

Wheat Market Outlook and Price Report: July 3, 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 July 3, 2018

World Wheat Overview:

- **World Wheat Production – July 2018 Estimate by the International Grains Council**

World Grains						World Wheat					
WORLD ESTIMATES						WORLD ESTIMATES					
	15/16	16/17	17/18	18/19			15/16	16/17	17/18	18/19	
		est.	f'cast	proj.				est.	f'cast	proj.	
million tons				24.05	02.07	million tons				24.05	02.07
TOTAL GRAINS ^{a)}						WHEAT					
Production	2015	2138	2090	2089	2077	Production	737	752	758	742	737
Trade	346	353	365	369	369	Trade	166	177	176	177	177
Consumption	1986	2080	2110	2136	2131	Consumption	719	737	738	746	743
Carryover stocks	561	618	598	556	544	Carryover stocks	226	242	261	258	256
year/year change	29	57	-19		-54	year/year change	18	16	20		-6
Major exporters ^{b)}	150	181	173	151	139	Major exporters ^{b)}	67	78	81	75	70

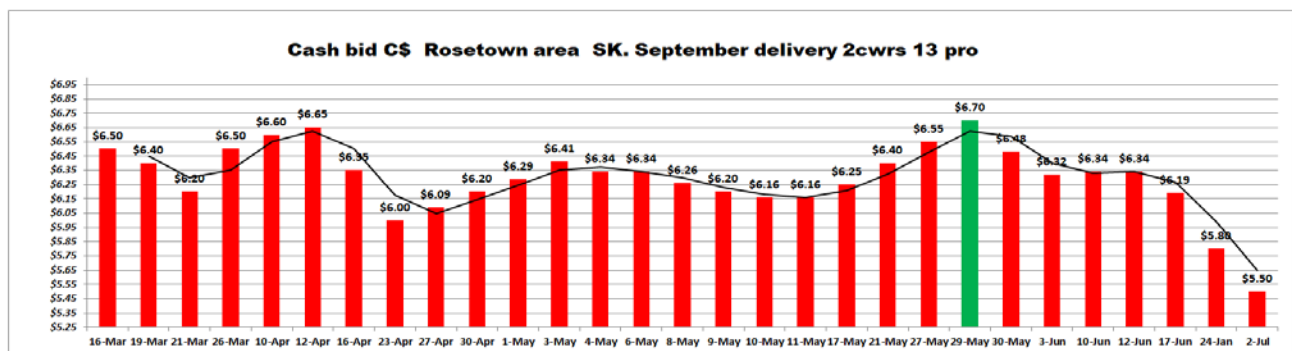
- The International Grains Council (IGC) tightened the **total grains supply and demand outlook** for 2018/19 since their report in June. A 12 million mt cut for world grains production is centred on Russia and the EU, where adverse weather has harmed prospects for wheat, corn and barley. Although global consumption is reduced, projected carryover stocks are down by 12 mln mt from last month with the annual decline now seen at 54 mln mt, including a drop of 34 mln mt in the major exporters.

- The **wheat production outlook** has been lowered from last month from 742.3 mln mt to 736.8 mln mt. IGC lowered their estimate for the 208/19 Russian wheat crop from 74.5 mln mt to 70.9 mln mt. Chinese wheat production was lowered from 128.7 mln mt to 126.7 mln mt. Note that US wheat production was increased from 46.5 mln mt to 48.2 mln mt.

➤ **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 at 497-4, up 18-0 cents in today's trade and up 6-2 cents for the week.
July'18 contract Kansas hard red winter wheat closed up 17-4 cents at 470-6, down 18-0 cents for the week. *(Note that KS HR wheat is worth less than Chicago wheat.)*
In Minneapolis, July'18 contract hard red spring wheat closed at 521-4, unchanged in today's trade, and down 25-6 cents for the week. Sept'18 hard red spring wheat closed at 536-2, down 0-6 cents for the day and down 24-2 cents for the week
- **Funds:** Index funds have started to reduce their overall long and the Specs have moved to the net short side. There was very little in the USDA reports that suggest being a long has much profit potential, particularly whilst we have the "Trump Factor" to deal with. In total, funds have sold close to 70 mln mt, which have put the futures markets into a downward spiral.
- **Matif:** Matif closed higher after a €4-5/mt bounce on Friday on a very low private crop estimate for France of 34 mln mt (FAM rated the French crop 74% GD/EX against 64% last year when the crop was 36.5 mln mt).
- - **Canadian wheat:**
- South Korea has lifted its pause on Cdn. wheat imports, as rigorous testing has shown no evidence that GM wheat was in any commercial shipments. There has been no indication yet as to when Japan will lift its ban.
- **Stats-Can** also released its acreage report on Friday. They have Cdn. wheat area at 24.71 mln acres, a 10.4% increase from last year's 22.31 mln. This is significantly down from their April est. of 25.26 mln, and in-line with trade's 24.80 mln expectation. Of this, 17.3 mln acres are said to be allocated to spring wheat. This is down from the 18.24 mln in April's report, but still up 9.5% from last year.
- The Cdn. Prairies continue to be warm and dry with local showers offering relief to confined areas. Most of the W half of the SK growing region is now reported as short on soil moisture. SK spring wheat ratings have deteriorated slightly to 77% G/E (down from 83%) and 3% P/V/P (unch.). Meanwhile dryness in AB has expanded into most of the NW, Central and Southern growing regions of AB where the spring wheat crop is currently rated as 79.3% G/E, down 4.3% from the week previous.

