Sask Wheat
DEVELOPMENT COMMISSION

Wheat Market Outlook and Price Report: February 4, 2019

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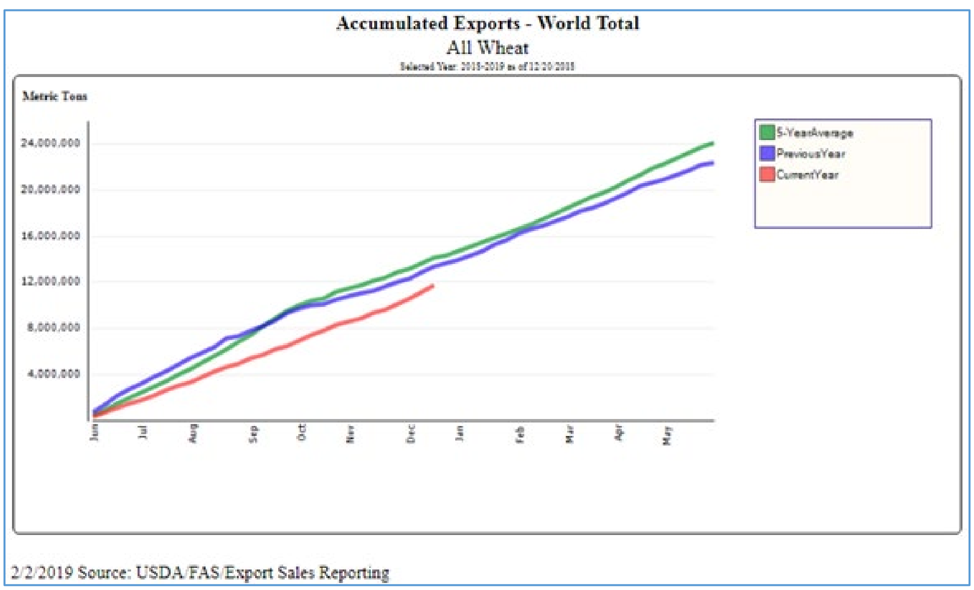
i) Background and Rationale for the Report

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 Feb 4, 2019

USDA – Accumulated US Wheat Exports for the Week Ending Dec. 20



- The US Government has published the following schedule for the release dates of the US sales reports:
  - The week ending Dec. 20/18 was published Jan 31st
  - The week ending Dec. 27/18 will be published Feb 7th
  - The week ending Jan 3/19 will be published Feb 14th

   - A combined report for weeks ending Jan 10, 17, 24, 31 of 2019 will be published on Feb 22nd.
     - Thus, we will not have up to date sales information for another 3 weeks.
- US net wheat sales were 526,300 mt for the week ending Dec. 20th (within expectations). There were no sales to China reported, but bulls can try again next week.

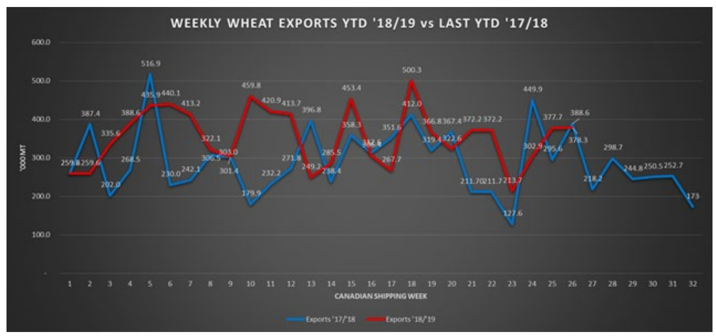
➢ **Global wheat production and trade:**

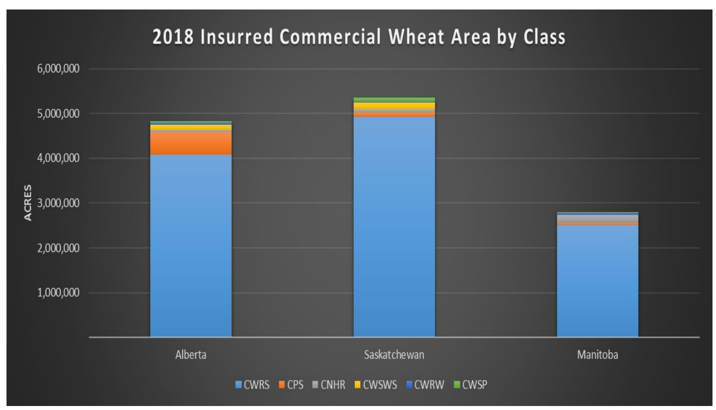
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

