

Wheat Market Outlook and Price Report: August 7, 2018
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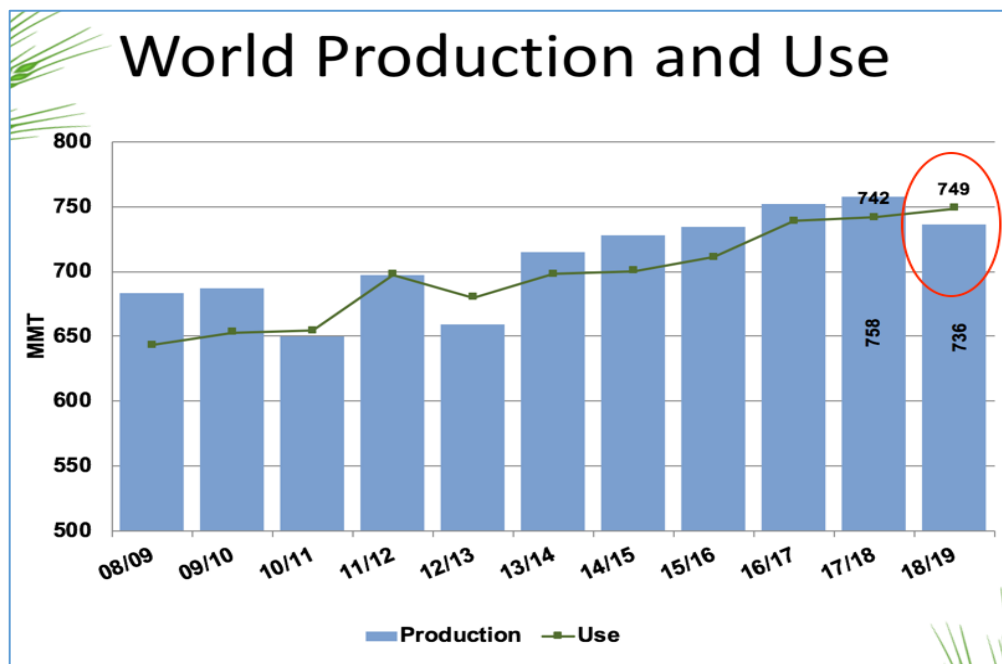
i) Background and Rationale for the Report

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 Aug. 7, 2018

World Wheat Production and Use (USDA July '18):



- The graph summarizes the July USDA/ WASDE numbers for **world wheat production and use**. Already in July we saw that a gap developed between production and use for the first time since 2011/12.
- The next WADE report will be issued later this week (Friday). We expect that USDA/ WASDE will have to lower global wheat production by another 6 million mt. The much higher cash prices for

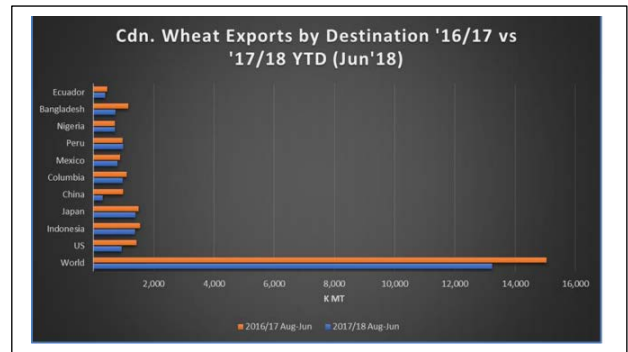
wheat that we are already seeing in the world markets may curtail usage a little, but -given the weather in Europe and in Australia- the gap between production and use will only widen in the next report.

