

**Wheat Market Outlook and Price Report: June 4, 2018**  
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**i) Background and Rationale for the Report**

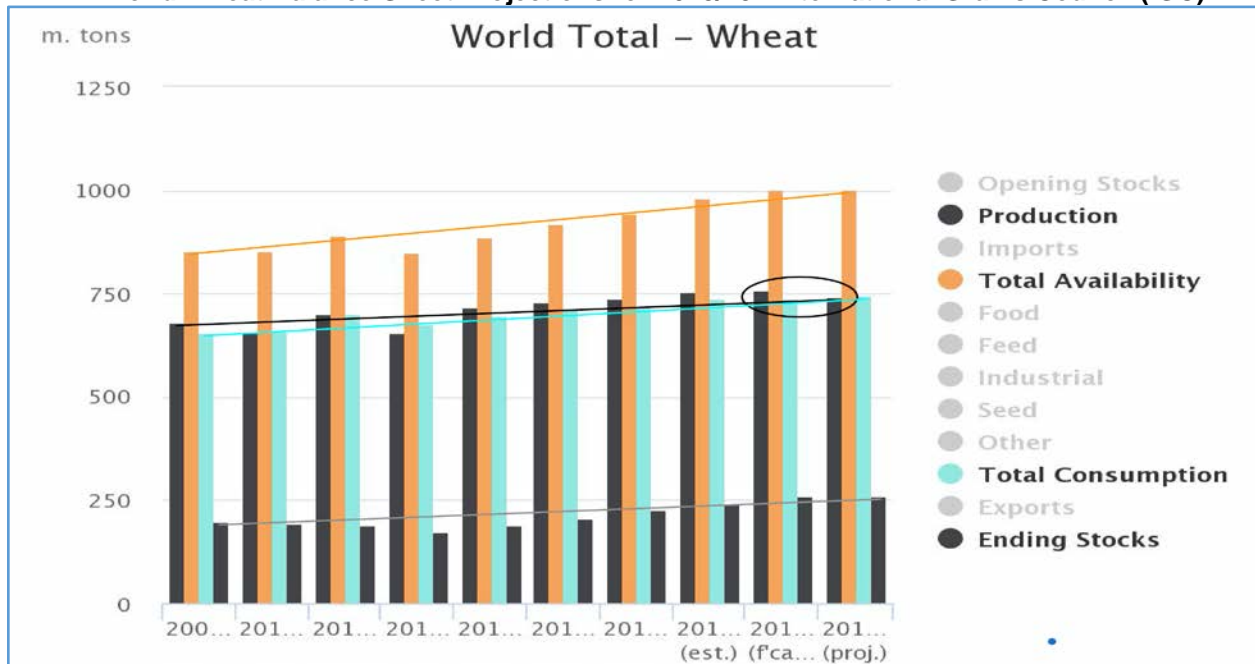
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 June 4, 2018**

**World Wheat Overview:**

- **World Wheat Balance Sheet Projections for 2018/19– International Grains Council (IGC)**



- *IGC increased their May wheat production estimates for 2018/19 by 3 mln mt from their April estimate. Trade was decreased by 2 mln mt, but world wheat consumption went up by 1 mln mt. Ending stocks for '18/19 were increased by 1 mln mt to 258 mln mt (compared to 262 mln mt in 17/18).*

- However, we note that there is adverse weather potentially concerns affecting production in some major wheat producing areas: **US** HRW areas - Heat persisted in the western US Plains with ongoing dryness stretching into the western Midwest. **Russian** spring wheat areas - Cool and wet conditions are hampering Russian spring wheat seeding. **Australia** – Remains dry.
- These areas will have to be watched to refine production estimates for the new crop year.