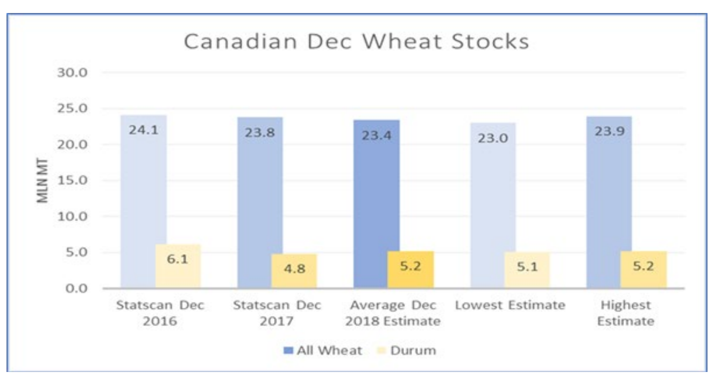
- **Futures:** Mar '19 contract **Chicago** winter wheat closed at 524-2, up 7-6 cents in today's trade and *up 4-2 cents for the week*.
- Mar '19 contract **Kansas** hard red winter wheat closed up 9-6 cents at 508-6, *down 0-6 cents for the week*.
- In **Minneapolis**, Mar '19 contract hard red spring wheat closed at 575-4, up 5-4 cents for the day, *up 0-6 cents for the week,* while May '19 hard red spring wheat closed at 579-2, up 5-2 cents for the day, *up 0-6 cents for the week*.

Canadian wheat:

- Canadian producers delivered 424.6k mt of wheat (excl. durum) into the grain handling system during week 26 ending Jan 27th. YTD deliveries are now 11.331mln mt, up 23% from last year. Exports of 378.3k make a total of 9.25 mln mt, up 18% (1.381 mln mt) y/y. We are now half way though the MY and YTD exports are exactly half of StatsCan's predicted 18.5 mln mt of exports.
- Canadian elevator bids for wheat were about unchanged.
- During the 2018 growing season, 17,051,729 acres of wheat were insured for commercial purposes in Canada. Of this, 51% of these acres were grown in Saskatchewan, 32% were grown in Alberta and 16% were grown in Manitoba. CWRS remains the dominant class, accounting for 68% of all wheat classes grown (down 1% from last year). CWAD accounted for 24% of Cdn. wheat area (down 4%). While the remaining 9% was composed of CPS (unch.), CNRH (unch.), CWSWS (unch.), CWRW (down 1%) and CWSP (unch.).
- Statistics Canada is going to release its estimates of Dec 2018 wheat stocks on Tuesday Feb 5th. The strong export performance of

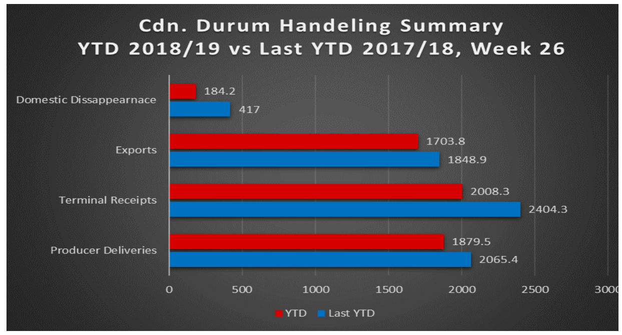






Canadian wheat has analysts estimating that Dec 2018 wheat stocks will be down 400k mt from last year at 23.4 mln mt. Meanwhile, durum exports and use have been slow, causing analysts to estimate 5.2 mln mt of durum stocks as of Dec 2018, up 400k mt from last year.

- Canadian producers delivered 105k mt of durum into the Canadian grain handling system in week 26. Total deliveries are down 9% from last year at 1.880mln mt. Exports were 13.8k mt for a season total of 1.704, down 8% (-145.1k mt) from last year.
- There is an abundance of durum available, and we do not see any significant increases in export destinations anytime soon.



