

Wheat Market Outlook and Price Report: January 28, 2019

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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 Jan. 28, 2019

International Grains Council (IGC) - Updated Wheat Balance Sheet for January '18

WORLD ESTIMATES					
	15/16	16/17	17/18 est.	18/19 fcast	24.01
million tons				22.11	24.01
WHEAT					
Production	737	753	767	729	737
Trade	166	177	175	171	170
Consumption	718	735	741	739	745
Carryover stocks	227	244	270	262	263
year/year change	19	17	26		-7
Major exporters ^{b)}	68	79	82	65	65

- The IGC actually increased their estimate of the global **'18/19 wheat production** by 8.8 mln mt to 737.3 mln mt. Production increases over their November estimates were shown for Canada (+800k mt), the EU (+1 mln mt), Kazakhstan (+800k mt), and for Russia (+2.1 mln mt).
- **Global trade** in wheat was reduced by 1 mln mt to 170 mln mt, but **global consumption** was increased by 6 mln mt to 745 mln mt, and thus stayed higher than production for the crop year.
- **Global '18/19 ending stocks** were increased by 1 mln mt to 263 mln mt. '18/19 wheat ending stocks are projected 7 mln mt lower than the '17/18 ending stocks.

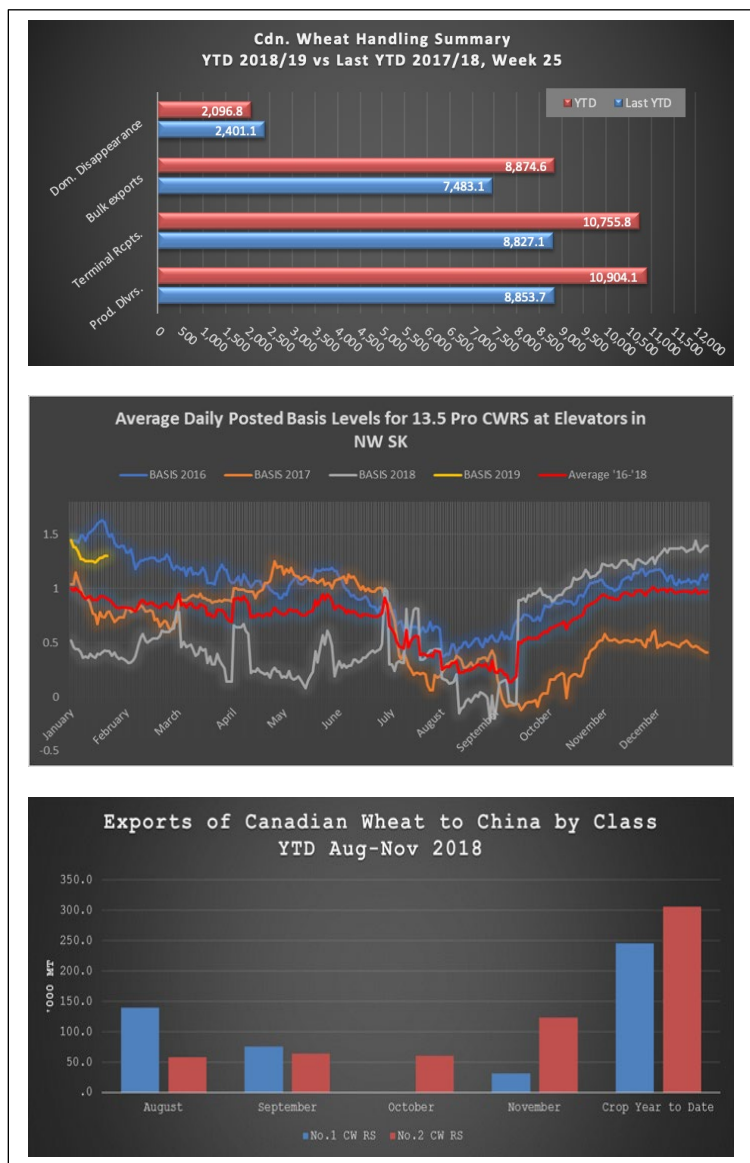
➤ **Global wheat production and trade:**

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:** Mar '19 contract **Chicago winter wheat** closed at 520-0, down 1-4 in today's trade, *up 2-2 cents for the week*.
Mar '19 contract **Kansas hard red winter wheat** closed down 2-0 cents at 509-4, *up 5-4 cents for the week*.
In Minneapolis, Mar '19 contract **hard red spring wheat** closed at 574-6, down 1-4 cents for the day, *up 4-0 cents for the week*, while May '19 hard red spring wheat closed at 577-4, down 2-2 cents for the day, *up 1-2 cents for the week*.
- **Matif:** Matif rose €1-2/mt despite a firmer Euro.