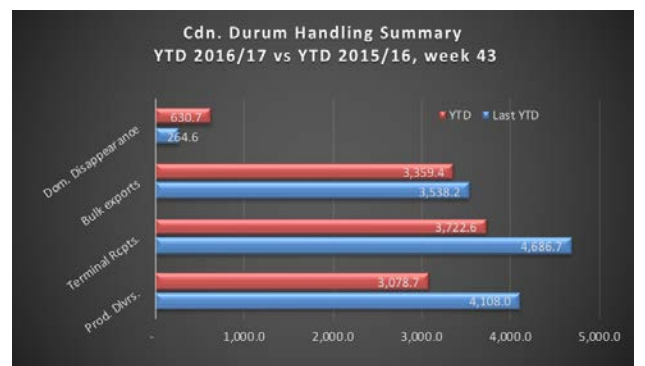
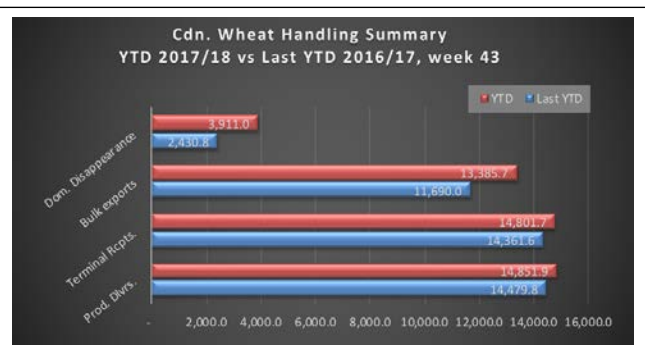
➤ **Global wheat production and trade:**

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:** July'18 contract Chicago winter wheat closed 523-2, down 3-0 cents in today's trade and down 7-0 cents for the week. Meanwhile, July'18 contract Kansas hard red winter wheat closed down 1-6 cents at 540-6, down 8-2 cents for the week. In Minneapolis, July'18 contract hard red spring wheat closed at 605-6, down 8-0 cents in today's trade (down 30-2 cents for the week), while Sept'18 hard red spring wheat closed at 612-6, down 7-0 cents for the day and down 25-4 cents for the week.
- The week began with wheat continuing its march higher on global weather concerns before turning decidedly lower on a combination of rain (covering 80% of the US/Cdn. HRS wheat area), deteriorating technical indicators, and improved HRW ratings.
- **Funds:** Funds took the opportunity to lighten the load as the Trump administration continued to interfere in commercial markets. It's hard for any commercial company to understand what Trump really wants as the deeper you look at his tweets the more they seem to result in damage to USA interests. In this irrational climate, funds decided to dump futures last week, including 800k mt of wheat. Technically futures look oversold.
- **Matif:** Matif eased just €1/mt as weather concerns took hold on a wider basis.

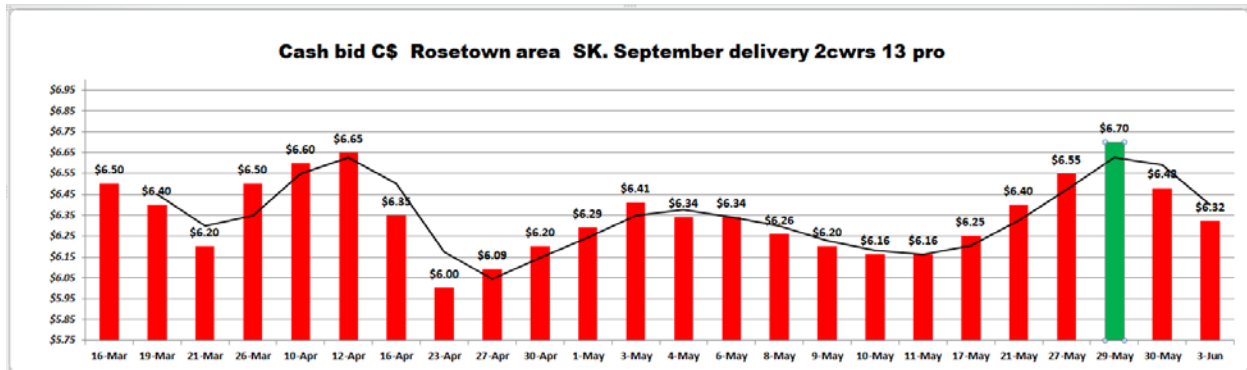
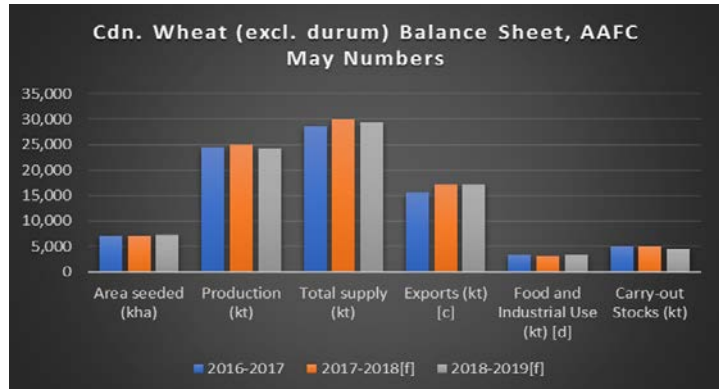
○ **Canadian wheat:**

