

Wheat Market Outlook and Price Report: October 1, 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 Oct. 1, 2018

September International Grains Council (IGC) Wheat Numbers:

| WORLD ESTIMATES | | | | | | |
|--------------------------------------|-------|-------|---------------|-----------------|-------|-------|
| | 15/16 | 16/17 | 17/18 est. | 18/19 f'cast | 23.08 | 27.09 |
| <small>million tons</small> | | | | | | |
| WHEAT | | | | | | |
| Production | 737 | 752 | 758 | 716 | 717 | 717 |
| Trade | 166 | 177 | 176 | 174 | 173 | 173 |
| Consumption | 718 | 735 | 735 | 734 | 734 | 734 |
| Carryover stocks | 227 | 244 | 267 | 248 | 250 | 250 |
| year/year change | 19 | 17 | 23 | | -17 | -17 |
| Major exporters ^{b)} | 68 | 79 | 83 | 62 | 64 | 64 |

- The IGC increased **global wheat production** by 1 mln mt from their August estimate to 717 mln mt, primarily due to a lower Australian production. The new production estimate is still 5% (-41 mln mt) lower than last year's global wheat production.
- **Global wheat trade** was reduced by 1 mln mt to 173 mln mt.
- **Global endings stocks** were increased by 2 mln mt from last month to 64 mln mt. This is still 25% (-19 mln mt) lower than last year's global wheat ending stocks.

➤ **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:** Dec '18 contract Chicago winter wheat closed at 509-0, down 4-0 cents in Friday's trade and down 12-6 cents for the week. Meanwhile, Dec 18 contract Kansas hard red winter wheat closed down 6-0 cents at 511-2 Friday, down 14-0 cents for the week. In Minneapolis, Dec '18 contract hard red spring wheat closed at 572-4, down 7-4 cents in Friday's trade, down 10-0 cents for the week, while Mar '19 hard red spring wheat closed at 587-2, down 6-6 cents for the day and 10-2 cents for the week.
- **Funds:** Index funds did nothing on the week, whereas Specs increased their overall short by selling some corn and wheat following the Sept. 1st stocks report.
- **Matif:** Matif wheat ended the week flat.

Canadian wheat:

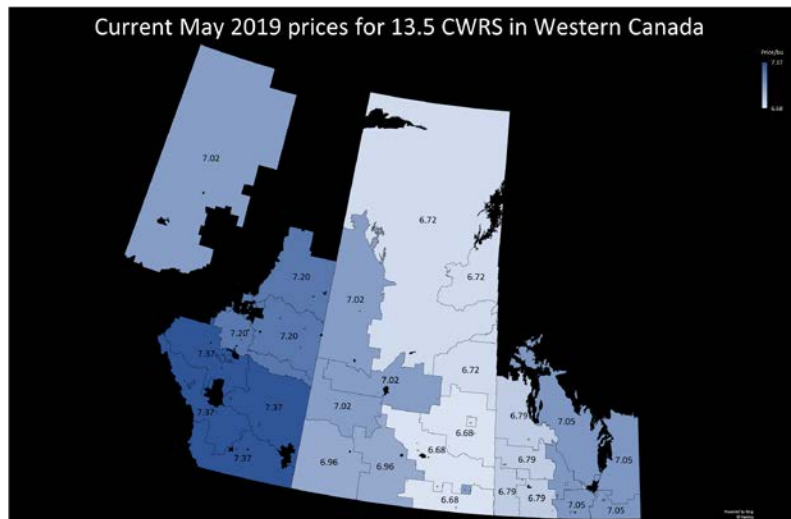
- Harvest in the Cdn. Prairies was again very slow this week, the AB spring wheat crop is now 35% harvested, up 6.8% from last week, while spring wheat in SK is now 53% harvested, only having advanced 3% from last week. Wheat that was combined last week was wet and had to be dried.
- Export shipments of Cdn. Wheat have been better than last year's by 434k mt (+18%) into week 8.
- Export shipments of Cdn. Durum wheat have been absolutely dismal and lag last year's by 127k mt (-28%) into week 8. There seems to be very little demand from Europe or the US.
- Attention in the wheat markets is now centered on the Northern Hemisphere winter plantings, spring wheat harvest in Russia/Canada and the real size of the EU crop and the extent of the losses in Australia and the delayed harvest in Canada.
- There is a real shortage of average quality milling wheat as the prices on Iraq's hard wheat tender indicated. If quality is lost in Canada and the Aussie crop is below 18 myn tonnes there is potential for much firmer prices.
- Wheat prices in the Canadian Prairies are becoming more favourable in the deferred positions. In AB, average cash prices for 13.5 pro CWRS are ranging from \$7.02/bu to \$7.37/bu (basis ranging from \$1.00 to \$1.31) for May delivery. Average prices for May delivery 13.5 pro CWRS in SK are ranging from \$6.68/bu to \$7.02/bu (basis is \$0.65 to \$1.00). Meanwhile average MB prices for May delivery 13.5 pro CWRS are \$6.79/bu and \$7.05/bu with average basis levels ranging from \$0.77 to \$1.02.

