

Wheat Market Outlook and Price Report: June 18, 2018  
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**i) Background and Rationale for the Report**

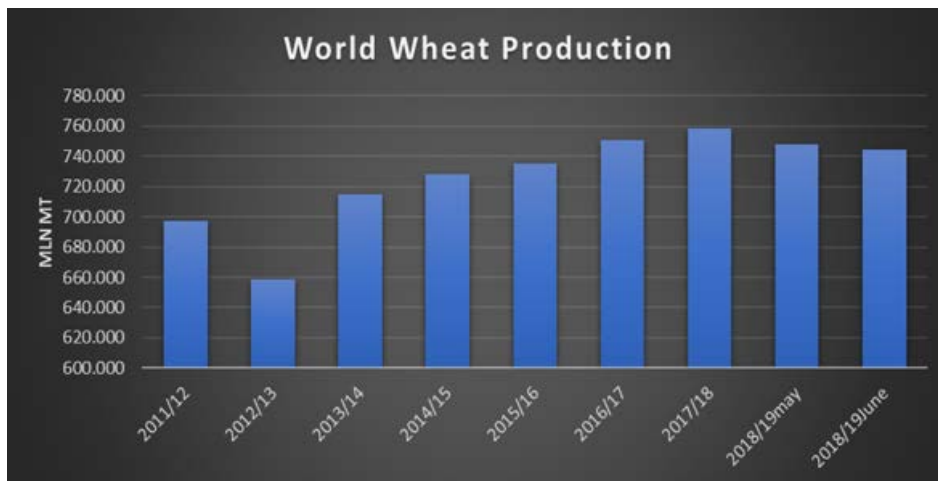
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 18, 2018**

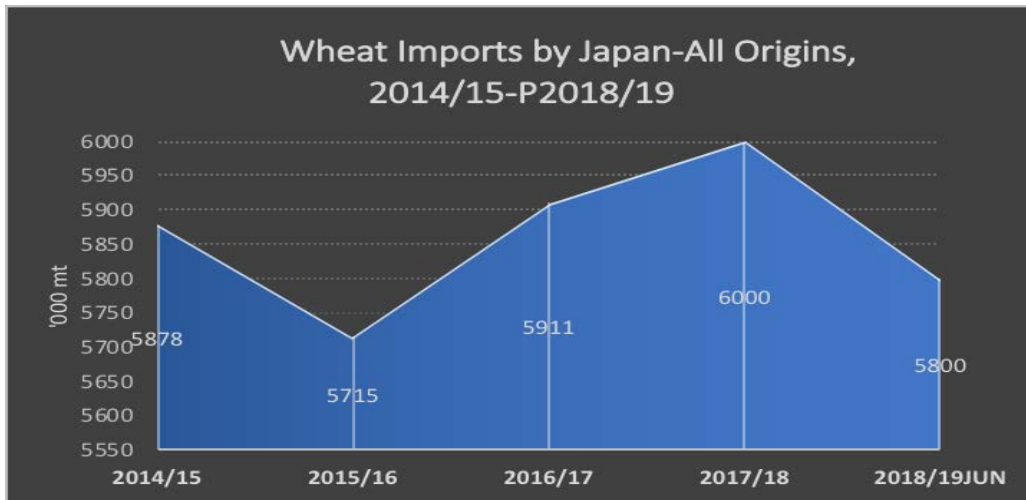
**World Wheat Overview:**

- **World Wheat Production – June USDA numbers**



- Last Tuesday's **WASDE report** revised wheat supply downwards by 3.07 mln mt to 744.69 mln mt. The main reason for this decrease was that Russia's wheat production was lowered by 3.5 mln mt to 68.5 mln mt. Importantly, this decrease was due to a reduction in acres, not a decline in yield. And because Russia and most of the Black Sea have suffered from a very hot and dry spring, there is potential that production in these areas may fall further (if the weather does not improve).
- Also, USDA's Russian export number (35 mln mt vs 36.5 mln prev.) implies that domestic consumption will fall by 5.5 mln mt and there will be a 52% drop in end stocks. This is unlikely, and it seems more feasible that Russian exports will decrease further than the USDA's number.