- In **shipping week 43**, Canadian wheat producers delivered 296k mt of wheat to Canadian grain handling facilities. YTD, producers have delivered 14.9 mln. Exports were 412k mt for a total of 13.4 mln mt YTD. YTD grower deliveries of wheat as of week 43 are at 15% higher than last YTD.
- Canadian **durum** producers delivered 44k mt of durum to licensed Canadian grain handling companies for a total of 3.1 mln mt YTD. Canadian durum exports were reported at 64k mt, for a total of 3.4 mln mt. This is 5% lower than last YTD.
- As of May 28<sup>th</sup>, the overall condition rating of the SK spring wheat crop was 78% good to excellent, 18% fair, and 4% poor. The areas in the worst condition are those in S SK where moisture has been the scarcest. We expect ratings in the poorer rated



areas (especially those in S SK) to improve next week as there was good rain coverage experienced throughout the week.

- The AAFC issued their May Balance Sheet on May 21<sup>st</sup>; it contained some changes from their April report. Significantly, area seeded was decreased by 638k ha to 7,300k ha (7,938k mt previous). This is only a 4% increase from last year, as opposed to a 13% increase stated earlier. We believe this is a more reasonable projection. Production was reduced 1,100k mt to 24,300k mt lowering total supply to 29,400k mt (30,370k mt previous). Exports were reduced 300k mt to 17,200 (same as last year's number) and carry out stocks were also lowered 400k mt to 4,500k mt (4,900k mt previously).



○ **US wheat:**

- The latest NASS crop progress report has US spring wheat seeding at 91% (up 12% from last week and surpassing the avg. of 89%). A few dry weeks have allowed seeding progress to catch up from its initial slow start. Currently, 63% of the planted spring wheat has emerged (avg. 68%), with Montana and North Dakota lagging at 50% and 58% respectively.
- Winter wheat progress is on pace at 73% headed (avg. 75%) and its condition has improved slightly from last week to 34% P/VP (down 1%), and 38% G/E (up 2%). The concern now is that the KS HRW crop is having trouble filling heads. Current models show that, given the weather, USDA HRW production numbers are too optimistic. However, initial harvest yield reports in OK are better than expected.
- USDA showed net positive old crop export sales of 29,500 mt for the week ending May 24<sup>th</sup>. The US marketing year ends May 31, so there is one more week of data.
- US wheat remains uncompetitively priced in international markets.
- Spot No. 1 Northern/Dark Northern Spring Wheat 12 to 15% protein wheat was mixed, 48 cents lower to 22 cents higher from 6.99 July-7.79 July. The Spring Wheat basis was mixed, 40 cents lower to 30 cents higher.

○ **Australian wheat:**

- Australia remained dry.
- Australian wheat futures closed last week on a contract high because forecast rain did not materialize.

- **Argentine wheat:**
  - The Buenos Aires Grain Exchange (BAGE) put wheat seeding at 8% complete, down from last year's 11%, but on a projected 7% higher acreage of 15.1 mln acres.
  - Fob Argentine wheat was quoted in Argentina at US\$275/mt for 11.5% protein. New crop wheat dropped to ~US\$202/mt for 12% protein wheat, with 11.5% protein wheat at US\$199/mt.
- **EU wheat:**
  - Weather concerns took hold on a wider basis in Europe. Heavy rain and hail storms over western Europe reportedly did some damage, and there was increased focus on the hot dry conditions in the north-east where soil moisture levels are low.
- **Black Sea wheat:**
  - Cool and wet conditions prevail and are hampering Russian spring wheat seeding.
  - Black Sea winter wheat yields are being cut and the cut-off date for spring seeding is already past in certain regions with some 30% (10 mln acres) still to seed.
  - In the Black Sea, the bid-offer spread August shipment wheat ended at US\$200-204/mt for 12.5% protein wheat, with a \$2 per month carry charges.

