

## Wheat Market Outlook and Price Report: March 19th, 2018

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### **i) Background and Rationale for the Report**

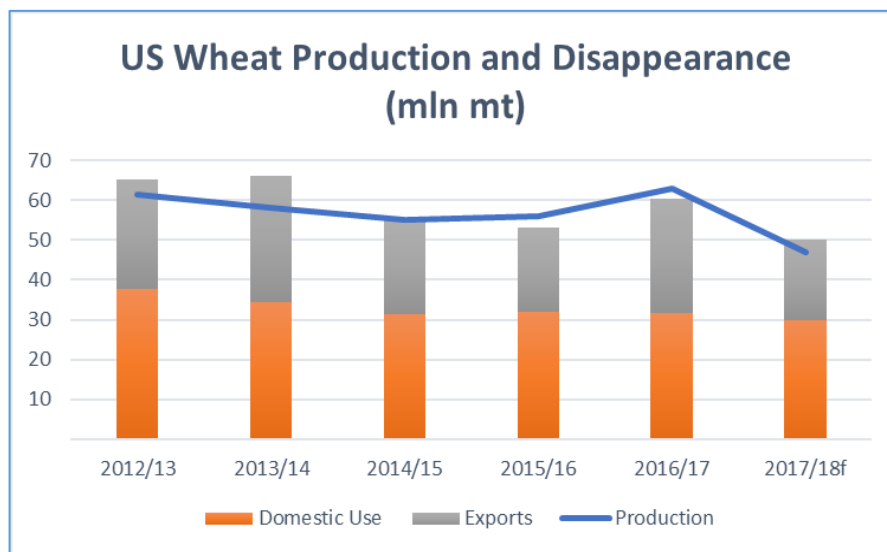
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 Mar. 12/18**

#### **2017/18 World Wheat Overview: USDA Export Sales, March 14<sup>th</sup>, 2018.**

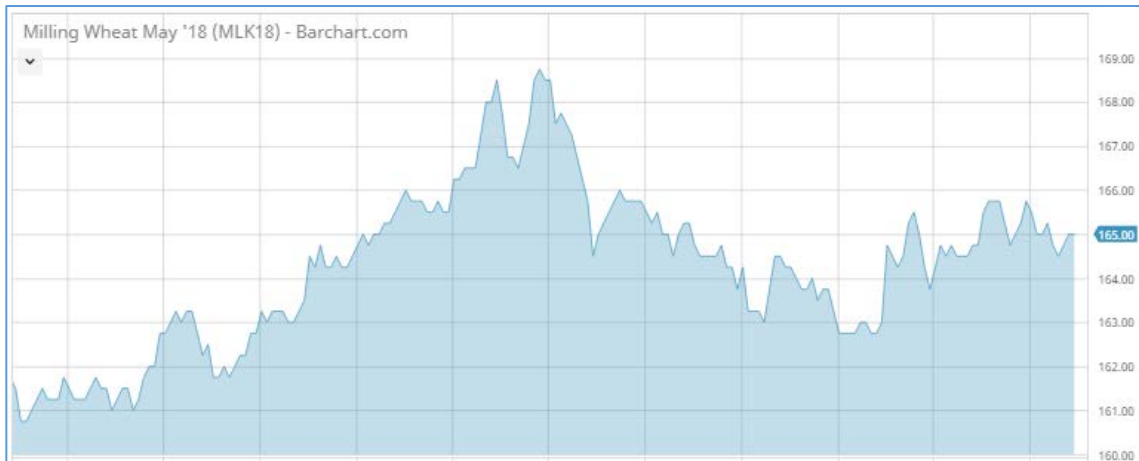
- **Slow US export sales:** *The USDA export sales report again confirmed the poor performance of US wheat on the world market. Just 163k mt of US wheat was sold last week, significantly below the 250-500k mt expectation. This is only 80% of the roughly 204k mt weekly sales needed to reach the USDA's revised export projection.*
- **Brussels updated export projections** on EU all wheat shipments now stands at 20.3mln mt. This is significantly down from the Commission's 25.4mln mt and the USDA's 25.0mln mt.
- **Russian** wheat exports have been the big volume winner this year at the cost of US and EU exports.



