

Wheat Market Outlook and Price Report: August 13, 2018

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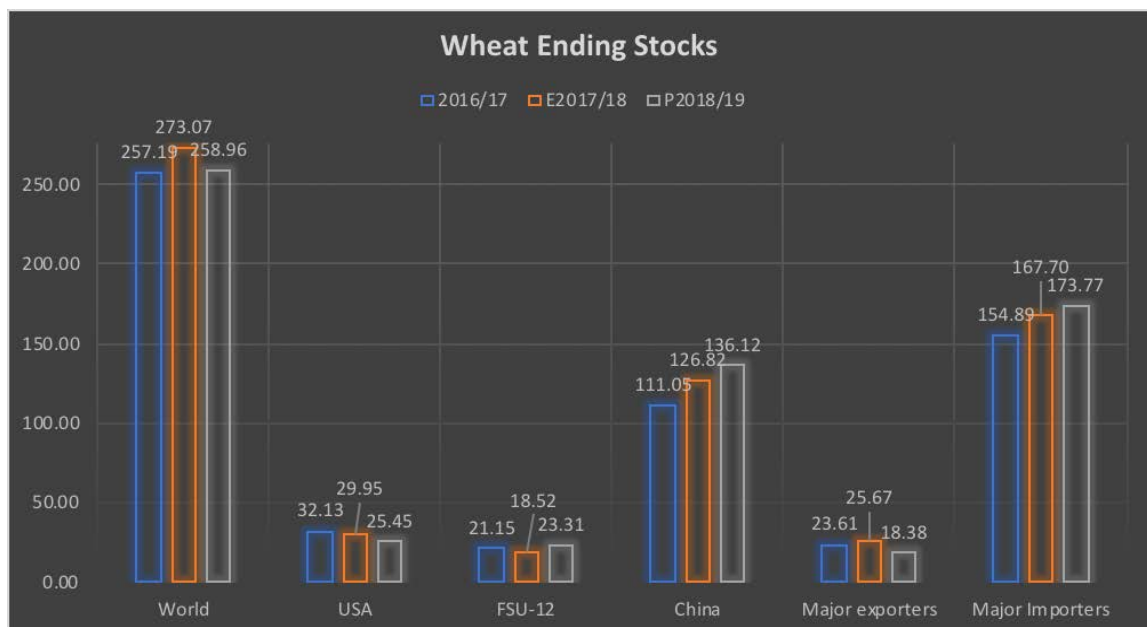
i) Background and Rationale for the Report

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. 13, 2018

August USDA/ WASDE Report:

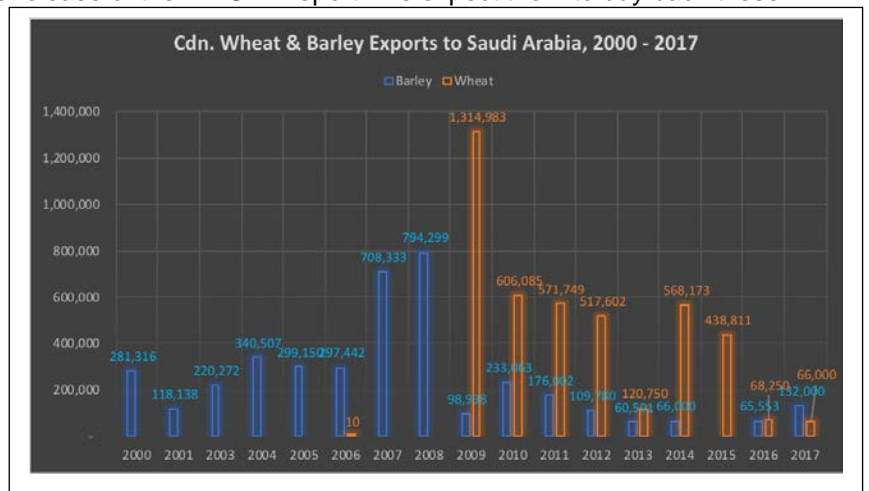


- The August USDA outlook for **2018/19 U.S. wheat** showed lower production (- 4 mln bu), greater use (+ 5 mln bu food use & +50 mln bu exports), and reduced stocks (US '18/19 Wheat ending stocks were down -50 mln bu to 935 mln bu vs expectations of 967 mln bu).
- USDA reduced 2018/19 **world wheat supplies** this month by 7.1 mln mt, primarily on lower EU production. Russian wheat production was increased by 1.0 mln mt to 68.0 mln mt on continued favorable conditions for spring wheat.
- Projected '**18/19 world wheat consumption** is 5.1 mln mt lower, due reduced feed use in the EU and Russia.
- **Global ending stocks** were shown down only 1.9 mln mt to 259.0 mln mt, down 5 percent from last year's record. Canadian wheat production was left unchanged at 32.5 mln mt in spite of the very hot temperatures on the Prairies.
- *We think that the report was overly conservative on wheat adjustments.* - Only time will tell on the final size of the Aussie and Canadian crops, EU wheat is currently priced into the domestic market and out of the export market, as is Australian wheat, and only Russia knows if/when soaring domestic prices will induce a move on export taxes.

➤ **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 546-6, down 17-6 cents in Friday's trade. Sep'18 contract Kansas hard red winter wheat closed down 18-6 cents at 559-6 on Friday. In Minneapolis, Sep'18 contract hard red spring wheat closed at 608-6, down 21-0 cents in today's trade, while Dec'18 hard red spring wheat closed at 626-0, down 21-0 cents for the day. Wheat was steady to 32 cents higher for the week.
- **Funds:** Index funds did very little during the week while the speculative elements were good sellers of grains and oilseed prior to the release of the WASDE report. We expect them to buy back these sales later during the week.
- **Matif:** Matif rose €8 to contract highs midweek on the ongoing crop concerns, but opened weaker tdy following the USDA/ WASDE report.
 - **Canadian wheat:**
- We will not receive any CGC handling estimates for week 1 of the new crop year until next week.



- USDA left Cdn. wheat production unchanged last Friday at 32.5 mln mt. They also kept Cdn. wheat exports (incl. durum) at 24.5 mln mt (the same as last month) but up 2.5 mln mt from '17/18.
- Canada - Saudi Arabia: Last Tuesday, Saudi Arabia's main state wheat buying agency (SAGO)

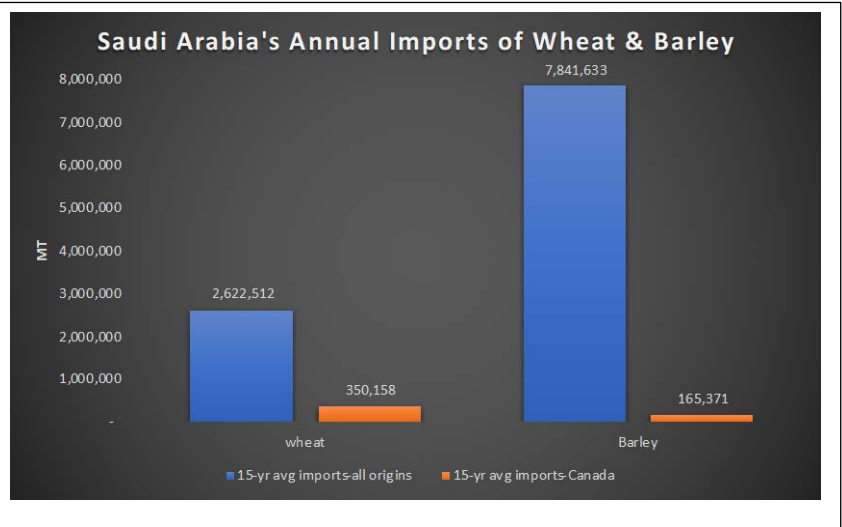
told grain exporters that it will no longer buy Canadian milling wheat or feed barley in its international tenders. In their last int'l tender for wheat held on July 16th, SAGO bought 625k mt of wheat and Canada was seen as a possible supplier, which now is no longer possible.

