

Wheat Market Outlook and Price Report: November 19, 2018
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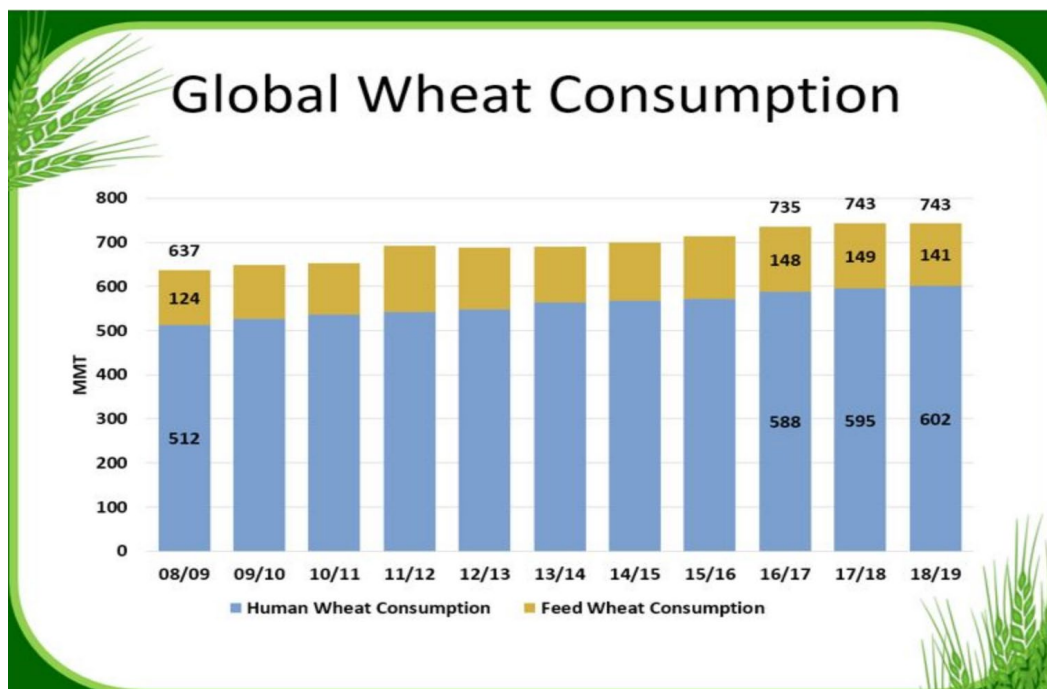
i) Background and Rationale for the Report

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 Nov. 19, 2018

Global Wheat Consumption



- USDA expects global wheat consumption to remain at record high levels in 2018/19 due to increased human consumption of wheat. Human wheat consumption is expected to reach a record high 602 million mt, 4% above the 5-year average. ***Over the past ten years, global human wheat consumption has increased by 90 mln mt, while feed wheat usage has increased by 16 mln mt.***

- At the same time, global supply of milling wheat is expected to fall this year due to challenging growing and harvesting conditions that hurt both quality and yields in many of the major wheat exporting countries. USDA expects global wheat production to fall to the lowest level in 5 years at 734 mln mt, down 4% from the record high of 763 mln mt in 2017/18. If realized, it would be 1% below the 5-year average and the first-time global wheat consumption has exceed global wheat production since 2012/13.

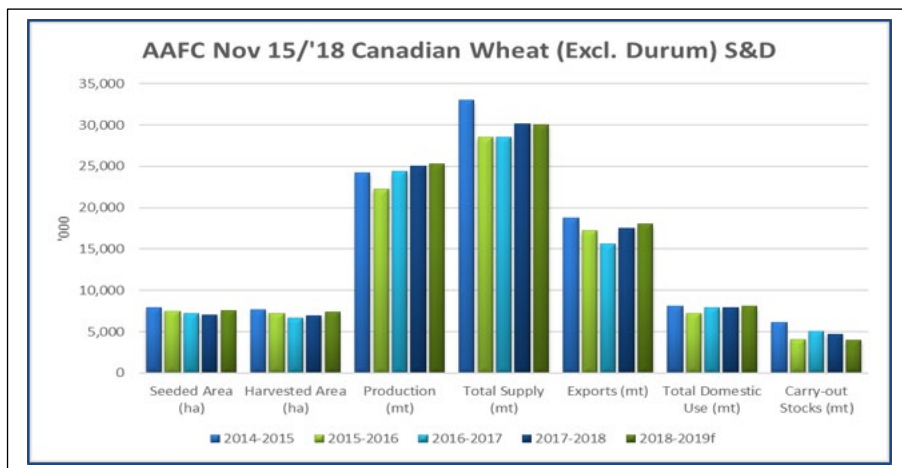
➤ **Global wheat production and trade:**

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.