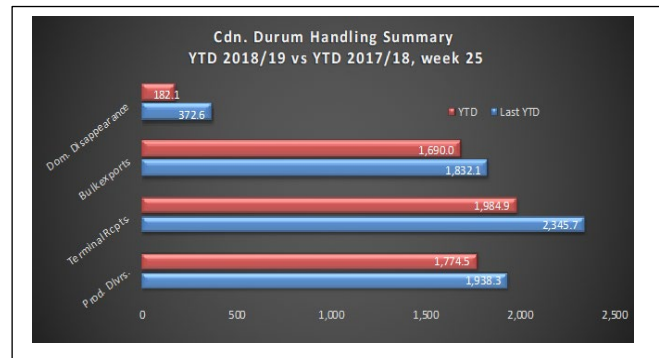
Canadian wheat:

- Canadian producers delivered 430k mt of wheat (excl. durum) into the grain handling system during week 25 ending Jan 20th. YTD deliveries are now 10.9 mln mt, up 23% on last year. Weekly exports of 377.7k mt were strong, gaining 1% on last year to 19% higher y/y. Total exports are now 8.875 ml mt.
- Basis levels for wheat are starting to firm up again across the Cdn. Prairies. Lower futures, a weak Cdn. dollar and strong elevator margins have caused elevators to collectively raise basis levels. Traditionally, basis levels trend lower into the spring months as the futures strengthen, then fall rather quickly into harvest when grain is abundant. Currently CN and CP are rationing space on trains as they struggle to meet demand from the new trade deals. This will quickly erode basis levels if the issue persists.
- Canadian elevator bids for wheat were about unchanged.
- Canada-China relations: There is continued concern about the fate of Canadian exports to China because of the political tensions between the two countries. If China retaliates on the imagined slight by Canada, farmers of all major commodities could be hurt significantly. According to CGC data, 35% of all major grains exported from Canada have gone to China YTD Aug-Nov. China has imported 8.6% of all Canadian wheat exports (+3.7% from last



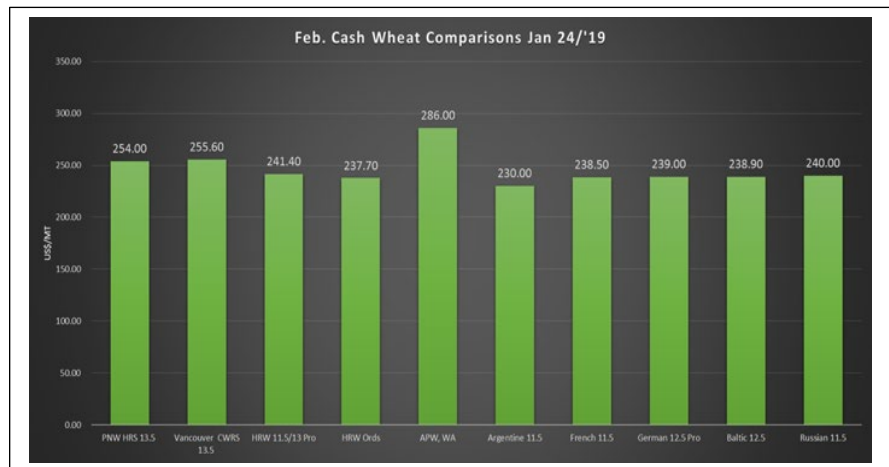
year). The country has accounted for 20.6% of all the #1 CRWS and 7.6% of all #2 CWRS exported from Canada YTD.

