

Wheat Market Outlook and Price Report: May 14, 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 April 16, 2018

World Wheat Overview:

- **World Wheat Production and Utilization, World Wheat Imports and Exports, 2000/01 – 2017/18 (AMIS¹)**



¹ Agricultural Market Information System (AMIS) provides a collective assessment of the market situation and outlook by eleven major int'l organizations that form the AMIS Secretariat. (FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Grp., WFP, World Trade Org., GLAM).

- In Canada we seem to have the impression that **world wheat utilization** only increases very slowly, certainly much slower than oilseed utilization has been increasing. In reality, world wheat utilization has increased significantly over the past 18 years: It increased from 590 mln mt in '00/01 to 736 mln mt in 2017/18. *That is a 25% increase since 2000/01.*
- World wheat utilization is projected to increase by 0.8% in 2018/19 with food consumption keeping pace with population growth. Feed use of wheat is expected to contract.
- Meanwhile, **world wheat production** has increased even more from 586 mln mt to 757 mln mt (+29%).
- **World wheat trade** is up from 101.5 mln mt to 173.8 mln mt (+71%!). For the crop year 2018/19, it is expected to be steady at current highs (~174 mln mt) due strong import demand and good export availability, especially from Russia.
- Unfortunately, North American wheat (US and Canadian) keeps losing **market share** in an expanding market. *This is an indication of the ongoing shift in the center of gravity of the world's wheat market away from North America and towards eastern Europe.*

➤ **Global wheat production and trade:**

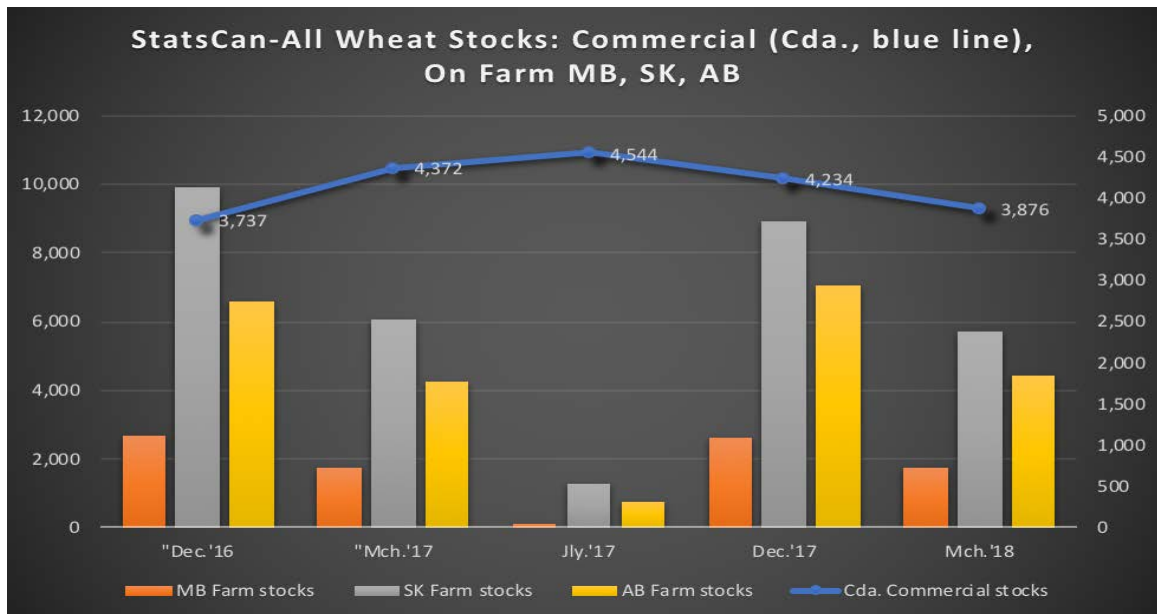
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Last Friday, July'18 contract Chicago winter wheat closed 498-6 down 7-6 cents in today's trade; for the week, wheat was 8 1/4 to 35 3/4 cents lower. Meanwhile, Jly'18 contract Kansas hard red winter wheat closed down 9-0 cents at 518-0. In Minneapolis, Jly'18 contract hard red spring wheat closed at 605.0, down 4-0 cents in today's trade, while Sept'18 hard red spring wheat closed at 611-6, down 4-0 cents for the day.
- **Funds:** The CFTC on Friday showed funds to be net long in Chicago (4,000 contracts) for the first time since August.
- **Matif:** The last Matif futures *old crop wheat* contract spiked €14.50/mt on Thursday's expiry, but *new crop* fell €3-4/mt on favorable weather and a late week recovery in the Euro from 2018 lows. Note that several European holidays kept cash trade very quiet.
 - **Canadian wheat:**
- It was disappointing that no Canadian wheat was traded to **Saudi Arabia** last week, and we can only assume no business was done due to a lack of railcar offers. Canada needs to get its act together on this topic. - Bill C49 does nothing to provide more rail loadings and, in our view, it took 2 years of committee meetings to achieve virtually nothing.