➤ **Significant purchases/ trades:**

It was a very quiet week in cash trade, while buyers watched good crop conditions and wondered what new trade developments might occur.

- **Algeria** bought around 100,000 mt of FH July shipment wheat at US\$230/mt.
- **Egypt's** highest court ruled the country should accept wheat with marginal levels of ergot, overturning a previous decision banning ergot entirely. (***This will allow more FSU origins to compete for the Egyptian trade.***)

➤ **Wheat Market Outlook:**

**Significant events:**

- So far only ~65% of intended wheat acreage has been seeded in **Russia**.
- There are a number **of potential weather issues** looming for the wheat markets in both the southern and northern hemisphere. We will need to watch how crops develop in both regions.
- The next USDA supply and demand report is on June 12<sup>th</sup>, but the stocks and acreage report on June 29<sup>th</sup> will be equally important.
- Russian wheat remains the world's cheapest wheat.

➤ **Outlook:**

- In the short term the markets will focus on politics, but longer term the weather is the main issue. In particular, weather in Russia/FSU where presently it's too wet to complete spring planting and in Australia where it remains too dry.
- For the present we would watch the markets, as weather remains an issue and with last week's dump by the Funds, markets are technically oversold.

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

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

Date: June 4, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.24	\$229.28
1 CWAD 13.0	\$6.47	\$237.73	1 CWAD 13.0	\$6.30	\$231.49
1 CPSR 11.5	\$6.06	\$222.67	1 CPSR 11.5	\$5.86	\$215.32
SW Sask			SW Sask		
1 CWRS 13.5	\$6.79	\$249.49	1 CWRS 13.5	\$6.65	\$244.35
1 CWAD 13.0	\$7.03	\$258.31	1 CWAD 13.0	\$6.83	\$250.96
1 CPSR 11.5	\$6.02	\$221.20	1 CPSR 11.5	\$5.79	\$212.75
NE Sask			NE Sask		
1 CWRS 13.5	\$6.69	\$245.82	1 CWRS 13.5	\$6.52	\$239.57
1 CWAD 13.0	\$7.07	\$259.78	1 CWAD 13.0	\$6.86	\$252.06
1 CPSR 11.5	\$5.94	\$218.26	1 CPSR 11.5	\$5.63	\$206.87
SE Sask			SE Sask		
1 CWRS 13.5	\$6.78	\$249.12	1 CWRS 13.5	\$6.58	\$241.78
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$6.99	\$256.84
1 CPSR 11.5	\$5.95	\$218.63	1 CPSR 11.5	\$5.60	\$205.77

**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 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.
  - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.

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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.”

- 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				June 4, 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	\$361.28	\$334.19		
HRS	\$354.15			
HRW 11.5	\$319.93			
SWW 12.0	\$291.88			
1 CWRS 13.5 <sup>3</sup>	\$361.28		\$240.67	\$120.61
2 CWRS 13.0 <sup>3</sup>	\$354.15		\$218.63	\$135.53
3 CWRS <sup>3</sup>	\$319.93		\$214.95	\$104.97
CPS <sup>3</sup>	\$285.22		\$210.54	\$74.68
1 CWAD <sup>4</sup>		\$332.76	\$239.20	\$93.56
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$212.00			
French 11.5 (Rouen)	\$207.73			
APW 10.5 (W Coast)	\$252.50			
Argentine 12.0				

<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 CWRS 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>						June 4, 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>May/June delivery</b>	\$9.65	\$9.46	\$8.53	\$7.76	\$7.76	
<b>Parity Track Rosetown</b>	\$8.15	\$7.96	\$7.03	\$6.27	\$6.27	
<b>Track Bid Rosetown Area</b>	<b>\$6.55</b>	<b>\$5.95</b>	<b>\$5.85</b>	<b>\$5.73</b>	<b>\$5.73</b>	
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$1.60</b>	<b>\$2.01</b>	<b>\$1.18</b>	<b>\$0.54</b>	<b>\$0.54</b>	
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$58.97</b>	<b>\$73.89</b>	<b>\$43.33</b>	<b>\$19.70</b>	<b>\$19.70</b>	

\* to cover elevation, elevator market risk, margin