- Durum: Canadian Producers delivered 74k mt of durum in the Canadian grain handling system in week 25. Total deliveries are down 8% from last year at 1.774mln mt. Durum exports had a strong week with 100.4k mt being shipped. Total exports of 1.7 mln mt are now down 8% (-142.1k mt) from last year having gained 4% since last week.
- Durum: The IGC put world durum production 1 mln higher than 2017/18 at 38 mln mt. Large increases were seen in Algeria, Canada (+0.79 mln) and the US (+0.61 mln), while smaller increases were seen in Morocco and Tunisia. Decreases were in the EU, Mexico, Australia, Turkey and Syria. Global supply is up just 0.8 mln mt from last year because of lower carry-in stocks. IGC raised usage by 0.2 mln mt to 37.5 mln mt as higher food use is slightly off-set by lower feed use. Overall, carry-out stocks are high, up 0.5 mln at 10.3 mln mt. According to the AAFC, 20% (2 mln mt) of global ending stocks are supposed to be in Canada.
- There is an abundance of durum available, and we do not see any significant increases in export destinations anytime soon.



US wheat:

- US wheat markets were trading the fact that US Fob was becoming competitive in the world market. It took longer than expected, but the Russians finally seem to be out of the market with little chance of coming back.
- There is still no update on the rumours that the Chinese Gov't is interested in buying 7 mln mt of US HRW and white wheat. 40k mt of US HRS bound for China, was purchased by an unknown buyer; welcome news, but the political struggle is still not over.
- All eyes will be on the US sales data that should be released this week. A new USDA-WASDE report should be published on Feb. 8th.



Australian wheat:

- The heat wave continued to break records, further threatening the sorghum crop.
- Australian wheat futures closed up around A\$6/mt, although they were near flat in US\$ terms, and Fob values are also little changed at \$286/mt.

Argentine wheat:

- Argentine Fob wheat values were ~47/mt higher this week for 12.5% protein wheat at US\$237-241.00/mt. The discount per ½% protein doubled to US\$2/mt. Monthly are at \$1-3/mt.

EU wheat:

- EU shipments are still down 27% on last year.
- It does not seem that French wheat traded to Algeria, and there still is debate if the Tunisian purchase was based on French or Black Sea wheat.
- Reports suggested the Baltic/Poland did some volume business to Turkey and to Egypt.
- There were a few cold weather scares for Germany and Poland.
- At US\$240/mt fob, Russian wheat is now more expensive than German 12.5% protein wheat or Baltic 12.5% protein wheat at US\$339/mt.

Black Sea wheat:

- Rosstat has Russian farm stocks as of Jan 1st, 32% below last year. This is seen as bullish, however there are some problems with their derived domestic disappearance. The non-farm stock report should be released within the next couple weeks, which will allow for better domestic disappearance estimates.
- Ukrainian exports have been put at 13.3 mln mt as of Jan 18th. This is 83% of the 16 mln mt export target, sparking a warning from the Gov't about going over their limit.
- Russian wheat is now the most expensive Fob wheat. Russian 11.5 pro at \$240 pro is more expensive than French 11.5, German 12.5, Baltic 12.5 and HRW Ords. This should translate into higher demand for US wheat, but with the Gov't still down, there is no data on export sales. Argentine 11.5 pro is the cheapest wheat in the world at \$230 with a \$6 spread to 12.5 pro.

➤ Significant purchases/ trades:

There was a decent tender line-up last week:

- **Japan** bought 102,057 mt in their weekly tender for Australian, Canadian, US wheat; 53,195 mt was US specific.
- **Tunisia** bought 100k mt wheat for Feb-Mar at \$259.22-260.22/mt.
- **Syria** bought 200k mt of Russian wheat at around \$270 C&F equivalent.
- **Algeria** bought 200-250k mt of durum wheat at around \$291/mt.
- US inspections were 516k mt (season total 514 mln bu down 10%).
- **Egypt/ GASC** will revert to "sight" L/C's instead of the current 180-day L/C.