➤ **Global wheat production and trade:**

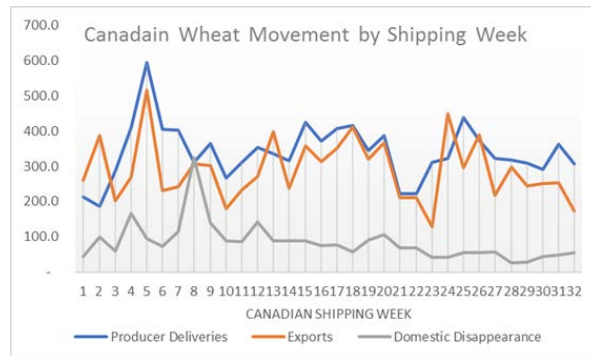
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** May'18 contract Chicago winter wheat closed at 467.6 which was down 11 cents in today's trade and down 21.4 cents for the week. Meanwhile, May'18 contract Kansas hard red winter wheat closed down 14 cents at 499.4 which is down 21 cents for the week. In Minneapolis, May'18 contract hard red spring wheat closed at 611.5, down 3.6 cents in today's trade and down 5.4 cents for the week, while Jul'18 hard red spring wheat closed at 618.4, down 3.6 cents for the day and 7.2 cents for the week.
- **Funds:** Index funds added to their overall long as further protection against inflation. Specs bought additional on weather scares but continue to be short wheat. Funds have a huge soya complex long compared to the USDA's estimate of the USA soybean carry-out. In wheat, Spec Funds are currently short 4.6 mln mt, which is down 1.5 mln mt from Mch. 13.
- **Matif:** Matif wheat futures closed higher on the week at €165, but down slightly from the week's highs. This was initially from following the CBOT's reaction to the reports of poor US export sales, but it then continued lower from the Brussels' update on EU shipments.

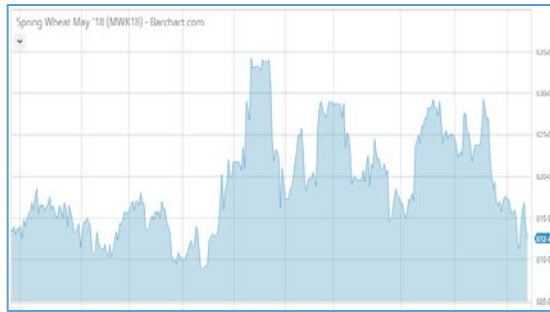


**Canadian wheat:**

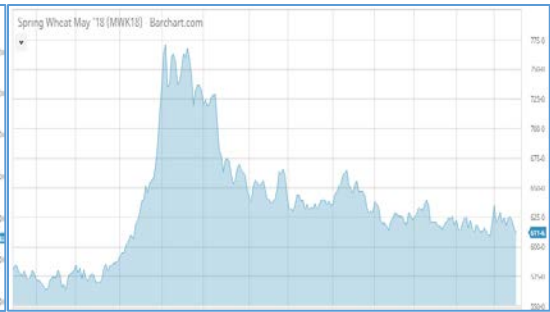
- In grain shipping week 32, Canadian producers delivered 306.8k mt of wheat, which is down slightly from the 362.9k mt last week. This makes a total of 11.178mln mt delivered YTD. Exports are down again from 252.7 last week, to this week's 173.0k mt. This makes a YTD total of 9.323mln mt which is up from last year's 8.157mln mt.
- There is continued frustration with the tardiness of Canadian rail companies causing the hash tags #moveourgrain and #passc49 to gain popularity on social media sites. In week 31, CN and CP provided an average of 45% of the requested cars. There are reports of farmers in the prairie provinces with overdue grain contracts who are unable to haul because elevators have not been able to source rail cars. The Grain Growers of Canada is calling for the Senate and House of Commons to pass the Transportation Modernization Act (Bill C-49) in hopes that it will cause Canadian rail companies to improve their service to grain producers.
- **We note that so far, the higher futures levels have only succeeded to make better cash prices for origins other than North American.**



1 Month Minneapolis HRS

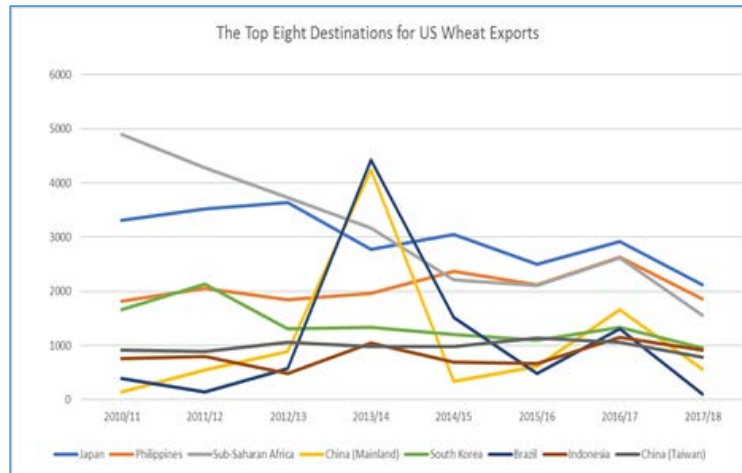


1 Year Minneapolis HRS



### US Wheat:

- Thursday's export sales report again confirmed the lack of competitiveness of US wheat on the world market: Last week's export sales of 163k mt were down by 58% from the previous week. The main buyers were Mexico, (36.4k mt, 12.4k mt less than last week), China (35.6k mt, up 35k mt from last week), Guatemala (29.1k mt), the Philippines (28.9k mt), and Ecuador (17.7k mt). For the 2018/19 marketing year, last week's sales were 56.7k mt, with Guatemala buying 46k mt and the rest sold to unknown destinations.