- **Wheat Imports by Japan from all Origins, 2014/15 to P2018/19**



- The Canadian Food Inspection Agency (CFIA) stated last week that **wheat containing a genetically modified (GMO) trait** developed by agrochemical corporation Monsanto to tolerate the weed killer Roundup was discovered in Alberta this year.
- While other crops such as corn and soybeans have been widely genetically modified to improve yield or withstand threats, GMO wheat has not been approved anywhere for commercial production because of consumers' concerns.
- Following the news about the GMO wheat discovery in Canada, Japan suspended the tender and sale of Canadian wheat until Japan can confirm that the Canadian wheat Japan buys contains no GMO.
- Japan imported 1.4 million tonnes of wheat from Canada last year and 1.6 million tonnes the year before.
- The Alberta government said it exported \$203 million worth of wheat to Japan in 2017. In that same year, it exported \$280 million worth to the U.S., and \$200 million worth to Indonesia. Bangladesh (\$143 million) and Peru (\$126 million) rounded out the top five list of purchasers of Alberta wheat.
- Japan's move leaves an undetermined volume of Canadian wheat already loaded on vessels needing to find a new market.
- Officials with Japan's ministry of agriculture, forestry and fisheries are scheduled to visit Canada this week to seek more information. There were three similar incidents in the last five years in the U.S. in which GMO wheat was detected and blocked by Asian nations. These disputes apparently were resolved in one to two months.
- *The GMO discussion with Japan is very unfortunate. Canada was poised to pick up wheat market share into Japan over the next several years. With the US pulling out of the TPP agreement, the 50% market share held by the US was in jeopardy due to increasing tariffs on US wheat relative to Canadian and Australian quality wheat. If the GMO question cannot be resolved quickly and completely, then Australian wheat may be able to pick up additional market share as opposed to Canadian wheat.*

➤ **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.

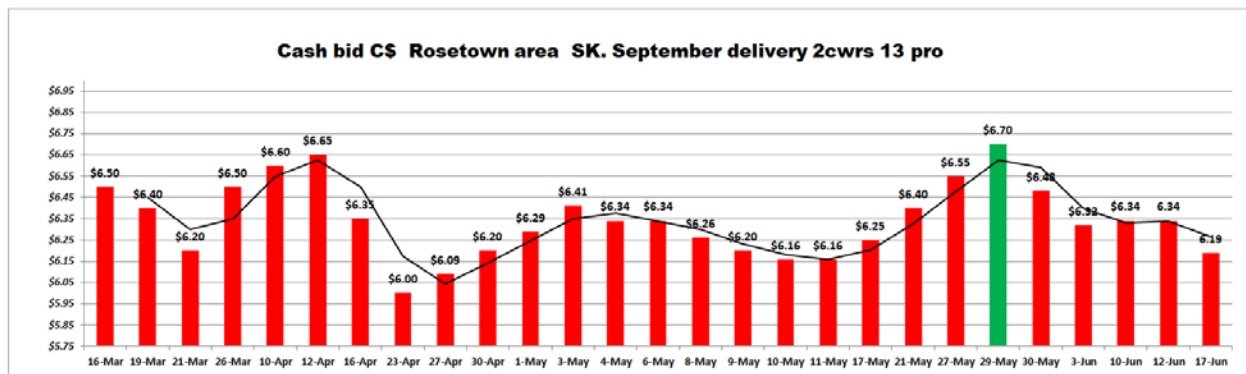
- **Futures:** Strength from a bullish WASDE report and continued global weather concerns was not enough to prevent a major sell-off as the wheat market followed soybeans and corn lower.

July'18 contract Chicago winter wheat closed at \$499-4, down 2-0 cents in today's trade and down 20-2 cents for the week.

July'18 contract Kansas hard red winter wheat closed down 2-4 cents at 519-6, down 17-4 cents for the week.

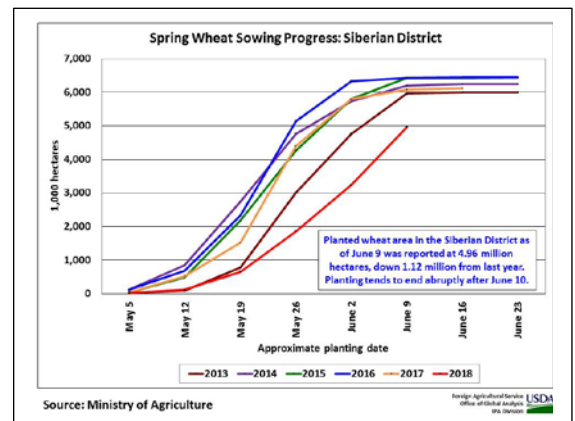
In Minneapolis, July'18 contract hard red spring wheat closed at 570-6, down 6-6 cents in today's trade (down 21-6 cents for the week), while Sept'18 hard red spring wheat closed at 581-4, down 8-6 cents for the day and down 23-0 cents for the week.