Cdn. politicians don't seem concerned abt the effects of their tweet on agriculture (or don't know abt this mkt).

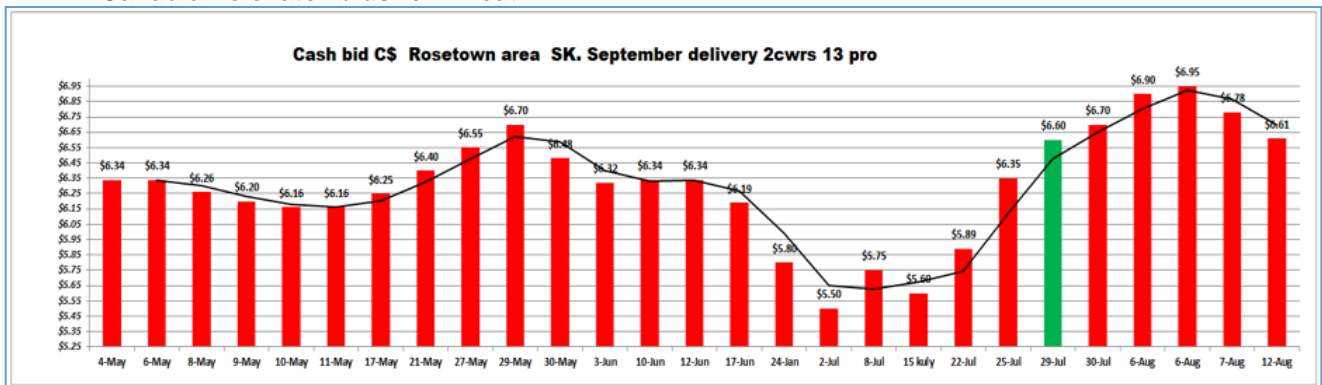
To put things into perspective: On average, Canada sells 350k mt of wheat to S. Arabia annually (13.4% of total wheat imports), and 165k mt of barley (2.1% of total).

However, Canada has sold as much as 1.3 mln mt of wheat in 2009, and since then there have been 5 years when more than 439k mt of Cdn. wheat was shipped.

This year, there should be a number of alternative buyers, but exclusion from trade cannot be a positive factor for Canada, even this year. In essence, the Cdn. tweet may well cost Cdn exporters 'potential access' to a 10.5 mln mt grain market (7.8 mln mt of annual Saudi imports of barley and 2.6 mln wheat) worth ~\$3.4 bln. We think being able to offer into a market of that size is indeed important.



- **Canadian elevator bids for wheat:**



- **US wheat:**

- Spring wheat harvest is 13% complete (22% last year, 14% average) and spring ratings fell 4% on the week to 74% good to excellent.

- In Friday's NASS Crop Production report, spring wheat production was reported just slightly higher to 614.155 mln bu, as yield was unchanged from July at 47.6 bu/ac. NASS seems to disagree with the Wheat Tour results. US ending stocks of 18/19 wheat were down to 935 mln bu on a 50 mln bu addition to the export projection.

Other Spring Wheat Area Harvested, Yield, and Production - States and United States: 2017 and Forecasted August 1, 2018

State	Area harvested		Yield per acre			Production	
	2018		2017			2018	
	2017	2018	July 1	August 1	2017	2018	
	-- 1,000 acres --		----- bushels -----		-- 1,000 bushels --		
Idaho	410	415	86.0	86.0	88.0	35,260	36,520
Minnesota	1,130	1,560	67.0	67.0	63.0	75,710	98,280
Montana	2,290	2,850	21.0	33.0	34.0	48,090	96,900
North Dakota	5,070	6,500	41.0	48.0	48.0	207,870	312,000
Oregon	73	63	63.0	55.0	60.0	4,599	3,780
South Dakota	670	1,020	31.0	41.0	42.0	20,770	42,840
Washington	490	475	45.0	45.0	48.0	22,050	22,800
Other States 1/	26	16	72.6	65.6	64.6	1,887	1,034
United States	10,159	12,899	41.0	47.6	47.6	416,236	614,154

1/ Other States include Colorado, Nevada, and Utah. Individual State level estimates will be published in the "Small Grains 2018 Summary."