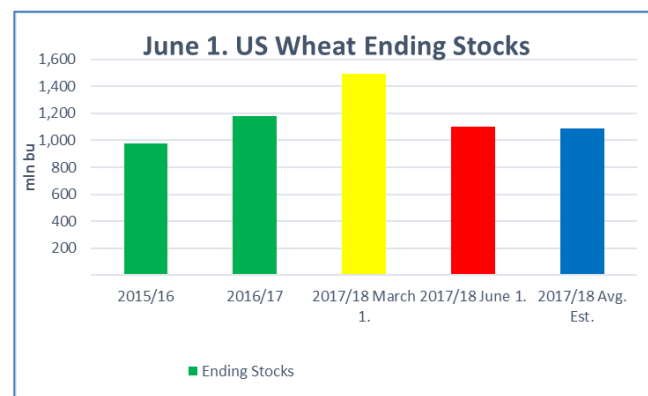
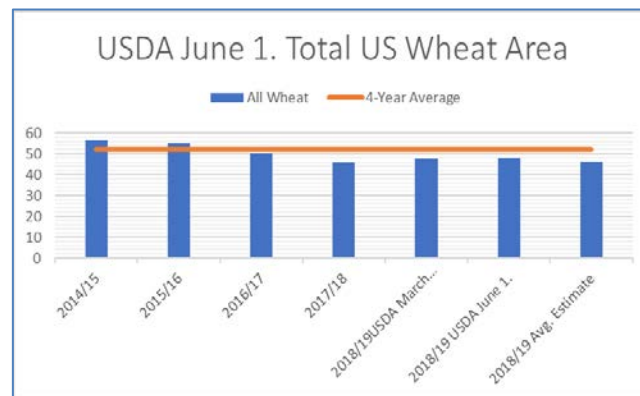


(CGC) Grain Handling Summary Wheat {000 mt}	Week 47 (to June 24/'18)			
	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	428.8	325.4	371.6	76.2
Week ago	430.4	330.4	360.2	63.2
YTD	16,704.6	16,316.3	14,767.1	4,234.4
Last YTD	16,481.0	15,900.8	12,939.7	2,648.9
YTD less Last YTD (kmt)	223.6	415.5	1,827.4	1,585.5
YTD over Last YTD (%)	101%	103%	114%	160%

(CGC) Grain Handling Summary Durum {000 mt}	Week 47 (to June 24/'18)			
	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	132.2	36.3	36.7	31.3
Week ago	120.6	64.3	33.0	3.8
YTD	3,536.0	3,889.9	3,517.5	674.4
Last YTD	4,639.9	5,267.1	3,886.9	284.3
YTD less Last YTD (k mt)	-1,103.9	-1,377.2	-369.4	390.1
YTD over Last YTD (%)	76%	74%	90%	237%