- **Funds:** While Trump continues his irrational trade war, Index Funds have reduced their overall long by 6 mln tonnes and speculative elements have reduced theirs by 42 mln tonnes. This led to a downward spiral in Futures markets. Farmers are taking a huge hit and we doubt they will vote for Trump next time.
- **Matif:** Matif ended lower following the other major wheat markets and Egypt's purchase of Black Sea wheat at levels which were much below French wheat values.
  - **Canadian wheat:**
- Spring planting in SK is 99.5 complete and spring wheat is 83% G/E and 3% P/VP. Overall SK soil moisture is adequate, although with no meaningful rain falling on the SW and W Central region last week, the area short on soil moisture has expanded from last week, extending from the US border up to Rosetown and Outlook.
- Durum conditions in SK are 65% G/E and 4% P/VP.
- See above re. GMO wheat implications.
- *Canadian wheat should have traded to Iraq last week. We can only assume lack of railcars to be the reason it did not. Canadian elevator prices have dropped significantly since the end of May.*



- **US wheat:**
- According to USDA, the US has experienced better than expected HRW yields, causing the USDA to increase their wheat production by 6 mln bu. Also, poor 2017/18 export performance has carry-over stocks increasing by 10mln bu. The combination of these was more than off-set by a 25 mln bu increase in exports for a net 9 mln bu decrease in carry-out stocks (currently 946.0mln bu).
- HRW wheat in the US is 91% headed (90% avg.) and harvest progressed 9% LW to 14% complete (10% avg.). TX is 58% harvested while KS is 49% and N Carolina is well underway at 30% harvested. In each of these states, progress is well ahead of average. The condition of the HRW is 35% P/VP (unch.) and 38% G/E (up 1%).
- As harvest progresses, cash prices are on the rise as buyers are locking up hi-pro wheat from the (potentially) second smallest crop (est. 1.827 bln bu) since 2006/07 (1.808 bln bu). Grain handlers need the new hi-pro wheat to blend with low-pro wheat from last year.
- US spring wheat ratings were unchanged at 70% GD/EX with emergence at 94% (94% last year, and 89% average).
- *Importantly, US wheat continues to be far too expensive on the global market with US HRW US\$25/mt more expensive than German wheat and \$35 more than Russian wheat. US SRW is \$5/mt more expensive than French wheat and \$20 more than Black Sea 11.5% protein wheat.*

- **Australian wheat:**
  - Western Australia had some decent rains over the last 2 weeks but the East has been dry, and the long term forecast also remains dry.
  - USDA left the Australian wheat crop at 24 mln mt, but the trade is more in line with ABARES number at 21.9 mln mt (23.7 mln mt previously).
- **Argentine wheat:**
  - Wheat plantings advanced 15% to 34% complete, and the very dry outlook for the next 2 weeks should bring more good seeding progress.
  - There were no FOB offers of Argentine old crop wheat. New crop wheat values were unchanged, with the bid-offer spread for 11.5% protein wheat at US\$195-198/mt. 12% protein wheat commanded a US\$5/mt premium.
- **India:**
  - The USDA Attaché in India revised the countries' wheat crop up to 98 mln mt, slightly above the USDA's upward revision of 97 mln mt (vs. 95 mln prev. and 98.5 mln LY). Strong production has Indian 2018/19 wheat import estimates down to just 500k mt (vs 1 mln LY) and the Indian Govt. is increasing tariffs on imported wheat and durum to 30% (20% prev.).
- **EU wheat:**
  - Heavy rain in Europe pushed its way into the SE and Balkans, but not before causing quality concerns about the French wheat crop. Most of the French crop is for milling wheat, so low-pro and high levels of mycotoxins could cause a significant problem.
  - Matif ended lower following the other major wheat markets and Egypt's purchase of Black Sea wheat at levels which were much below French wheat values.
- **Black Sea wheat:**
  - Per USDA: USDA forecasts **2018/19 Russian wheat production** at 68.5 million mt, down 3.5 mln mt from last month and *down 16.5 mln mt from last year's record crop*. The forecast yield of 2.74 mt/ha is second only to last year's record. In Russia, winter wheat accounts for about 70% of total wheat production and spring wheat accounts for about 30%. The estimated harvested area has been decreased from 26.0 to 25.0 mln ha based on reports from the Ministry of Agriculture indicating significant sowing delays in the Siberian District of Russia, which is the country's largest producer of spring wheat. Planting is typically complete, or nearly complete, by the second week of June. This year, however, the Siberian sowing campaign was only about 76% complete as of June 6, and final area is unlikely to reach the Ministry forecast of 5.9 mln ha. If subsequent planting in the Siberian District follows the course of the 2013 sowing campaign, which was also marked by early delays followed by rapid early- June planting, wheat area could reach roughly 4.7 mln ha.
  - USDA's latest Russian export number (35 mln mt vs 36.5 mln prev.) implies that domestic consumption will fall by 5.5 mln mt and there will be a 52% drop in end stocks. This is unlikely, and it seems more feasible that Russian exports will decrease further than the USDA's number.



➤ **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.

- Egypt (GASC) bought 420,000 mt of Russian/Romanian wheat at US\$224.50/mt C&F Egypt for delivery 15-25 July.
- Iraq bought 100,000 tonnes of Australian wheat at US\$313.75/mt.
- US inspections for the first week of the new season were just 14 mln bushels, almost 60% below the same week last year. Sales were 302,000 mt and the season total of 166 mln bushels remains 36% below last year against the USDA's projected 5% increase, a 350 mln bushel spread.