- USDA pegged US the 2018 durum wheat production at 1.998 mln mt, up 35% from 1.494 mln mt in 2017. 2018 acres were down by 14%, but

yields are expected to be back to 39.9 bu acres (25.7 bu/acre last year). This will make it hard for Canada to maintain the same export levels into the US next year. Regaining the Italian market for Canada is taking on increased importance.

- US futures were up 5-15¢/bu ahead of the USDA report. World crop concerns continued, notably in the EU and Australia, and the hot dry conditions in the N Plains and Canada supporting MGE. But poor US export data had taken prices off the highs.

- **Australian wheat:**

- USDA left Australian wheat production unchanged last Friday at 22 mln mt. Australian wheat exports at 16 mln mt were down 500k mt from last month, and down only 417k mt from '17/18. Again, we think last week's USDA estimates showed very conservative changes from the month prior. The trade range on the Australian crop is 15-18 mln mt.
- Crop reports suggest WA looks good, but SA and VIC are struggling and NSW and QLD look awful. The forecast through August remains dry and the risk of El Nino is now put at 60%.
- We note there are regular shipments of wheat from WA and SA to the East Coast, and this is expected to continue all season.
- *Australian wheat futures hit contract highs and are up by A\$15/mt on the week and A\$90/mt since early July.*

- **Argentine wheat:**

- The Buenos Aires Grain exchange (BAGE) estimated seeding at 99% complete with only 47% of the crop rated GD/EX, unchanged on the week but well below last year's 81%.
- Argentine Dec 12.5 protein Fob ended the week at US\$235/mt, while the discount per half point of protein remained around US\$5/mt.

- **EU wheat:**

- The only downgrade in the USDA report last Friday to wheat production by the major was to EU wheat production. However, the USDA estimate is much higher than EU sources expected: EU wheat production was lowered by only 7.5 mln mt to 137.5 mln mt (vs. for ex. the Stratégie Grains number at 127.7 mln mt; an almost 10 mln mt difference). Consequently, USDA world ending stocks dropped by only 1.9 mln mt from their July report to 259 mln mt. – In comparison, the IGC had wheat ending stocks at 247 mln mt in late July.
- The EU wheat is currently priced into the domestic market and out of the export market.
- German purchases of Balkan feed wheat are reported to be close to 1 mln mt.

- **Black Sea wheat:**

- USDA raised the Russian crop and exports by 1 mln mt.

- The cash market was at ~US\$235/mt for Sept. 12.5% protein wheat, less \$15/mt for Russian 11.5% protein wheat, and less US\$10/mt for Ukraine 11.5% protein wheat.
- There were again reports of defaults (price renegotiations).

➤ **Significant purchases/ trades:**

- **Jordan** bought 12.5% protein wheat at US\$269/mt for Oct. shipment.
- **The Philippines** paid \$254/mt for feed wheat.
- **Israel** bought Sept. feed wheat at \$210/mt from the Black Sea.
- **Korea** paid \$256.50/mt for feed wheat.
- **Saudi Arabia** will no longer accept Canadian wheat in their tenders.
- German purchases of Balkan feed wheat amount to close to 1 mln mt of wheat.
- Balkan wheat is starting to work into France price-wise.
- US export sales of 317k mt left the season total 276 mln bu down 29% relative to last year.