○ **US wheat:**

- US futures were down 20-30¢ last week ahead of the USDA report with KC hitting 5-month lows and further widening its discount to the CBOT by another 10-15¢.
- US HRW harvest is 41% complete as hot dry weather has aided progress. Overall, the HRW crop condition is only 37% G/E (down 2% from LW).
- The USDA's June 1 acreage report showed acreage to be similar to expectations. US wheat acres were seen up 3.9% from LY at 47.821 mln acres (vs. the 46.297 mln expected). This represents the second lowest wheat acreage in the US since 1919 when records started being kept. Winter wheat was up 1% from LY at 32.7 mln acres. Spring wheat was up 20% at 13.2 mln acres and Durum was down 18% at 1.89 mln acres. - The spring wheat estimate looks too high to us, while the durum estimate looks low.
- Friday's USDA stocks report had wheat stocks at 1,100 mln bu (red bar). This was in-line with trade expectations (blue), and down from 2016/17's 1,181 mln bu. The main reason for this decrease is the lower 2017/18 production (47.4 mln mt vs 62.8 mln mt in 2016/17), which had supplies down by almost 10% relative to the previous year at the start of the crop year.
- Cash wheat: Spot No. 1 Northern/Dark Northern Spring Wheat 12 to 15% protein wheat was mixed, 0.75 cents lower to 14.25 cents higher from 6.4675-7.1175. The Spring Wheat basis was steady to 15 cents higher.



○ **Australian wheat:**

- Australia has seen some much-needed rain however will need more soon.
- Australian wheat futures fell by A\$7/mt, reflecting the improved precipitation there, but with the planting window closed, there is still debate over the final acreage number. September rains remain critical with the trade still believing more in ABARE's 21.7 mln mt number than the USDA's 24 mln mt number.

○ **Argentine wheat:**

- The Buenos Aires Grain Exchange (BAGE) put Argentine plantings at 68% complete with conditions generally very good (excellent soil moisture and cool temps).
- New crop Fob wheat was little changed with 12% protein wheat at around US\$203/mt and the bid-offer on 11.5% protein wheat at US \$193-198/mt.

- The anxiety about a return of export taxes seems to have gone.
 - **China:**
 - According to China's Ag Ministry, quality wheat acreage rose 2.5% to 30% this year, but yields are down due to cold wet conditions in April.
 - China made its lowest weekly wheat close in five weeks, despite a fresh 2018 low in the Yuan.
 - **EU wheat:**
 - Dry May weather has caused severe damage in the European Baltic Sea countries, and some analysts are saying that German wheat production is going to fall 6.5% to 22.89 mln mt.
 - The EU lowered the EU 2018 all-wheat crop to 146.4 mln mt compared to USDA's 149.4 mln mt. They also still have the 2018/19 beginning stocks at 21 mln mt compared to USDA's 13 mln mt, which with the falling crop estimates makes assessing the EU 18/19 exportable surplus very tough.
 - **Black Sea wheat:**
 - Russian spring wheat planting is complete, with only 12.2 mln ha planted. This is 700k ha less than LY.
 - W. Europe was mostly warm and dry but SE Europe, notably the Balkans, got some heavy rainfall with cool temperatures, which extend into W Ukraine and Russian spring wheat regions. The rest of Russia however remained hot and dry.
 - Early Russian wheat yields are showing declines from 2% to 22%. There are also reports of low bushel weights and low protein; there could be further crop downgrades as we get deeper into harvest.

➤ **Significant purchases/ trades:**

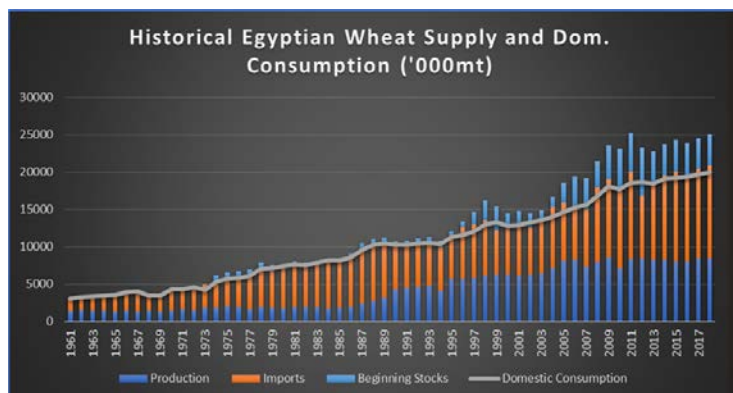
It was a very quiet week in cash trade, while buyers watched good crop conditions and wondered what new trade developments might occur.

- **Tunisia** bought 125,000 mt wheat for Aug-Sep shipment at UD\$211/mt.
- **Egypt** (GASC) bought 120,000 mt of Russian wheat at US\$202/mt Fob for 11-20 August shipment.
- **US** inspections were 353,000 tmt (season total 42 mln bushels down 50%), sales were above expectations at 564,000 mt (season total 204 mln bushels, down 31% on last year).
- **Iraq** tendered July 2nd for 50k mt US/Canadian/Australian wheat.