- We assume the Saudi business was traded at about C\$7.85 per bushel fob Vancouver parity, which would have left a Canadian elevator with a gross margin of C\$.70 cents per bushel. However, none was offered.
- Japan** bought 96k mt of spring wheat from Australia and the US in their weekly tender on Thursday (61k mt from the US and 35k mt from Australia, but none from Canada).
- Canadian **wheat shipments** were decent during wheat 40, with 370k mt of wheat loaded for export. Canadian wheat exports are currently 15% ahead of last year's pace.
- Durum: In grain shipping week 40, Canadian producers delivered 31k mt of durum elevators for a YTD total of 3 mln mt. Durum exports were reported at 77k mt, for a total 3.1 mln mt YTD. Durum exports are 7% behind last year's pace. Total durum exports for the year should end up at about 4.3 to 4.5 mln mt. We do not expect much change in price for a while.
- The StatsCan Canadian all **wheat stocks** for Mch. 31/'18 were at 16.4 mln mt (-3.9% from Mch.'17) vs the trade's avg pre-report estimate at 16.9 mln mt and last year's stocks at 17.1 mln mt. On farm stocks of wheat were 1.3% lower than last year (12.5 mln mt), and commercial stocks decreased a full 11.3% to 3.9 mln mt. Provincially, Manitoba farm wheat stocks decreased marginally by 0.3% (-5k mt), Saskatchewan farm wheat stocks decreased by 5.6% (-340k mt), and Alberta farm wheat stocks increased by 4.9% (+205k mt).
- For **wheat, excluding durum**, commercial stocks decreased 8.9% (-312k mt). Saskatchewan farm wheat stocks (excl. dur.) increased by 7.1% (+240k mt), and Alberta farm wheat stocks increased by 2.7% (+100k mt). Durum wheat stocks at 3.4 mln mt decreased by 16.2% (-659k mt) from last year's (4.1 mln mt).

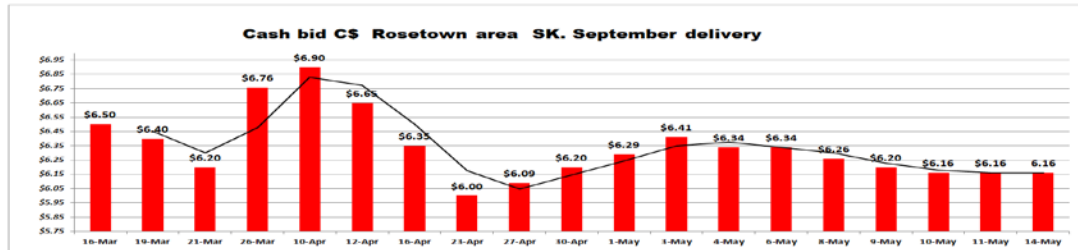
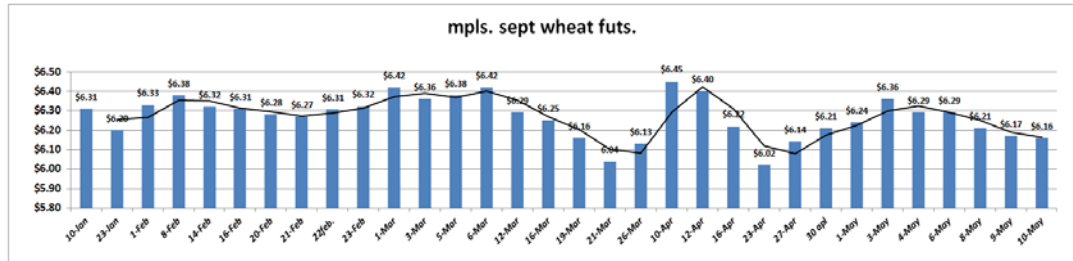
('000 mt)	Week 40 (to May 6/'18)			
	Prod. Divrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Current week	418.1	479.0	369.5	83.4
Week ago	346.5	327.5	289.0	111.4
YTD	14,112.6	13,434.5	12,148.6	3,582.0
Last YTD	13,763.4	13,178.4	10,562.3	2,268.8
YTD less Last YTD (k mt)	349.2	256.1	1,586.3	1,313.2
YTD over Last YTD (%)	103%	102%	115%	158%

