

Wheat Market Outlook and Price Report: April 30, 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 April 16, 2018

World Wheat Overview:

➤ **World Wheat Outlook for 2018/19 – International Grains Council (IGC)**

WORLD ESTIMATES					
	15/16	16/17 est.	17/18 f'cast	18/19 proj.	
million tons				22.03	26.04
WHEAT					
Production	737	754	758	741	739
Trade	166	175	175	179	179
Consumption	719	736	740	744	745
Carryover stocks	226	244	263	253	257
year/year change	18	18	18		-6
Major exporters ^{b)}	67	80	84	66	72

- The latest IGC estimate for 2018/19 world wheat features a 2 million mt cut in **world wheat production** from last month to 739 million mt (including for the US, India and Australia). This is down from last year's record production of 158 million mt.
- The estimate for **world wheat trade** remained at 179 million mt, which is 4 million mt bigger than last year's trade.

- **World wheat consumption** was raised 1 million mt from last month to 745 million mt, 5 million mt bigger than last year's. **Note that projected consumption for '18/19 exceeds '18/19 production by 6 million mt.**
- **World wheat ending stocks** increased to 257 million mt, 4 million mt bigger than last month's estimate, but still 6 million mt smaller than last year's ending stocks.

➤ **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:** May'18 contract Chicago winter wheat closed at 495-4, up 14.6 cents in today's trade and *up 30.4 cents for the week*. Meanwhile, May'18 contract Kansas hard red winter wheat closed up 10.4 cents at 512-2, *up 28 cents for the week*. In Minneapolis, May'18 contract hard red spring wheat closed at 607-4, up 7.6 cents in today's trade and *up 2.2 cents for the week*, while Jul'18 hard red spring wheat closed at 610-0, up 6 cents for the day and *down 1 cent for the week*.
- Futures markets are close to resistance levels. It will be Fund buying if we are to go through resistance and most likely led by soymeal.
- **Funds:** Index funds did very little whilst the spec re-built their long back up to 50 myn tonnes overall long. We expect Spec funds to buy more beans which in a thin market will take futures higher in the short term.
- Funds were short 4.4 million mt of wheat as of Apr. 27th (+1.1 mln mt from Apr. 24th)
- **Matif:** Matif rose €3/mt on the weak Euro, and on hot dry conditions in central/eastern Europe, on the late week US rally, and on Algeria's first new crop wheat tender which was 3-4 weeks earlier than their usual start date. Algeria bought 420k mt French soft wheat.

Canadian wheat:

- In shipping **week 38**, Canadian producers delivered 284.2k mt of wheat to Canadian grain handling facilities. YTD, producers have delivered 13,344.8k mt. Exports were much higher at 402.1k mt for a total of 11,481.0mln mt YTD.).
- Durum: In grain shipping week 38, Canadian producers delivered 22.3k mt of durum to licensed Canadian grain handling companies for a total of 2,892.5k mt delivered YTD. Meanwhile, Canadian durum exports were reported at 51.1k mt, for a total of 2,882.0k mt YTD.
- **StatsCan** published their estimate of Canadian wheat planting at 25.25 mln acres a 12.8 percent increase over 2017. This makes no sense at all and only tells us they underestimated acres for 2017 as we expected. Nobody in the trade puts any credit to StatsCan numbers and wonders why the government uses money on a department whose numbers are bad and create confusion. Mercantile estimates were for 2017 total wheat acres of 23.7 mln and forecast for 2018 of 24.4 mln acres.
- Stats Canada has durum acreage in Canada at 5.8 mln acres, up 11% from last year. This seems high, as it is in line with the very highest of market expectations. It is likely that durum acres in 18/19 will be higher than last, however, we anticipate that it will only be a 4% increase to 5.4 mln acres.

US wheat:

- The anticipated rains last week in the US S Plains were largely disappointing. The TX Panhandle and western half of KS and OK only received 0.50" of rain. The eastern areas received rain in amounts of 0.50-2". Neither amounts are expected to significantly reverse the effects of the 5-month long drought, and the forecast has again turned mostly dry.
- Wheat continued to lead ag markets due concern abt dryness in the SW 1/3 of the US HRW belt and developing dryness in S Russia. The US Wheat Quality Council tour of the HRW area will start up this week.
- It seems Dakota producers could start planting in earnest this week; they still seem intent on planting spring wheat, though we hear of pressure by banks to increase '18 soybean acreage.

Australian wheat:

- Australia was almost completely dry last week again with temperatures again above normal. There is no rain in the forecast and major soil moisture shortages have built up over the last 3 months.
- Planting in Australia has begun; however, they are quickly running out of soil moisture. Since January, areas in S AU have only seen 10-50% of the normal precipitation and there is currently no rain in the forecast.
- Dryness lifted Australian old crop Fob values by ~ US\$5/mt. New crop futures rose A\$7/mt on the week (~\$1.25/mt in US\$).

Argentine wheat:

- Wheat planting is expected to be higher than last year's 5.7 mln ha in response to higher wheat prices and improved soil moisture. This could imply another record production, surpassing last year's 17.75 mln mt crop.
- The Argentine old crop domestic market was on fire at US\$252/mt Fob equivalent with Brazil buying everything that moves.