➤ **Wheat Market Outlook:**

Significant events:

- **Egypt:** Harvest in Egypt is complete, and the Egyptian Supply Ministry reported it was only able to source 3.15 mln mt of domestic wheat in their procurement program. This is much lower than their 3.5-4.0 mln mt target and 450k mt lower than LY, making it one of the lowest domestic procurements in recent years. Egyptian (GASC) import totals for the year ending this month is estimated to be 7.0 mln mt while estimates for the 2018/19 year are as high as 12.5 mln mt for both GASC and private sector combined (up from LY's est. 12.0 mln mt).



- **Early Russian wheat yields** are showing declines from 2% to 22%. There are also reports of low bushel weights and low protein; there could be further crop downgrades as we get deeper into harvest.
- **Markets** continue to decline as good weather in North America and the “Trump Factor” encouraged Funds to sell the futures. We also had a number of reports released that gave no indication that we needed to be concerned about a lack of grains supply.
- There was nothing in the **USDA reports** that would make shorts nervous.
- Things not mentioned, but which have the potential to firm markets over time: Very hot temperatures in the EU that could make for an early harvest and lower yields. No improvement in conditions in Russia/FSU.

➤ **Outlook:**

Russian wheat continues to do nearby business but will need to do less due to the smaller crop; this should strengthen wheat prices a little longer term.

We do not see any reason to sell the markets at current values. Provided our previous suggestions were followed, growers should have sufficient cash flow to wait out the markets until 2019 when we think they will improve over current levels. Weather remains an issue in the EU/Russia/FSU and we think production levels for grains in particular will be lower than current predictions. Trump remains factor, but we do see more commercial American companies beginning to realize that Trump actions are going to hurt USA businesses. In our view, we think that there are good reasons for the Trump duties being abandoned.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 3, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$5.57	\$204.66	1 CWRS 13.5	\$5.89	\$216.42
1 CWAD 13.0	\$6.41	\$235.53	1 CWAD 13.0	\$6.25	\$229.65
1 CPSR 11.5	\$5.21	\$191.44	1 CPSR 11.5	\$5.00	\$183.72
SW Sask			SW Sask		
1 CWRS 13.5	\$6.01	\$220.83	1 CWRS 13.5	\$5.82	\$213.85
1 CWAD 13.0	\$6.88	\$252.80	1 CWAD 13.0	\$6.71	\$246.55
1 CPSR 11.5	\$5.17	\$189.97	1 CPSR 11.5	\$4.92	\$180.78
NE Sask			NE Sask		
1 CWRS 13.5	\$5.92	\$217.52	1 CWRS 13.5	\$5.70	\$209.44
1 CWAD 13.0	\$6.93	\$254.64	1 CWAD 13.0	\$6.79	\$249.49
1 CPSR 11.5	\$4.95	\$181.88	1 CPSR 11.5	\$4.77	\$175.27
SE Sask			SE Sask		
1 CWRS 13.5	\$5.99	\$220.10	1 CWRS 13.5	\$5.79	\$212.75
1 CWAD 13.0	\$7.02	\$257.94	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$4.96	\$182.25	1 CPSR 11.5	\$4.74	\$174.17

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 Basis¹ (see *Export Basis*

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.”

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.
 - 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				July 3, 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	\$329.84	\$302.32		
HRS	\$322.60			
HRW 11.5	\$308.59			
SWW 12.0	\$296.52			
1 CWRS 13.5 ³	\$329.84		\$223.77	\$106.07
2 CWRS 13.0 ³	\$322.60		\$203.56	\$119.04
3 CWRS ³	\$308.59		\$199.89	\$108.71
CPS ³	\$289.76		\$181.52	\$108.24
1 CWAD ⁴		\$345.30	\$244.72	\$100.58
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$197.00			
French 11.5 (Rouen)	\$206.65			
APW 10.5 (W Coast)	\$255-260.00			
Argentine 12.0				

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency
² Export Basis = FOB Prices CDA minus Cdn. Street Price
³ DNS 14% = 1 CWRS 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					July 3, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.79	\$8.60	\$8.21	\$7.89	\$7.89
Parity Track Rosetown	\$7.30	\$7.10	\$6.72	\$6.39	\$6.39
Track Bid Rosetown Area	\$6.09	\$5.54	\$5.44	\$4.94	\$4.94
Gross Margin at Elevator (\$/bu)*	\$1.21	\$1.56	\$1.28	\$1.45	\$1.45
Gross Margin at Elevator (\$/mt)*	\$44.33	\$57.29	\$46.96	\$53.26	\$53.26

* to cover elevation, elevator market risk, margin