('000 mt)	Week 40 (to May 6/'18)			
	Prod. Divrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Current week	30.8	135.9	77.1	32.2
Week ago	57.8	98.9	147.5	47.8
YTD	2,981.3	3,527.6	3,106.2	589.6
Last YTD	3,903.8	4,350.2	3,355.0	248.9
YTD less Last YTD (k mt)	-922.5	-822.6	-248.8	340.7
YTD over Last YTD (%)	76%	81%	93%	237%



- Weather now takes center stage, notably in Russia and Australia, but politics and currencies have not gone away. Note also the CFTC on Friday showed funds to be net long in Chicago (4,000

contracts) for the first time since August. We would ignore the markets for now and concentrate on fieldwork and hope for sufficient moisture to help germination.



○ **US wheat:**

- The highlight of the week was the **USDA-WASDE report**. Traders took two looks at this report; first, the lower overall production numbers had them a little bullish and futures rallied. On reflection, their second look showed plenty of old crop in carryover numbers and ample stocks, which when they also considered the large old crop long held by Funds, made them bearish and selling pressure drove futures lower. We see the sell off as overdone and actually do see the WASDE report as supportive to 2018/19 prices longer term. The Russian wheat crop estimate of 72 myn tonnes does mean higher wheat prices over time and tightens up supplies as we enter 2019, so we see no rush to sell new crop wheat.
- Given the severity of drought in the south-western U.S. Plains, USDA's higher all wheat production estimate of 1.82 bb seems too high, but the smaller U.S. amounts pale in comparison to what the world might do, if this year's weather stays favourable.

○ **Australian wheat:**

- The Australian weather outlook remains unfavorable, and dryness drove new crop futures to a contract high weekly close.
- USDA put the 2018 wheat crop at 24 mln mt (same as ABARE), but the local trade is talking of a decline to this year's 21.5 mln mt if it doesn't rain in the next 2 weeks. There currently is nothing in the forecast.
- Old crop Fob Australian wheat increased by ~US\$5/mt.

○ **Argentine wheat:**

- The Rosario Grain Exchange put 2018 planted acreage at 5.7 mln ha, up 5% on last year, versus USDA's 6 mln ha harvested acre projection (+7%). USDA put the 2018/19 crop at 19.5 mln mt (18 mln mt this year), *with all the increase going into exports*.
- Argentine new crop wheat Fob offers fell to US\$204/mt for 12% protein wheat and US\$197/mt for 11.5% protein wheat. However, old crop domestic wheat values continued to increase on demand from Brazil and the Peso developments. Nearby wheat ended up at US\$253/mt or around \$265/mt Fob equivalent.

○ **EU wheat:**

- Weekly EU shipments were just 96k mt, but a 466kt adjustment to the previous week. This took the season total to 18.8 mln mt, for an annualised pro rata export number of 20.5 mln mt (versus the USDA number of 24 mln mt).

- Rumours of sales of French wheat to the US proved unfounded, but there was wheat business done to Mexico.
 - **Black Sea wheat:**
- As mentioned above, the USDA put the Russian '18/19 wheat crop at just 72 mln mt, down 13 mln mt on this year and below all trade estimates. Still, they only trimmed Russian wheat exports by just 3 mln mt from 2017/18.
- Russian 12.5% protein wheat ended at US\$203/mt plus \$2/mt per month carry. 11.5% protein wheat was US\$196/mt, US\$7/mt less than 12.5% protein wheat.
 - **China:**
- USDA left China's old crop S&D unchanged, but new crop stocks rose by 10 mln mt (following on from this year's 15 mln mt jump). Per the USDA, at an estimated 139 mln mt, China will hold 53% of total world inventory by the end of next season.