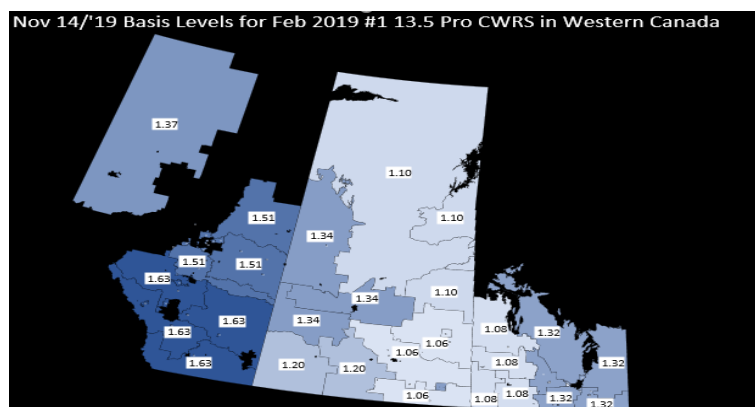
- **Futures:** Dec '18 contract Chicago winter wheat closed Friday at 506-6, up 1-2 cents in Friday's trade and up 4-6 cents for the week.
Dec 18 contract Kansas hard red winter wheat closed up 2-6 cents at 482-6, down 4-2 cents for the week.
In Minneapolis, Dec '18 contract hard red spring wheat closed at 571-2, down 3-4 cents for the day, down 2-6 cents for the week, while Mar '19 hard red spring wheat closed at 573-4, down 1-4 cents for the day and down 3-4 cents for the week.
- **Funds:** Index funds did very little. Spec Funds down to a -20 mln mt position, which is a smallish size position for them. They are short 7.5 mln mt of wheat, up 1.6 mln mt on the week.
- **Matif:** Matif wheat ended little changed from last week, despite a firm Euro and another week of poor volume EU wheat shipments.

○ **Canadian wheat:**

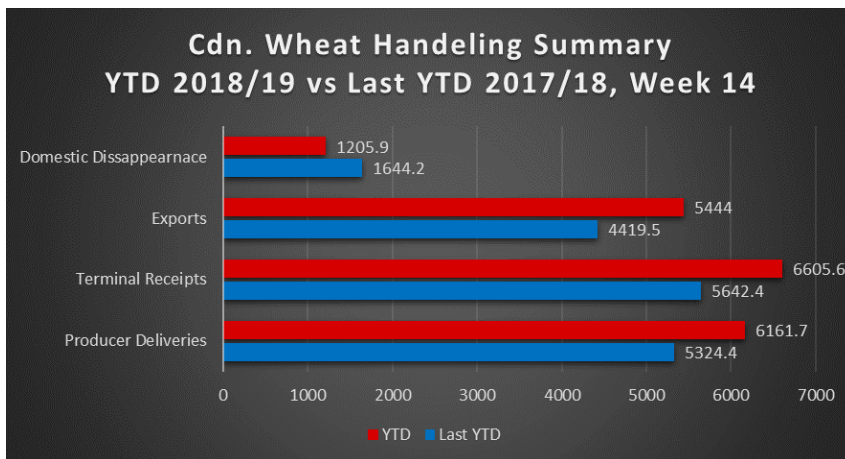
- AAFC released their November balance sheet update. Canadian wheat production is estimated to increase just 1% this year (to 25.3 mln mt). An 8% increase in seeded area is off-set by lower yields (51.12 bu/ac in '18/19 vs 54.07 bu/ac in '17/18). 75% of the total production is CWRS, 9% is winter wheat (hard red, soft red, and soft white), 7% is CPS, 4% CNHR, while the remaining 5% is composed of CWSWS, CWES, CWS and CERS classes.