- Last week's actual exports were 334.8k mt, down 7% from last week with the main destinations being the Philippines (99.1k mt), Morocco (37.8k mt), China (35.6k mt), Mexico (35.6k mt), and Algeria (31,0k mt).
- The drought in the US Plains is reaching record levels. Excessive dryness (that has not been seen since 1895/96) is encompassing over 1/3 of the total US HRW wheat belt, including central and southwest Kansas, the Oklahoma Panhandle, and much of Western Texas.
- The NASS weekly crop report indicated a further worsening of the Kansas winter wheat situation but shows some improvement in Oklahoma and Texas. Kansas winter wheat good/excellent ratings is currently reported at 12%, which is down another 1% from last week. Poor/very poor ratings for the Kansas crop has also increased another 3% from last week and now stands at 53%. On the other hand, Oklahoma winter wheat is reported to be 7% good/excellent (up from last week's 6%) and poor/very poor ratings have decreased 5% from last week to 72%. Similarly, Texas winter wheat is now reported as 13% good/excellent (up from last week's 10%) and poor/very poor ratings have decreased to 53% (down from last week's 64%).
- US **new crop** wheat commitments are down to a 6-year low on concerns of the poor HRW crop.
- The 5-day forecast shows rain is expected at the beginning of this week. Rains are supposed to cover the Northern and Eastern Kansas regions as well as the Eastern regions of Oklahoma and Texas.
- Dryness in the US HRS wheat growing regions continue to improve. US HRS wheat growing areas are under 39% moderate and 8% severe drought conditions. With majority of the dryness in northeast Montana and the Dakotas.

- The USDA projected acreage report comes out on March 29. Some analysts are projecting that US total wheat plantings to be 46.9mln acres this year (above USDA's current forecast of 46.5mln acres): winter wheat is projected to be 32.5mln acres (down 152k acres from last year), spring wheat is projected to be 11.9mln acres (up 915k acres from last year) and durum is projected to be 2.4mln acres (up 114k acres from last year).

**Australian wheat:**

- Aussie futures are slightly lower on the week. FOB values have also eased some with the US markets.
- Australian wheat is current trading at US \$242.50 per MT Fob Western Australia.

**Argentine wheat:**

- Forecasts show that Argentina will likely be hit with some rain that will cover 20% of the growing region. This will do nothing to reverse the damage that has already been done but these rains are still very much needed as wheat planting is soon to start. The only quotes were for April 12% pro at \$222 and May 11.5% pro at \$215. Domestic values were unchanged as farmers show concerns about planting potential.
- Brazil saw 0.50" of rain falling on 55% of its growing region last Tuesday.

**EU wheat:**

- The EU continues to turn progressively drier as rain is pushed further South and East. Overall there does not seem to be any real problem with EU winter wheat.
- Algeria trimming imports (only purchasing 150k mt this week compared to their last mid-February purchase of 340k mt) in not good news for French wheat. Algeria normally buys about 60% of total French wheat exports. FranceAgriMer cut its export forecast to countries outside of the EU by another 500k mt (down to 8.5mln mt).
- French 11.5% pro closed the week at \$208.90, up \$3.90 from last week. German 12.5% pro closed the week at \$210.70, 40 cents lower than the week before.

**Black Sea wheat:**

- The GASC tender this week only received 3 offers, each of Romania and Russia Wheat. The lack of offers indicates that not only are logistics influencing price but also the fact that there are other destinations for Russian wheat that have lower execution risks.
- Russian 12.5% protein wheat is currently trading at \$203/mt, up \$1 from last week.

**Significant purchases/Trades:**

- **Algeria** bought just 150k mt of June milling wheat at US\$225/mt.
- **Japan** purchased 120k mt of AU/Cdn.US wheat.
- **Egypt (GASC)** purchased 240k mt (paying US\$2-4/mt more than their previous tender) of wheat sourced equally from Russia and Romania.
- **US export sales** of 163k mt this week. If this pace is maintained the US will fall 40mln bu short of the USDA's revised expectation.