➤ **Significant purchases/ trades:**

- **Japan** bought 96k mt of spring wheat from Australia and the US in their weekly tender Thursday (61k mt from the US and 35k mt from Australia; none from Canada).
- **Saudi Arabia** bought 540,000 mt of Jul-Aug arrival wheat.
- **Jordan** purchased 60k mt wheat for LH Sep at US\$225 C&F; the next cheapest offer was US\$10/mt higher.
- **Iraq** is tendering for 50k mt of wheat to be sourced from the US, Canada, or Australia with a tender deadline of May 14th.
- **Ethiopia** tendering on May 17th for 35k mt under the World Bank program, and again for 400k mt on May 18th.
- **US export sales** were just 35k mt for a season total 865 mln bu, down 16% vs USDA's revised 14% decline.

➤ **Wheat Market Outlook:**

Significant events:

- Given the severity of drought in the south-western U.S. Plains, USDA's higher all wheat production estimate of 1.82 bb seems too high, but the smaller U.S. amounts pale in comparison to what the world might do, if this year's weather stays favourable.
- So far, the major wheat regions are mostly favourable, except for early dryness in Australia.
- We assume the Saudi business was traded at about C\$7.85 per bushel fob Vancouver parity, which would have left a Canadian elevator with a gross margin of C\$.70 cents per bushel. However, none was offered.
- USDA left China's old crop S&D unchanged, but new crop stocks rose by 10 mln mt (following on from this year's 15 mln mt jump). Per the USDA, at an estimated 139 mln mt, China will hold 53% of total world inventory by the end of next season.
- The CFTC on Friday showed funds to be net long in Chicago (4,000 contracts) for the first time since August.

➤ **Outlook:**

- Weather now takes center stage, notably in Russia and Australia, but politics and currencies have not gone away.
- Note also the CFTC on Friday showed funds to be net long in Chicago (4,000 contracts) for the first time since August.

- We would ignore the markets for now and concentrate on fieldwork and hope for sufficient moisture to help germination.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: May 14, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$6.26	\$230.02	1 CWRS 13.5	\$6.05	\$222.30
1 CWAD 13.0	\$6.41	\$235.53	1 CWAD 13.0	\$6.25	\$229.65
1 CPSR 11.5	\$5.49	\$201.72	1 CPSR 11.5	\$5.51	\$202.46
SW Sask			SW Sask		
1 CWRS 13.5	\$6.74	\$247.65	1 CWRS 13.5	\$6.54	\$240.31
1 CWAD 13.0	\$7.08	\$260.15	1 CWAD 13.0	\$6.80	\$249.86
1 CPSR 11.5	\$5.43	\$199.52	1 CPSR 11.5	\$5.47	\$200.99
NE Sask			NE Sask		
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	\$6.35	\$233.32
1 CWAD 13.0	\$6.97	\$256.11	1 CWAD 13.0	\$6.75	\$248.02
1 CPSR 11.5	\$5.22	\$191.80	1 CPSR 11.5	\$5.30	\$194.74
SE Sask			SE Sask		
1 CWRS 13.5	\$6.63	\$243.61	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$7.10	\$260.88	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$5.31	\$195.11	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 14.0	0.11	4.15
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.18)	(6.61)
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 Basis² (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are

² 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.”

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.
 - 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			May 14, 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	\$359.66	\$346.53		
HRS	\$352.62			
HRW 11.5	\$310.42			
SWW 12.0	\$283.22			
1 CWRS 13.5 ³	\$359.66		\$237.37	\$122.29
2 CWRS 13.0 ³	\$352.62		\$215.32	\$137.30
3 CWRS ³	\$310.42		\$211.65	\$98.77
CPS ³	\$276.66		\$199.52	\$77.14
1 CWAD ⁴		\$328.24	\$257.21	\$71.03
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$213.00			
French 11.5 (Rouen)	\$208.53			
APW 10.5 (W Coast)	\$252.50			
Argentine 12.0	\$250.00			

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						May 14, 2018
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$9.61	\$9.42	\$8.27	\$7.53	\$7.53	
Parity Track Rosetown	\$8.11	\$7.92	\$6.77	\$6.03	\$6.03	
Track Bid Rosetown Area	\$6.46	\$5.86	\$5.76	\$5.43	\$5.43	
Gross Margin at Elevator (\$/bu)*	\$1.65	\$2.06	\$1.01	\$0.60	\$0.60	
Gross Margin at Elevator (\$/mt)*	\$60.74	\$75.75	\$37.23	\$22.15	\$22.15	

* to cover elevation, elevator market risk, margin