➤ **Wheat Market Outlook:**

**Significant events:**

- *GMO wheat seeds discovered in Canada:* Canada was poised to pick up wheat market share into Japan over the next several years. With the US pulling out of the TPP agreement, the 50% market share held by the US was in jeopardy due to increasing tariffs on US wheat relative to Canadian and Australian quality wheat. If the GMO question cannot be resolved quickly and completely, then Australian wheat may be able to pick up additional market share as opposed to Canadian wheat.
- *Spring wheat seeding Russia:* The biggest wheat news coming from the WASDE report is that Russian wheat production was lowered by 3.5 mln mt to 68.5 mln mt. Importantly, this decrease was due to a reduction in acres, not a decline in yield. Russian farmers have essentially given up planting as excess moisture in Russia's spring wheat region has caused delays to the point that the window for spring seeding has passed.
- *Wheat trade:* USDA forecast that SE Asia and Sub-Sahara Africa are becoming the world's top wheat importing countries in 2018/19, importing an upwards of ~27.5 mln mt and ~29 mln mt respectively. Continued growth in population in Sub-Sahara Africa and increased amounts wheat in the diet in SE Asia are said to be the main reasons for this increase. Until 2015, North Africa and the Middle East were the main wheat importers.
- *Tariff war:* Last Tuesday's as the WASDE report exposed the underlying strength of the wheat market by displaying problem areas in global wheat production. However, negative trade talk led to profit taking on Wednesday and continued trade tensions sparked a sell-off.
- *Cdn.\$:* The Canadian dollar is currently at only .756 cents to the US\$, which will help export sales.

➤ **Outlook:**

Wheat fundamentals (supply and demand elements) remain supportive to the wheat market: There is no sign of any improvement in Black Sea/Russian weather, Australia remains dry, and next week could bring problems for the US harvest due to widespread rain. However, politics and trade disputes continue to wreak havoc with the agri-markets and there is no sign that this will end anytime soon.

*We do not suggest sales at current bid levels for food or feed grains.*

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

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

Date: June 18, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$6.06	\$222.67	1 CWRS 13.5	\$5.99	\$220.10
1 CWAD 13.0	\$6.45	\$237.00	1 CWAD 13.0	\$6.28	\$230.75
1 CPSR 11.5	\$5.87	\$215.69	1 CPSR 11.5	\$5.66	\$207.97
SW Sask			SW Sask		
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$7.09	\$260.51	1 CWAD 13.0	\$6.78	\$249.12
1 CPSR 11.5	\$5.73	\$210.54	1 CPSR 11.5	\$5.57	\$204.66
NE Sask			NE Sask		
1 CWRS 13.5	\$6.45	\$237.00	1 CWRS 13.5	\$6.31	\$231.85
1 CWAD 13.0	\$7.00	\$257.21	1 CWAD 13.0	\$6.79	\$249.49
1 CPSR 11.5	\$5.76	\$211.65	1 CPSR 11.5	\$5.46	\$200.62
SE Sask			SE Sask		
1 CWRS 13.5	\$6.54	\$240.31	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.11	\$261.25	1 CWAD 13.0	\$6.92	\$254.27
1 CPSR 11.5	\$5.71	\$209.81	1 CPSR 11.5	\$5.41	\$198.79

**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 18, 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	\$348.63	\$327.29		
HRS	\$341.35			
HRW 11.5	\$315.17			
SWW 12.0	\$300.14			
1 CWRS 13.5 <sup>3</sup>	\$348.63		\$237.00	\$111.63
2 CWRS 13.0 <sup>3</sup>	\$341.35		\$220.46	\$120.89
3 CWRS <sup>3</sup>	\$315.17		\$216.79	\$98.38
CPS <sup>3</sup>	\$293.35		\$206.87	\$86.48
1 CWAD <sup>4</sup>		\$339.41	\$244.72	\$94.70
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$204.00			
French 11.5 (Rouen)	\$213.99			
APW 10.5 (W Coast)	\$255-260.00			
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 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					June 18, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.30	\$9.11	\$8.39	\$7.98	\$7.98
Parity Track Rosetown	\$7.81	\$7.61	\$6.90	\$6.49	\$6.49
Track Bid Rosetown Area	\$6.45	\$6.00	\$5.90	\$5.63	\$5.63
Gross Margin at Elevator (\$/bu)*	\$1.36	\$1.61	\$1.00	\$0.86	\$0.86
Gross Margin at Elevator (\$/mt)*	\$49.85	\$59.12	\$36.61	\$31.50	\$31.50

\* to cover elevation, elevator market risk, margin