➤ **Wheat Market Outlook:**

**Significant events:**

- **Rain in the Plains:** Last Friday's 5-day forecast was calling for rain at the beginning of this week. Rains are supposed to cover the Northern and Eastern Kansas regions as well as the Eastern regions of Oklahoma and Texas.
- The **EU** announced last Friday that it would put a 25% tariff on US corn if the US hikes tariffs on EU steel and aluminum.
- **Slowdown of Wheat Buying:** It seems that global trade is starting to ask if both the crop and domestic demand are supporting the high prices currently being asked. This is evident as **Algeria** only purchased half the wheat they normally do in this week's tender, and **Korea** passed on their tender altogether.

➤ **Outlook:**

HRW is still the main factor causing wheat prices to be as strong as they are. However, most of the drought has been already built into the price. It is important to keep in mind that winter wheat crops in the EU and Black Sea are showing no real signs of problems, there is an overly comfortable US wheat stock cushion (estimated 27.46mln mt) and spring wheat areas looking to have ample moisture come planting time.

Markets will be looking toward the planting projection report on the 29<sup>th</sup>, and you can expect the markets will have a strong reaction if the forecasted rain in the US Plains does prove true.

**We continue to recommend old crop wheat sales at \$7.00 per bushel or better and continue to leave new crop alone for now.**

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

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

Date: March 19, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '18 (bu.)	June '18 (mt.)
1 CWRS 13.5	\$6.67	\$245.08	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$6.95	\$255.37	1 CWAD 13.0	\$6.99	\$256.84
1 CPSR 11.5	\$5.47	\$200.99	1 CPSR 11.5	\$5.52	\$202.83
SW Sask			SW Sask		
1 CWRS 13.5	\$6.63	\$243.61	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.17	\$263.45	1 CWAD 13.0	\$7.09	\$260.51
1 CPSR 11.5	\$5.30	\$194.74	1 CPSR 11.5	\$5.47	\$200.99
NE Sask			NE Sask		
1 CWRS 13.5	\$6.45	\$237.00	1 CWRS 13.5	\$6.49	\$238.47
1 CWAD 13.0	\$7.05	\$259.05	1 CWAD 13.0	\$7.08	\$260.15
1 CPSR 11.5	\$5.23	\$192.17	1 CPSR 11.5	\$5.34	\$196.21
SE Sask			SE Sask		
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	\$6.59	\$242.14
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.22	\$265.29
1 CPSR 11.5	\$5.30	\$194.74	1 CPSR 11.5	\$5.37	\$197.32

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.
1 CWRS 13.5	
1 CWRS 12.5	(0.18)
2 CWRS 13.5	(0.09)
1 CWAD 13.5	0.03
2 CWAD 13.0	
2 CWAD 12.5	(0.03)

#### **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)

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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."



- 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				March 19, 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)
<b>DNS 14.0</b>	\$357.03	\$353.67		
<b>HRS</b>	\$364.22			
<b>HRW 11.5</b>	\$302.80			
<b>SWW 12.0</b>	\$277.37			
<b>1 CWRS 13.5<sup>3</sup></b>	\$357.03		\$231.85	\$125.17
<b>2 CWRS 13.0<sup>3</sup></b>	\$364.22		\$200.62	\$163.60
<b>3 CWRS<sup>3</sup></b>	\$302.80		\$196.95	\$105.85
<b>CPS<sup>3</sup></b>	\$270.65		\$181.88	\$88.77
<b>1 CWAD<sup>4</sup></b>		\$333.51	\$245.45	\$88.06
<b>Competing wheat:</b>	US\$/mt			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	\$193.00			
<b>French 11.5 (Rouen)</b>	\$194.79			
<b>APW 10.5 (W Coast)</b>	\$225.00			
<b>Argentine 12.0</b>	\$174-179.00			

<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

<b>Canadian Wheat - World Price Parities</b>					March 19, 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>Mch./April. delivery</b>	\$9.53	\$9.73	\$8.06	\$7.37	\$7.37
<b>Parity Track Rosetown</b>	\$8.04	\$8.23	\$6.56	\$5.87	\$5.87
<b>Track Bid Rosetown Area</b>	<b>\$6.31</b>	<b>\$5.46</b>	<b>\$5.36</b>	<b>\$4.95</b>	<b>\$4.95</b>
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$1.73</b>	<b>\$2.77</b>	<b>\$1.20</b>	<b>\$0.92</b>	<b>\$0.92</b>
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$63.47</b>	<b>\$101.90</b>	<b>\$44.15</b>	<b>\$33.78</b>	<b>\$33.78</b>

\* to cover elevation, elevator market risk, margin