EU wheat:

- Matif rose €3/mt on the weak Euro, and on hot dry conditions in central/eastern Europe, on the late week US rally, and on Algeria's first new crop wheat tender which was 3-4 weeks earlier than their usual start date. Algeria bought 420k mt French soft wheat.
- Conditions in **France** have stabilized, as warmer temperatures have improved growing conditions for their durum and soft wheat (ratings had previously had fallen to 4-year lows). French durum G/E ratings increase 1% to 79% while soft wheat G/E rating remained at 73%.
- At US\$210.30-211.50/mt German/ Baltic 12.5% protein wheat was still offered at a discount to Russian wheat!

Black Sea wheat:

- In **Russia**, wet and cool weather has slowed spring seeding, leaving spring wheat 62% behind last year's pace with only 1.2% of the total spring wheat area sown to date. The USDA Attaché in Russia estimates that wheat area sown in 18/19 will decrease by 1.3mln ha to 26 mln ha.
- Seeded spring wheat acres in **Ukraine** doubled last week to an estimated 124k ha, 21% behind last year.
- Old crop Black Sea wheat closed at around US\$214/mt for Russian 12.5 protein wheat. This still shows a premium to German/Baltic wheat levels, with US\$7/mt less for 11.5% protein wheat.

➤ **Significant purchases/ trades:**

- **Algeria** bought 200,000 mt of July durum at US\$290-293/mt CIF Algeria.
- **Algeria** also bought another 420,000 mt of July soft wheat at US\$224-225/mt from France.
- **Korea** bought 63,000 tonnes August feed wheat at US\$220/mt.
- Crop year exports from the **EU** for 2017/18 should reach 20 mln mt, which compares to the USDA forecast of 24 mln and the EU commission's estimate of 24.4 mln tonnes.
- **Japan** bought spring wheat from the UD and Canada on their weekly tender.
- **US inspections** were 619,000 mt (season total 790 mln bushels, down 10%), sales were 297,000 mt for a season total 855 mln bushels, down 16% against USDA's projected 12% decline.

➤ **Wheat Market Outlook:**

Significant events:

- Wheat continued to lead agriculture markets due to concern about dryness in the SW 1/3 of the US HRW belt and developing dryness in S Russia.

- Wet and cool weather has slowed spring seeding in Russia, leaving spring wheat 62% behind last year's pace with only 1.2% of the total spring wheat area sown to date.
- At 210.30-211.50/mt German/ Baltic 12.5% protein wheat was still offered at a discount to Russian wheat.

➤ **Outlook:**

- The trade's focus in the May WASDE report will be the USDA's estimate of Russian production. Some expect the number to be as low as 72 mln, which would leave exports of 27 mln tonne (10 mln tonnes less than expectations for this crop year) basis a domestic usage of 45 mln mt. This could be seen as bullish *if the higher Russian and EU carryovers are ignored* and could give support to futures markets.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 30, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	\$6.01	\$220.83
1 CWAD 13.0	\$6.34	\$232.96	1 CWAD 13.0	\$6.27	\$230.38
1 CPSR 11.5	\$5.71	\$209.81	1 CPSR 11.5	\$5.52	\$202.83
SW Sask			SW Sask		
1 CWRS 13.5	\$6.77	\$248.76	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$6.97	\$256.11	1 CWAD 13.0	\$6.78	\$249.12
1 CPSR 11.5	\$5.63	\$206.87	1 CPSR 11.5	\$5.48	\$201.36
NE Sask			NE Sask		
1 CWRS 13.5	\$6.64	\$243.98	1 CWRS 13.5	\$6.30	\$231.49
1 CWAD 13.0	\$6.78	\$249.12	1 CWAD 13.0	\$6.74	\$247.65
1 CPSR 11.5	\$5.50	\$202.09	1 CPSR 11.5	\$5.30	\$194.74
SE Sask			SE Sask		
1 CWRS 13.5	\$6.64	\$243.98	1 CWRS 13.5	\$6.36	\$233.69
1 CWAD 13.0	\$6.93	\$254.64	1 CWAD 13.0	\$6.86	\$252.06
1 CPSR 11.5	\$5.58	\$205.03	1 CPSR 11.5	\$5.39	\$198.05

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
 - 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.

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.”

- 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				April 30, 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	\$367.96	\$345.84		
HRS	\$360.90			
HRW 11.5	\$325.14			
SWW 12.0	\$288.91			
1 CWRS 13.5 ³	\$367.96		\$247.29	\$120.67
2 CWRS 13.0 ³	\$360.90		\$224.14	\$136.76
3 CWRS ³	\$325.14		\$220.46	\$104.67
CPS ³	\$282.32		\$203.56	\$78.76
1 CWAD ⁴		\$329.37	\$239.20	\$90.17
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)		\$214.00		
French 11.5 (Rouen)		\$207.50		
APW 10.5 (W Coast)		\$247.50		
Argentine 12.0		\$252.00		

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						April 30, 2018
Canadian Funds		Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
Mch./April. delivery	\$9.83	\$9.64	\$8.67	\$7.68	\$7.68	
Parity Track Rosetown	\$8.34	\$8.15	\$7.17	\$6.19	\$6.19	
Track Bid Rosetown Area	\$6.73	\$6.10	\$6.00	\$5.54	\$5.54	
Gross Margin at Elevator (\$/bu)*	\$1.61	\$2.05	\$1.17	\$0.65	\$0.65	
Gross Margin at Elevator (\$/mt)*	\$59.10	\$75.19	\$43.10	\$23.77	\$23.77	
* to cover elevation, elevator market risk, margin						