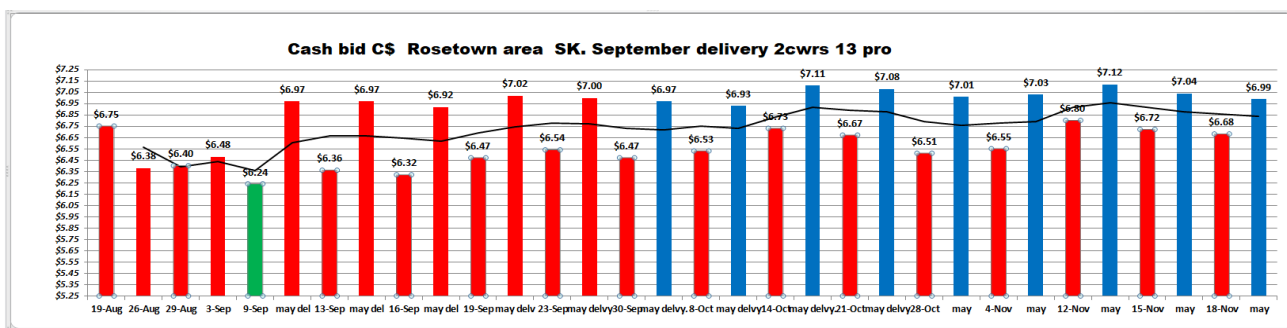
- Since the beginning of the month we have seen a gradual increase in basis levels across the Canadian Prairies. Northern AB and SK have seen the largest (increases 8-7 cents/bu), while smaller increases have been seen in the Southern regions of the Prairies (6-5 cent/bu, basis levels in SW AB are unchanged). These strong basis levels reflect the increasing demand for high quality Canadian wheat and are have sparked selling across the Prairies.



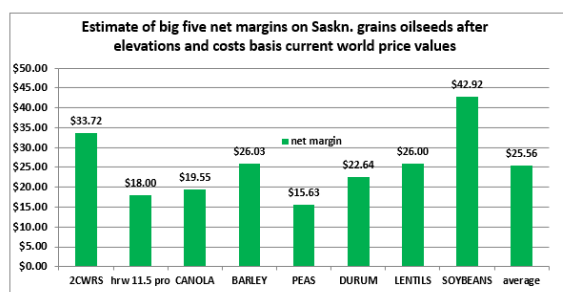
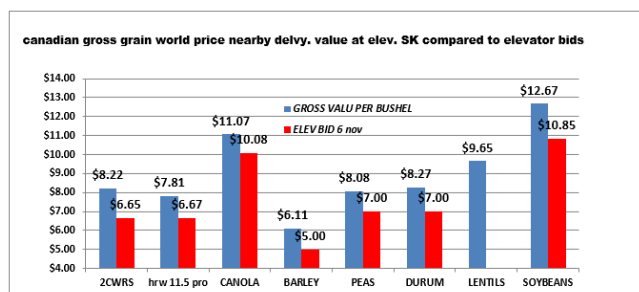
- As of grain shipping week 15, Canadian wheat exports (excl. durum) reached 5.4 mln mt up 1.02 mln mt (+23%) from last year. YTD producer deliveries of 6.162 mln mt are up 16% from last year, while terminal receipts of 6.606 mln mt are up 17% y/y.



- Canadian elevator street prices show weaker this week, but we consider most elevator will pay premiums to street prices. *We would sell wheat basis Saskatchewan at C\$7.25 for April/May.*



- Wheat currently shows the best elevator margin estimates among the various commodities:

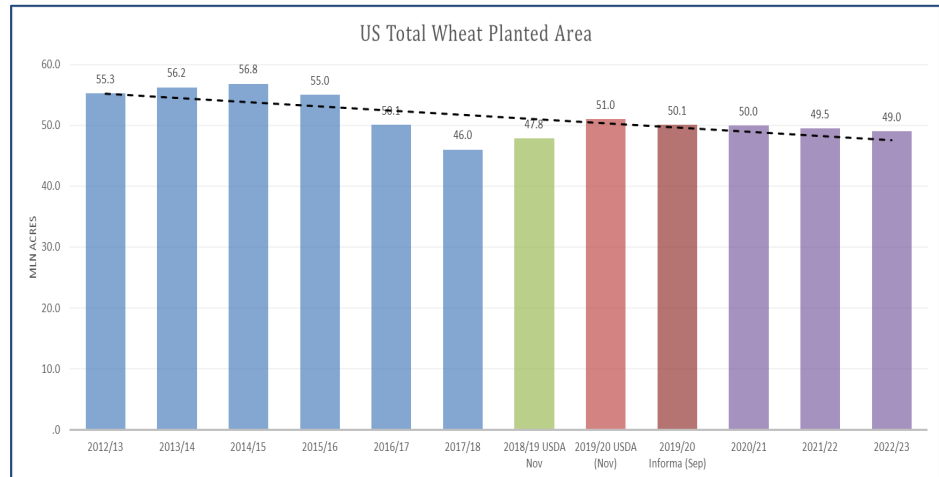


o **US wheat:**

- Last week's US export sales of 438,256 mt were at the low end of the 400-650k mt expected, down 33.7% from last week and down 10.4% from the same week last year. Saudi Arabia's tender for 475k mt of Jan-Mar wheat closed Friday, the results will be released Monday.
- US weather forecasts are little changed, remaining dry and cold. Snow covering parts of the Plains continue to hamper winter wheat seeding. G/E ratings for the US winter wheat crop are up 3% from last week to 54%, unchanged from last year. Winter wheat planting is 89% complete still 5% behind last year, and only 77% of the crop has emerged (83% LY).
- The 2019/20 US wheat area is going to be up this by year, the question is how much. Last week's USDA report increase wheat seed usage up 7 mln bu to 69 mln bu, a 9% increase from last year. Meanwhile, the USDA's November long-term projection has 2019/20 total US wheat plantings up 7% to 51 mln acres (essentially a return to trend). In September, Informa had their number at 50.1

mln acres with winter wheat taking up 34.111 mln of these acres, up 6% from last year's 32.243 mln. *There will not be any reliable estimates until after the US-China story clears up.*

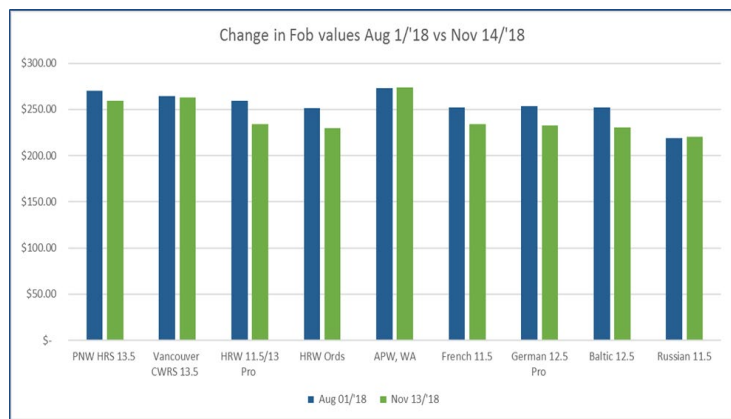
- Fob wheat values continue to do the work of



reallocating demand. Weather issues in S America are complicating the overall picture. This may cause Argentine to lose out to France in the next Algerian tender.

French 11.5 protein wheat now is the most expensive wheat in its class and it is still too soon to know the impact the adverse weather is going to have on Argentina's wheat.

Fob price changes since the start of August are: PNW HRS 13.5 - \$12.50, Vancouver CWRS 13.5 - \$2.50, HRW 11.5/13 pro -\$27.20, HRW Ords -\$21.70, APW WA +\$1.00, French 11.5 -\$18.30, German 12.5 -\$20.60, Baltic 12.5 -\$21.90 and Russian 11.5 +1.00.



○ **Australian wheat:**

- The Australian wheat harvest did advance despite the rain, and even basis a 16 mln mt crop, Australia will still have 8-10 mln mt to export.
- But with APW priced at \$270-280/mt and ASW priced at \$260-270/mt, this wheat remains priced out of all but the most inelastic demand.

○ **Argentine wheat:**

- Heavy rain has pounded Argentina last weekend causing both flooding concerns and quality concerns (we have heard some mentions of sprouting) in their wheat crop. BAGE has their harvest at 16% complete. Surprisingly, production estimates were left unchanged at 19.4 mln mt (private estimates have trimmed estimates below 19 mln mt), and G/E ratings were increased to 44% (vs 58% LY). Rain is supposed to lift over the weekend and then return this week.
- Argentine FOB offers ended the week ~\$5/mt higher. Only 11.5% protein wheat was offered due to the rain.

○ **EU wheat:**

- The rains in Argentina could potentially cause quality problems that might keep France in the game at the next Algerian tender.
- French winter wheat crop ratings are at 82% Gd/Exc. were 15% below last year's and the lowest in 6 years. Seeding still is only 92% complete.

- **Black Sea wheat:**
 - Sellers are said to be looking for nearby bids.
 - Temperatures in Russia at -6°C are not enough to be a real threat.
 - 12.5% protein Black Sea wheat traded at US236/mt for Jan. 2019.
- **Chinese wheat:**
 - Wheat prices in China rallied to near 2-month highs, in spite the S&D adjustments they made last week (which USDA adopted) and in spite of a 380k mt sale from state reserves at over US\$30/mt below futures.