| (CGC) Grain Handling Summary Wheat | | | | | Week 8 (to Sept. 23/18) |
|------------------------------------|--------------|---------|--------------|---------------|-------------------------|
| ('000 mt) | Terminal | | | Dom. | |
| | Prod. Divrs. | Rcpts. | Bulk exports | Disappearance | |
| Current week | 328.0 | 430.1 | 322.1 | 69.7 | |
| Week ago | 513.3 | 549.8 | 413.2 | 85.3 | |
| YTD | 3,457.5 | 3,885.3 | 2,858.3 | 616.0 | |
| Last YTD | 2,898.8 | 3,182.6 | 2,424.7 | 1,072.2 | |
| YTD less Last YTD (k mt) | 558.7 | 702.7 | 433.6 | -456.2 | |
| YTD over Last YTD (%) | 119% | 122% | 118% | 57% | |

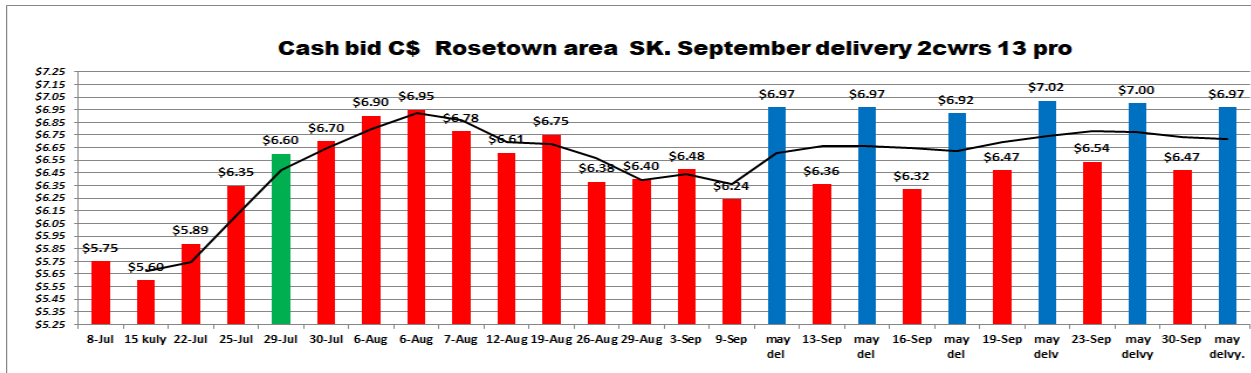
Based on weekly CGC Handling Data

| (CGC) Grain Handling Summary Durum | | | | | Week 8 (to Sept. 23/18) |
|------------------------------------|--------------|--------|--------------|---------------|-------------------------|
| ('000 mt) | Terminal | | | Dom. | |
| | Prod. Divrs. | Rcpts. | Bulk exports | Disappearance | |
| Current week | 47.9 | 40.9 | 133.8 | 1.5 | |
| Week ago | 79.3 | 49.8 | 7.2 | 8.1 | |
| YTD | 574.1 | 533.2 | 466.4 | 51.3 | |
| Last YTD | 524.0 | 743.2 | 593.5 | 152.9 | |
| YTD less Last YTD (k mt) | 50.1 | -210.0 | -127.1 | -101.6 | |
| YTD over Last YTD (%) | 110% | 72% | 79% | 34% | |