➤ Wheat Market Outlook:

Significant events:

- The **ICG raised 2018/19 world wheat ending stocks** by 1 mln to 263 mln mt because of an 8 mln mt increase in production and just a 6 mln mt increase in consumption.
- The question of the **depth of overall demand for wheat** persists. The current pace of the 7 major exporters is running 8% down on last year against USDA's projected 2.3% decline in world trade. Present numbers suggest the USDA could be overestimating wheat demand by 12 mln tonnes.
- **Canada-China relations:** There is continued concern about the fate of Canadian exports to China because of the political tensions between the two countries. If China retaliates on the imagined slight by Canada, farmers of all major commodities could be hurt significantly. According to CGC data, 35% of all major grains exported from Canada have gone to China YTD Aug-Nov. China has imported 8.6% of all Canadian wheat exports (+3.7% from last year). The country has accounted for 20.6% of all the #1 CRWS and 7.6% of all #2 CWRS exported from Canada YTD.
- All eyes will be on the **US sales data** that should be released this week.
- A new USDA-**WASDE report** should be published on Feb. 8th.

➤ **Outlook:**

Severe cold in the Plains, rumors of Chinese interest in HRS and white wheat, and rising Russian wheat prices amidst very low Russian on-farm stocks provided support to wheat futures. But the USA Commerce Secretary stating that a trade deal was "miles away" was enough to prevent any real rally. There were more rumors of volume US wheat sales (HRW) to Egypt, North Africa and West Africa. However, there were no confirmations of the US rumors from Europe.

Argentine wheat values have seen a sharp jump this week on big shipments, while Australian wheat still looks priced out of all but the absolute strict minimum inelastic demand.

- *Nearby prices have a chance to improve but users will only buy to cover immediate needs, while new crop deliveries are offered at a discount to the current crop.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 21, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$7.04	\$258.68	1 CWRS 13.5	\$7.25	\$266.39
1 CWAD 13.0	\$6.08	\$223.40	1 CWAD 13.0	\$6.33	\$232.59
1 CPSR 11.5	\$6.42	\$235.90	1 CPSR 11.5	\$6.64	\$243.98
SW Sask			SW Sask		
1 CWRS 13.5	\$6.93	\$254.64	1 CWRS 13.5	\$7.13	\$261.98
1 CWAD 13.0	\$6.09	\$223.77	1 CWAD 13.0	\$6.38	\$234.43
1 CPSR 11.5	\$6.12	\$224.87	1 CPSR 11.5	\$6.54	\$240.31
NE Sask			NE Sask		
1 CWRS 13.5	\$6.80	\$249.86	1 CWRS 13.5	\$7.00	\$257.21
1 CWAD 13.0	\$6.35	\$233.32	1 CWAD 13.0	\$6.45	\$237.00
1 CPSR 11.5	\$6.12	\$224.87	1 CPSR 11.5	\$6.35	\$233.32
SE Sask			SE Sask		
1 CWRS 13.5	\$6.78	\$249.12	1 CWRS 13.5	\$6.94	\$255.00
1 CWAD 13.0	\$6.38	\$234.43	1 CWAD 13.0	\$6.53	\$239.94
1 CPSR 11.5	\$6.05	\$222.30	1 CPSR 11.5	\$6.33	\$232.59

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)

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.”

- 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				January 28, 2019
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	\$337.20	\$313.84		
HRS	\$329.90			
HRW 11.5	\$325.52			
SWW 12.0	\$320.17			
1 CWRS 13.5 ³	\$337.20		\$256.11	\$81.09
2 CWRS 13.0 ³	\$329.90		\$243.25	\$86.66
3 CWRS ³	\$325.52		\$221.20	\$104.32
CPS ³	\$313.36		\$227.45	\$85.91
1 CWAD ⁴		\$304.11	\$212.75	\$91.36
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$247.00			
French 11.5 (Rouen)	\$239.87			
APW 10.5 (W Coast)	\$286.00			
Argentine 12.0	\$237.00			
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					January 28, 2019
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.99	\$8.79	\$8.67	\$8.53	\$8.53
Parity Track Rosetown	\$7.50	\$7.30	\$7.18	\$7.03	\$7.03
Track Bid Rosetown Area	\$6.97	\$6.62	\$6.02	\$6.19	\$6.19
Gross Margin at Elevator (\$/bu)*	\$0.53	\$0.68	\$1.16	\$0.84	\$0.84
Gross Margin at Elevator (\$/mt)*	\$19.30	\$24.86	\$42.53	\$30.93	\$30.93

* to cover elevation, elevator market risk, margin