➤ **Significant purchases/ trades:**

To our knowledge, there were no significant trades concluded this past week.

- Saudi Arabia's tender for 475k mt of Jan-Mar wheat closed Friday, the results will be released later today (Monday).
- Iraq is expected to tender Nov 26th.
- Last week's US export sales of 438,256 mt were at the low end of the 400-650k mt expected, down 33.7% from last week and down 10.4% from the same week last year.

➤ **Wheat Market Outlook:**

Significant events:

- There are some good volume, higher quality wheat tenders expected over the next 10 days. In the context of partial ineligibility of Russian wheat, limited good quality supplies in the EU, ongoing weather concerns in Argentina, and contract lows in KC following the completion of fund liquidation, this may become interesting for North American wheat.
- Fob values continue to do the work reallocating demand. Weather issues in South America are complicating the overall picture. This may cause Argentine to lose out to France in the next Algerian tender.

➤ **Outlook:**

There are some volume quality wheat tenders over the next 10 days, which should help to get a handle on real values on this market. Weather in the precipitation forecast for the Black Sea looks more favourable, but central and eastern Europe is completely dry with a significant cold spell set for week two of the forecast. Traders continue to be bullish on wheat even though prices have shown more weakness recently.

We note that some elevators were paying \$7.25/bu for 1-13.5 CWRS for Dec. delivery, which is not a bad price. We would need a better railcar supply in Canada to reach world prices for wheat. In lack thereof, we would sell wheat basis Saskatchewan at C\$7.25 for April/May.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: November 19, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$6.94	\$255.00	1 CWRS 13.5	\$7.21	\$264.92
1 CWAD 13.0	\$5.79	\$212.75	1 CWAD 13.0	\$6.02	\$221.20
1 CPSR 11.5	\$5.93	\$217.89	1 CPSR 11.5	\$6.23	\$228.92
SW Sask			SW Sask		
1 CWRS 13.5	\$6.82	\$250.59	1 CWRS 13.5	\$7.10	\$260.88
1 CWAD 13.0	\$5.77	\$212.01	1 CWAD 13.0	\$6.04	\$221.93
1 CPSR 11.5	\$5.73	\$210.54	1 CPSR 11.5	\$6.15	\$225.98
NE Sask			NE Sask		
1 CWRS 13.5	\$6.68	\$245.45	1 CWRS 13.5	\$6.96	\$255.74
1 CWAD 13.0	\$5.87	\$215.69	1 CWAD 13.0	\$5.98	\$219.73
1 CPSR 11.5	\$5.59	\$205.40	1 CPSR 11.5	\$5.89	\$216.42
SE Sask			SE Sask		
1 CWRS 13.5	\$6.68	\$245.45	1 CWRS 13.5	\$6.91	\$253.90
1 CWAD 13.0	\$5.97	\$219.36	1 CWAD 13.0	\$6.12	\$224.87
1 CPSR 11.5	\$5.63	\$206.87	1 CPSR 11.5	\$5.96	\$218.99

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	(0.01)	(0.37)
1 CWRS 12.5	(0.15)	(5.51)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.0	(0.10)	(3.67)
2 CWAD 12.5	(0.20)	(7.35)

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.

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.”

- 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				November 19, 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	\$336.22	\$312.48		
HRS	\$328.95			
HRW 11.5	\$314.90			
SWW 12.0	\$304.73			
1 CWRS 13.5 ³	\$336.22		\$248.02	\$88.19
2 CWRS 13.0 ³	\$328.95		\$233.32	\$95.63
3 CWRS ³	\$314.90		\$220.46	\$94.44
CPS ³	\$297.94		\$189.97	\$107.98
1 CWAD ⁴		\$316.35	\$207.24	\$109.12
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)				\$228.00
French 11.5 (Rouen)				\$234.93
APW 10.5 (W Coast)				\$274.00
Argentine 12.0				\$218.00
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					November 19, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.97	\$8.77	\$8.39	\$8.11	\$8.11
Parity Track Rosetown	\$7.47	\$7.27	\$6.89	\$6.61	\$6.61
Track Bid Rosetown Area	\$6.75	\$6.35	\$6.00	\$5.17	\$5.17
Gross Margin at Elevator (\$/bu)*	\$0.72	\$0.92	\$0.89	\$1.44	\$1.44
Gross Margin at Elevator (\$/mt)*	\$26.43	\$33.86	\$32.67	\$52.99	\$52.99

* to cover elevation, elevator market risk, margin