Mercantile based on weekly CGC Handling Data

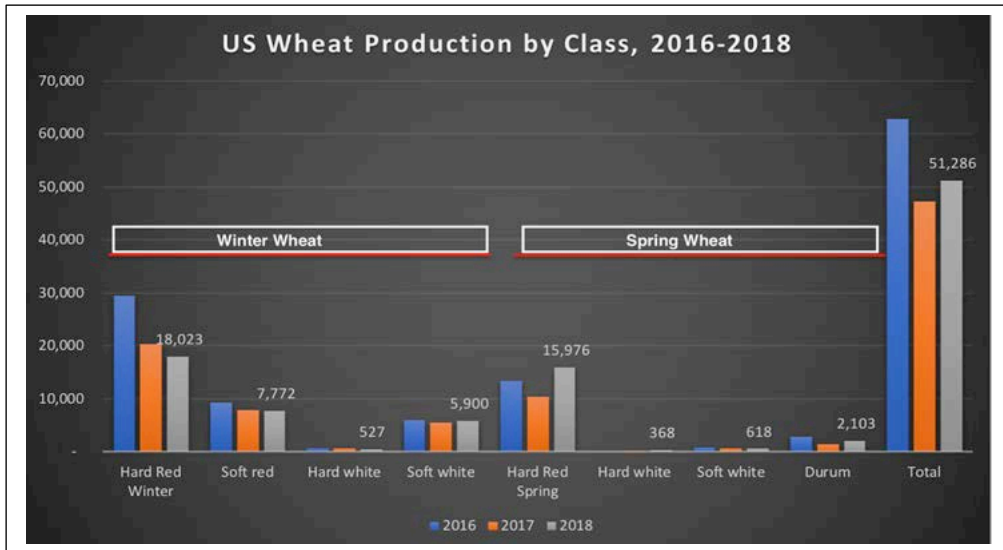


- **Once again, we fail to understand why Canadian wheat did not trade to Iraq.** Domestic elevators reduced their cash prices and, in our view, should be ignored particularly for nearby delivery.



US wheat:

- HRS harvest in the US is complete and quality is reported as very good. Final samples are being milled and the final avg. grade will be reported next week.
- The USDA stocks report showed US all wheat stored in all positions as of Sept. 1/18 at 2.38 bln bu, up 5% from last year. This is slightly higher than the pre-report estimate of 2.34 bln bu.
- According to Friday's USDA updates, total US wheat production at 51.3 mln mt is up 8% on last year. Especially spring wheat production came in higher than expected, while winter wheat was close to pre-report estimates. Specifically, Hard Red Spring wheat at 16 mln mt is 53% bigger than last year's HRS crop. Total winter wheat comprises 62.8% of US wheat production (down from 73% last year), while all spring wheat comprises 37.2% of total US wheat production (up from 27% last year).



- *Despite the somewhat bearish US stocks and production numbers, the global wheat market is not a direct function of US wheat production or stocks. Russian, French, Argentine exports and Cdn. and Aussie production results currently weigh more heavily. With this in mind, the global wheat market continues to look tight and we continue to believe that better prices will be seen in the New Year.*

Australian wheat:

- Australian wheat futures suffered their first down week in five weeks, but vegetation maps continued to deteriorate. The forecast remains dry with additional risk of more frosts in the south-east.
- The trade expects additional production declines in Australian wheat.

Argentine wheat:

- Strikes temporarily closed the port of Rosario. Pres. Macri got an additional \$7 billion from the IMF, which along with the resignation of the Central Bank Governor sent the Peso to new all-time lows.
- BAGE put the 2018/19 Argentine wheat crop at a record 19.7 mln mt (versus USDA at 19.5 mln mt, and last year's crop at 18 mln mt).
- 12.5% protein wheat for Dec is valued at US\$235/mt. The discount for 12% protein wheat widened to US\$12/mt.

EU wheat:

- Matif wheat ended the week flat.
- The French wheat trade is worried about the lack of export demand, and the German/Baltic market received no requests for backing at the TMO tender. But this is a result of their high product valuation. Essentially, it will be difficult to compete in the export markets, as long as their interior market is paying a better price.

Black Sea wheat:

- Black Sea rose around US\$5/mt on the week with LH Oct 11.5% protein wheat trading at US\$215/mt. November 12.5 protein wheat was bid at US\$230/mt by consumers against offers at US\$235/mt.
- Russian spring wheat is still troubled by cold and wet conditions. Harvest is just ~37% complete against 75% completed last year.
- The Ukrainian winter wheat plantings were put at 40% complete.

➤ Significant purchases/ trades:

There was a decent volume of cash trades last week:

- **Turkey** bought 252,000 mt of October shipment at prices which seemed to reflect around \$224 Fob for Russian 12.5 protein wheat with a \$10 premium for 13.5% protein wheat.
- **Iraq** bought 50,000 mt US hard wheat at \$338 and 50,000 mt Australian wheat at \$353/mt. **Once again we fail to understand why Canadian wheat did not trade to Iraq at these prices.**
- **Japan** bought 109k mt of hard wheat this week, with 49,470 mt of this US origin.
- **Jordan** passed on their tender.
- **Ethiopia** bought 155,000 mt, but we have no details.
- **Taiwan** is looking for 110k mt of US wheat, with offers due on October 2nd.
- **US** weekly export sales were at 617k mt for a season total to 395 mln bu, down 20% on last year.