➤ **Global wheat production and trade:**

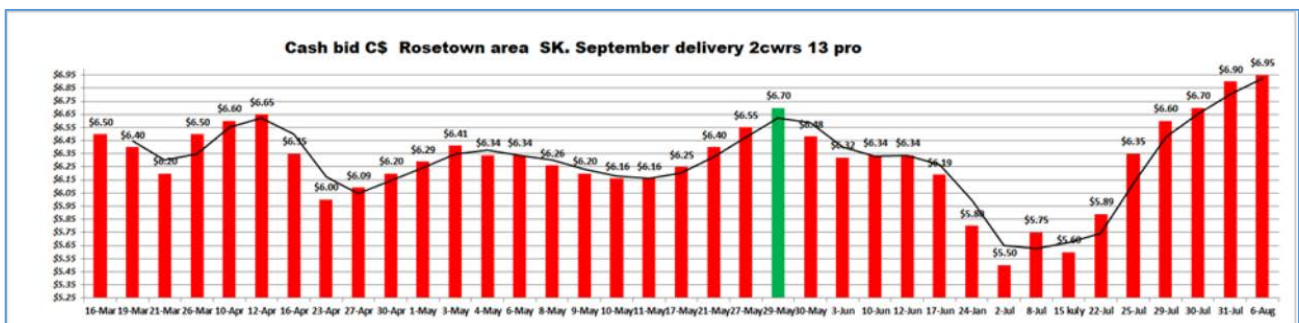
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Sep'18 contract Chicago winter wheat closed at 556-4, down 4-2 cents in Friday's trade and up 25-6 cents for the week.
Sep'18 contract Kansas hard red winter wheat closed down 2-0 cents at 564-2, up 34-6 cents for the week.
Minneapolis Sep'18 contract hard red spring wheat closed at 612-6, up 2-2 cents in Friday's trade, and up 20-2 cents for the week. Dec'18 hard red spring wheat closed at 629-6, up 2- 0 cents for the day and up 23-4 cents for the week.
- **Funds:** Index funds increased their long to 90 mln mt overall. Specs were big buyers of wheat and corn, while pretty much leaving soybeans alone. We do not expect them to do much this week with the WASDE report due, but we might see them buying wheat on any weakness.
- **Matif:** Matif closed up €13/mt (but €8/mt off the highs).
 - **Canadian wheat:**

- As per June StatsCan numbers, Canadian wheat exports for the '17/18 MY were 15.1 mln mt, up 14% y/y. Imports into Bangladesh have been the most significant increase as YTD they have imported 59% more this year than in '16/17. The US is another significant increase, importing 53% more from Canada this year than the year previous. Otherwise, most other countries have imported only slightly larger amounts of Canadian wheat.



- Canada continues to be warm and concerningly dry. Seventy-five percent of the SK growing region is rated as low on soil moisture. Harvest is under way is S SK and S MB where yields have been said to be average-less than average.
- **Canadian elevator bids are steeply discounted to the world price of wheat due to very expensive handling and elevator company margins and in our view should be ignored. We expect that Elevator companies will need to originate and move more Canadian wheat in 2018/19, so prices will improve.**
- SK growers should not deliver unpriced grain or priced "basis" wheat to elevator companies.
- Durum wheat: We would be in no rush to sell as Canadian bids are far too low. The EU has a terrible crop and will need to import Canadian durum in volume this year.



{'000 mt)	Week 52 (to July 31/18)			
	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	557.3	527.1	375.0	191.4
Week ago	376.7	442.0	174.2	63.2
YTD	18,664.7	18,298.6	16,232.6	4,480.4
Last YTD	18,601.4	18,093.4	14,670.4	2,960.5
YTD less Last YTD (k mt)	63.3	205.2	1,562.2	1,519.9
YTD over Last YTD (%)	100%	101%	111%	151%

Mercantile based on weekly CGC Handling Data

{'000 mt)	Week 52 (to July 31/18)			
	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	143.0	93.2	136.3	23.6
Week ago	123.5	189.9	92.9	1.1
YTD	4,139.5	4,492.9	3,986.5	482.6
Last YTD	5,165.6	5,847.8	4,290.2	333.6
YTD less Last YTD (k mt)	-1,026.1	-1,354.9	-303.7	149.0
YTD over Last YTD (%)	80%	77%	93%	145%

Mercantile based on weekly CGC Handling Data

o **US wheat:**

- US spring wheat crop conditions lost 1% over the week and is now rated as 78% G/E (vs 10-year avg of 65%). Losses were in ND, MO and MN (who all lost 1%) but SD saw a 3% increase in G/E ratings over the week. These record high ratings could be somewhat deceptive as the crop tour estimated less-than average yields. However, early HRS yields suggest the Wheat Quality Tour has underestimated HRS production.
- Rain in the US continues to be confined to the SE, leaving the N Plains and Midwest dry and becoming warmer again.
- US wheat inspections were 379,000 mt (season total 111 mln bushels, down 40%), sales were 382,000 mt (season total 264 mln bushels down 29%).
- US wheat futures rose 20-35¢/bu as crop estimates around the world continued to fall.