➤ **Wheat Market Outlook:**

Significant events:

- Last Friday's WASDE report was more conservative in their adjustments to wheat production due to weather problems than expected. - The report was bearish and futures collapsed following its release.
- World crop concerns continued, notably in the EU and Australia, with the hot dry conditions in the N Plains and Canada supporting MGE, but poor US export data had taken prices off the highs.
- Saudi Arabia will no longer accept Canadian wheat in their tenders.

➤ **Outlook:**

In our view, the USDA was unrealistic in their estimates of global wheat production and in particular in their estimate of usage. We think their estimates of global feed grain production will also prove to be overstated.

We think that the report was overly conservative on wheat adjustments. - Only time will tell on the final size of the Aussie and Canadian crops, EU wheat is currently priced into the domestic market and out of the export market, as is Australian wheat, and only Russia knows if/when soaring domestic prices will induce a move on export taxes.

The markets might start a little weaker at the beginning of the week, but we expect they will close stronger by the end of the week as traders re-analyze the WASDE estimates and consider that the USDA has been too optimistic. Weather in Europe remains very hot and we consider the dryness is causing much larger losses considering the much higher seed concentration of plant per acre in Europe.

We see no need to sell grains at the current time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: August 13, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '18 (bu.)	Oct. '18 (mt.)
1 CWRS 13.5	\$6.47	\$237.73	1 CWRS 13.5	\$6.60	\$242.51
1 CWAD 13.0	\$6.19	\$227.45	1 CWAD 13.0	\$6.18	\$227.08
1 CPSR 11.5	\$6.09	\$223.77	1 CPSR 11.5	\$6.17	\$226.71
SW Sask			SW Sask		
1 CWRS 13.5	\$6.89	\$253.17	1 CWRS 13.5	\$7.05	\$259.05
1 CWAD 13.0	\$6.92	\$254.27	1 CWAD 13.0	\$6.83	\$250.96
1 CPSR 11.5	\$6.03	\$221.57	1 CPSR 11.5	\$6.20	\$227.81
NE Sask			NE Sask		
1 CWRS 13.5	\$6.83	\$250.96	1 CWRS 13.5	\$6.92	\$254.27
1 CWAD 13.0	\$6.63	\$243.61	1 CWAD 13.0	\$6.71	\$246.55
1 CPSR 11.5	\$5.88	\$216.05	1 CPSR 11.5	\$5.96	\$218.99
SE Sask			SE Sask		
1 CWRS 13.5	\$6.89	\$253.17	1 CWRS 13.5	\$7.00	\$257.21
1 CWAD 13.0	\$6.81	\$250.23	1 CWAD 13.0	\$6.90	\$253.53
1 CPSR 11.5	\$5.90	\$216.79	1 CPSR 11.5	\$6.01	\$220.83

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* 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.

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.”

- 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 13, 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	\$339.83	\$324.86		
HRS	\$332.59			
HRW 11.5	\$324.38			
SWW 12.0	\$302.66			
1 CWRS 13.5 ³	\$339.83		\$266.39	\$73.43
2 CWRS 13.0 ³	\$332.59		\$226.34	\$106.25
3 CWRS ³	\$324.38		\$222.67	\$101.71
CPS ³	\$295.90		\$207.97	\$87.93
1 CWAD ⁴		\$333.07	\$257.21	\$75.86
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$235.00			
French 11.5 (Rouen)	\$253.09			
APW 10.5 (W Coast)	\$275.00			
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 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 13, 2018
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.06	\$8.87	\$8.64	\$8.05	\$8.05
Parity Track Rosetown	\$7.57	\$7.37	\$7.15	\$6.56	\$6.56
Track Bid Rosetown Area	\$7.25	\$6.16	\$6.06	\$5.66	\$5.66
Gross Margin at Elevator (\$/bu)*	\$0.32	\$1.21	\$1.09	\$0.90	\$0.90
Gross Margin at Elevator (\$/mt)*	\$11.69	\$44.50	\$39.97	\$32.95	\$32.95

* to cover elevation, elevator market risk, margin