	\$5.39	\$198.05
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$6.47	\$237.73	1 CWRS 13.5	\$6.45	\$237.00
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$7.20	\$264.56
1 CPSR 11.5	\$5.33	\$195.85	1 CPSR 11.5	\$5.32	\$195.48

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
  - 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.

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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."

- 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**

Relevant FOB Prices and Export Basis			February 26, 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	\$347.63	\$332.90		
HRS	\$340.17			
HRW 11.5	\$302.37			
SWW 12.0	\$267.84			
1 CWRS 13.5 <sup>3</sup>	\$347.63		\$237.37	\$110.27
2 CWRS 13.0 <sup>3</sup>	\$340.17		\$206.13	\$134.03
3 CWRS <sup>3</sup>	\$302.37		\$187.76	\$114.61
CPS <sup>3</sup>	\$261.31		\$203.93	\$57.38
1 CWAD <sup>4</sup>		\$387.29	\$237.00	\$150.30
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$205.00			
French 11.5 (Rouen)	\$206.25			
ASW 10.5 (W Coast)	\$242.50			
Argentine 12.0	\$188.50			
<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

Canadian Wheat - World Price Parities					February 26, 2018
<b>Canadian Funds</b>					
<b>PNW value/Vancouver</b>	<b>1CWRS13.5</b>	<b>2CWRS</b>	<b>Grade 3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>Dec./Jan. delivery</b>	\$9.28	\$9.08	\$8.05	\$7.11	\$7.11
<b>Parity Track Rosetown</b>	\$7.79	\$7.58	\$6.55	\$5.62	\$5.62
<b>Track Bid Rosetown Area</b>	<b>\$6.46</b>	<b>\$5.61</b>	<b>\$5.11</b>	<b>\$5.55</b>	<b>\$5.55</b>
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$1.33</b>	<b>\$1.97</b>	<b>\$1.44</b>	<b>\$0.07</b>	<b>\$0.07</b>
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$48.75</b>	<b>\$72.51</b>	<b>\$53.09</b>	<b>\$2.39</b>	<b>\$2.39</b>
* to cover elevation, elevator market risk, margin					