o **Australian wheat:**

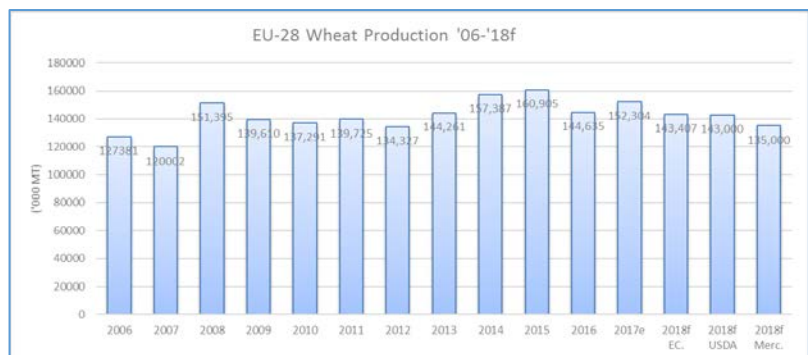
- Australian wheat futures rose A\$24/mt, making a series of contract highs with most trade crop estimates 4-7 mln mt below the USDA's 22 mln mt.
- Old crop Fob and domestic prices also soared as the market tried to cover shorts.
- The Australian Govt announced a \$140 million aid package for drought afflicted farmers as much of the east coast suffers the worst dry spell in living memory.

o **Argentine wheat:**

- Argentine Dec 12.5 protein Fob wheat offers rose US\$15/mt to US\$240/mt while the discount per half point of protein remained around US\$5/mt.

o **EU wheat:**

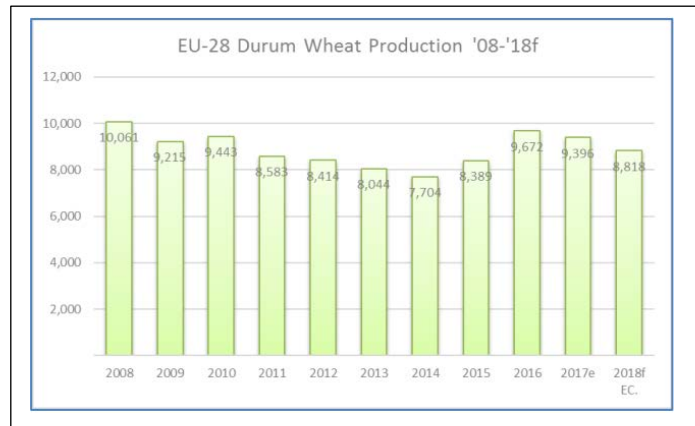
- The big story is the EU, who's yields have been ravished by an extremely hot spring/summer. As harvest in the EU progresses, European production estimates are being revised on almost a daily basis. Last week, Sweden lowered estimates of their wheat crop down 40%. This is probably only a ~1.5 mln mt decrease, however it begs the question of how neighbouring countries' crops are faring. Production in Germany is now estimated to fall 25% to 18 mln mt (vs 24 mln mt LY). This will essentially remove them from any export market outside of the EU.



- The trade expects the USDA to lower EU production by 5-10 mln mt. With little room for the USDA to decrease ending-stocks and domestic use in the EU, this will directly lower exports. We have EU wheat production at 135 mln mt, the lowest it has been since 2012. This is down 10 mln mt from the USDA's official number (as well as the USDA EU attaché's 143 mln mt and the EC's 143.4 mln mt).

EU wheat prices have room to move higher as they are still below previous years with similar major crop failures ('07/08) and years of Russian export controls.

- After another weekend of severe heat, temperatures will remain well above normal into Wednesday across the EU and Black Sea, before starting to fall, but they will remain very warm throughout August and only southern France is expected to see any meaningful precipitation this week
- The European Commission currently has '18/19 **EU durum production** down 6% from last year at 8.82 mln mt. Ongoing drought has this number likely to shrink further to 8.0-8.4 mln mt levels.
- French wheat which closed at US\$30/mt above comparable Black Sea prices. Algeria paid US\$35/mt more this week than last month.
- Most trade estimates of the EU crop are now 10 mln mt lower than the USDA.



○ **Black Sea wheat:**

- Russian cash wheat remains cheap relative to other origins. At current prices, Russia is set to run out of wheat, after which, demand will either: a. be rationed, b. switch to origins to where there are remaining reserves (the US), or c. buy N Hemisphere across this autumn (none of these options can be achieved at current prices).
- Russian 12.5 protein wheat rose by ~US\$15/mt Fob with nothing offered beyond September '18.

➤ **Significant purchases/ trades:**

There were significant cash trades last week at much higher prices:

- **Algeria** bought 360,000 mt Oct French wheat at US\$270/mt.
- **Egypt (GASC)** bought 240,000 mt Sept Russian/Romanian wheat at US\$253/mt.
- **Jordan** bought 60,000 mt of Oct hard wheat at US\$267/mt.
- **Iraq** bought 50,000 mt of Australian wheat at US\$335/mt (although US was cheaper). – Where were the Canadian offers?
- **India** may cut its wheat import duty (currently 30%) due to the poor monsoon.
- **US wheat inspections** were 379,000 mt (season total 111 mln bushels, down 40%), sales were 382,000 mt (season total 264 mln bushels down 29%).