➤ Wheat Market Outlook:

Significant events:

- Russian wheat remains the cheapest in the October position as exporters continue to front-end load wheat exports before export tariffs may be implemented. It is impossible for Russian exports to continue at their current pace past January. Already Black Sea cash prices are rising as importers are faced with declining supplies of quality Russian wheat. US and the EU wheat are becoming competitive in the deferred position, although it will be tough for the EU wheat market to go down when the interior is paying better levels for domestic use than the export market.

- Russian exports are estimated at almost 13 mln mt through end September '18. Russia is still on course to move around 25 mln mt of wheat by the end of December '18. We still expect the Russian Govt to take a serious look at how much wheat they have left in December to make decisions about an export tax.

➤ **Outlook:**

The USDA report last Friday was of limited impact, and attention now turns to the Northern Hemisphere winter plantings, spring wheat harvest in Russia and Canada, and the extent of the production losses in Australia.

There is a real shortage of average quality milling wheat as the prices on Iraq's hard wheat tender indicated. If quality is lost in Canada and the Australian crop is below 18 mln tonnes, there is the potential for much firmer prices.

iii) Primary Elevator Price Tables and Grade Spreads

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

| Date: October 1, 2018 | | | | | |
|-----------------------|--------|----------|--------------------|---------------|---------------|
| NW Sask | Spot | | NW Sask | Deferred | |
| | {bu.} | {mt} | | May '19 (bu.) | May '19 (mt.) |
| 1 CWRS 13.5 | \$6.65 | \$244.35 | 1 CWRS 13.5 | \$6.98 | \$256.47 |
| 1 CWAD 13.0 | \$5.76 | \$211.65 | 1 CWAD 13.0 | \$6.02 | \$221.20 |
| 1 CPSR 11.5 | \$5.74 | \$210.91 | 1 CPSR 11.5 | \$6.21 | \$228.18 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$6.54 | \$240.31 | 1 CWRS 13.5 | \$6.87 | \$252.43 |
| 1 CWAD 13.0 | \$5.08 | \$186.55 | 1 CWAD 13.0 | \$6.06 | \$222.67 |
| 1 CPSR 11.5 | \$5.72 | \$210.18 | 1 CPSR 11.5 | \$6.13 | \$225.24 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$6.36 | \$233.69 | 1 CWRS 13.5 | \$6.67 | \$245.08 |
| 1 CWAD 13.0 | \$5.75 | \$211.28 | 1 CWAD 13.0 | \$5.98 | \$219.73 |
| 1 CPSR 11.5 | \$5.46 | \$200.62 | 1 CPSR 11.5 | \$5.90 | \$216.79 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$6.36 | \$233.69 | 1 CWRS 13.5 | \$6.68 | \$245.45 |
| 1 CWAD 13.0 | \$5.84 | \$214.58 | 1 CWAD 13.0 | \$6.11 | \$224.51 |
| 1 CPSR 11.5 | \$5.49 | \$201.72 | 1 CPSR 11.5 | \$5.94 | \$218.26 |

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)

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.”

- 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 | | | | October 1, 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 | \$323.33 | \$298.93 | | |
| HRS | \$316.29 | | | |
| HRW 11.5 | \$305.03 | | | |
| SWW 12.0 | \$295.17 | | | |
| 1 CWRS 13.5 ³ | \$323.33 | | \$236.26 | \$87.06 |
| 2 CWRS 13.0 ³ | \$316.29 | | \$220.46 | \$95.83 |
| 3 CWRS ³ | \$305.03 | | \$207.60 | \$97.42 |
| CPS ³ | \$288.60 | | \$196.21 | \$92.39 |
| 1 CWAD ⁴ | | \$307.37 | \$215.69 | \$91.69 |
| Competing wheat: | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$225.00 | | | |
| French 11.5 (Rouen) | \$237.88 | | | |
| APW 10.5 (W Coast) | | | | |
| 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 | | | | | October 1, 2018 |
|--|----------------|----------------|----------------|----------------|-----------------|
| Canadian Funds | | | Grade | | |
| PNW value/Vancouver | 1CWRS13.5 | 2CWRS | 3CWRS | Winter wht. | CPS |
| May/June delivery | \$8.62 | \$8.43 | \$8.12 | \$7.85 | \$7.85 |
| Parity Track Rosetown | \$7.12 | \$6.93 | \$6.63 | \$6.36 | \$6.36 |
| Track Bid Rosetown Area | \$6.43 | \$6.00 | \$5.65 | \$5.34 | \$5.34 |
| Gross Margin at Elevator (\$/bu)* | \$0.69 | \$0.93 | \$0.98 | \$1.02 | \$1.02 |
| Gross Margin at Elevator (\$/mt)* | \$25.51 | \$34.27 | \$35.87 | \$37.40 | \$37.40 |

* to cover elevation, elevator market risk, margin