➤ **Wheat Market Outlook:**

Significant events:

- *In the Black Sea, Russian 12.5 protein Fob wheat rose around US\$15/mt with nothing offered beyond September, although CME futures ended up just \$7.50 having been pushed lower late Friday, with the Sep-March carry in to just 30¢ (45¢ last week) against 45¢ in KC.*
- *Egypt had to pay US\$17/mt more than just one week prior, Jordan paid US\$45/mt more than their previous purchase, Algeria paid US\$35/mt more this week than last month, but even these prices remain cheap against other origins which is why the market is not yet seeing any switch to the US.*
- We don't expect this to change much; Russian/FSU sales will be front-end-loaded and the real demand for North American wheat will come in 2019.
- European wheat production has been lowered significantly.

➤ **Outlook:**

We expect the USDA to be conservative on their reduction of global wheat in this week's WASDE report. However, in our view we have lost a lot of wheat and feed grains in Europe and *we are going to be in a rationing mode*. The report might be slightly bearish, but if so, we expect that funds will be buyers of corn and wheat on any weakness. The markets have yet to address the huge loss in hay supplies which forms a significant part of animal feed.

Russian/FSU sales will be front-end-loaded and *the real demand for North American wheat will come in 2019*.

Canadian elevator bids are steeply discounted to the world price due to very expensive handling and elevator company margins and, in our view, should be ignored. We expect that elevator companies will need to originate and move more Canadian wheat in 2018/19, so prices will improve.

The wheat market needs to 1) ration demand 2) switch origins 3) buy Northern Hemisphere acres this autumn, and the only one of these that is currently being achieved is a partial rationing of some of the world trade in feed wheat. Funds bought almost 50,000 wheat contracts last week and Friday's USDA report should be of major interest. ***Elevator bids in Canada have improved but growers are still being bid low prices compared to other origins.***

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: August 7, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '18 (bu.)	Oct. '18 (mt.)
1 CWRS 13.5	\$6.57	\$241.41	1 CWRS 13.5	\$6.71	\$246.55
1 CWAD 13.0	\$6.19	\$227.45	1 CWAD 13.0	\$6.19	\$227.45
1 CPSR 11.5	\$6.30	\$231.49	1 CPSR 11.5	\$6.44	\$236.63
SW Sask			SW Sask		
1 CWRS 13.5	\$7.06	\$259.41	1 CWRS 13.5	\$7.19	\$264.19
1 CWAD 13.0	\$6.73	\$247.29	1 CWAD 13.0	\$6.76	\$248.39
1 CPSR 11.5	\$6.27	\$230.38	1 CPSR 11.5	\$6.39	\$234.79
NE Sask			NE Sask		
1 CWRS 13.5	\$6.95	\$255.37	1 CWRS 13.5	\$7.07	\$259.78
1 CWAD 13.0	\$6.63	\$243.61	1 CWAD 13.0	\$6.71	\$246.55
1 CPSR 11.5	\$6.08	\$223.40	1 CPSR 11.5	\$6.21	\$228.18
SE Sask			SE Sask		
1 CWRS 13.5	\$7.01	\$257.58	1 CWRS 13.5	\$7.14	\$262.35
1 CWAD 13.0	\$6.78	\$249.12	1 CWAD 13.0	\$6.86	\$252.06
1 CPSR 11.5	\$6.08	\$223.40	1 CPSR 11.5	\$6.20	\$227.81

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*

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				August 7, 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	\$356.48	\$327.21		
HRS	\$349.28			
HRW 11.5	\$340.64			
SWW 12.0	\$301.78			
1 CWRS 13.5 ³	\$356.48		\$266.39	\$90.08
2 CWRS 13.0 ³	\$349.28		\$240.31	\$108.97
3 CWRS ³	\$340.64		\$236.63	\$104.01
CPS ³	\$295.07		\$223.40	\$71.66
1 CWAD ⁴		\$349.28	\$240.67	\$108.61
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$235.00			
French 11.5 (Rouen)	\$254.07			
APW 10.5 (W Coast)	\$275.00			
Argentina 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 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					August 7, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.52	\$9.32	\$9.09	\$8.03	\$8.03
Parity Track Rosetown	\$8.02	\$7.83	\$7.59	\$6.53	\$6.53
Track Bid Rosetown Area	\$7.25	\$6.54	\$6.44	\$6.08	\$6.08
Gross Margin at Elevator (\$/bu)*	\$0.77	\$1.29	\$1.15	\$0.45	\$0.45
Gross Margin at Elevator (\$/mt)*	\$28.38	\$47.27	\$42.31	\$16.68	\$16.68

* to cover elevation, elevator market risk, margin