US wheat:

- US wheat futures found support at the beginning of the week on sever cold temps in the US Plains, rumors of Chinese buying interest and rising Russian Fob values. Midweek, the market was disappointed from the US missing out on GASC's and Turkey's tenders causing the funds to sell 5,000k+ contracts. On Friday, wheat followed soybeans higher as reports from the US-China meetings said China was interested in buying 5 mln mt of beans (there were no wheat specific comments, nor talk of lifting tariffs).
- Extreme cold temps extended into the SRW regions of the US Plains. The areas of most concern are the S parts of IL, IN and OH where snow cover is limited. Temperatures were supposed to rise above freezing over the weekend which is not welcome as it could result in further lessening snow cover before a forecasted colder than average February.
- US net wheat sales were 526,300 mt for the week ending Dec. 20th (within expectations). There were no sales to China reported, but bulls can try again next week.
- Wheat sales are a concern. We expect future reports will show an increase, but with just 17 weeks remaining in the MY, total sales are just 632 mln bu, down 11% from last year vs the USDA's estimated 99 mln bu increase.

Australian wheat:

- Aussie futures fell to an 8-week low as the domestic market saw increased farmer selling into the A$85 old crop-new crop inverse.
- The heat wave has continued in Australia, further hurting their sorghum crop. Aussie sorghum is now ~$100 more than US into China.

Argentine wheat:

- Argentine Fob wheat values were ~$3/mt higher this week. Argentine 12.5 pro peaked at $244-$250 but retreated to $240-$245 to finish the week.
- Large demand is coming from Brazil, and their line-up shows big programs into Asia, West and East Africa, and the Middle East.
- The rise in Fob over the past few weeks is because of fears of a repeat of last year's overselling which created a major rationing rally.

EU wheat:

- France sold 3 cargoes to GASC, a first since July 2017. Despite this, Matif ended lower with French premiums unchanged.
- The Brussels Commissions lower ether EU soft wheat export number by 2 mln to 18 mln mt. This is just 6% lower than last year while YTD shipments continue to be down 27%.
- German and Baltic premiums were firm on with fresh business into Turkey, and having sold into both GASC and Jordan, there are reports that Romania is getting close to being cleaned out.

Black Sea wheat:

- The Russian AgMin put their 2019 crop at 67 mln mt. This is surprising as a 3% increase in acreage and trend yields would argue a 73-74mln mt crop. Some are speculating this too-low number is part of the plan to tamper old crop export expectations.
- The cheapest Russian offer for 11.5 pro at the GASC tender was for $247, a season high. There is a $45 old crop-new crop inverse, and the trucker's strike is adding logistical problems.
- Jan 1 wheat stocks show a 27% decline from last year, and interior prices have hit a new record high in both Rouble and US$ terms.

➢ **Significant purchases/ trades:**

There was a decent tender line-up last week:

- **Egypt (GASC)** bought 360,000 tonnes 11-20 March Romanian/French at $261.50-265
- **Turkey** bought 300,000 tonnes Feb-Mar 13.5 pro at $262.50-271.50, origins 1/3rd Baltic origin, 2/3rds Russian
- **Jordan** bought 60,000 tonnes FH April at $271.50
- **The Baltic Panamax freight index** is down 25% on the week, off 60% in January and down 70% from the October highs

➢ **Wheat Market Outlook:**

Significant events:

- The **GASC tender** seems to confirm that Russia has lost its demand base and importers are starting to look elsewhere.
- The **US sales report** showed 170k mt of sales to private Egyptian buyers (not GASC). At that time (Dec. 14-20th), HRW was just $2-4 cheaper than Russian 12.5 pro. Today the spread is closer to $20, suggesting significant additional business.
- **US sales** data for the week ending Dec 20th was as expected. We will not have up to date info for another 3 weeks.
- There were some very optimistic comments following the **Trump-Liu meetings** -talk of a "complete deal" by their next meeting in late February. A China-US deal would give a strong boost to wheat, especially if the rumored quantities are purchased.

➢ ***Outlook:***

Severe cold is supposed to return to the Central Plains mid-February. This is not welcome as snow cover is limited. Trade is dubious that announcements of sales to China can significantly alter the balance sheet (It should be kept in mind that sales going into inventory are not the same as usage). Next week is a holiday in China and there is still the risk of another US Government shutdown Feb 15th if the President doesn't get his wall both factors that could impact US-China negotiations. Meantime, the trade awaits next week's the USDA-WASDE report scheduled for Feb 8th which will include the missed Jan. data, importantly, the quarterly grain stocks, final yield/production numbers and 2019/20 winter wheat acreage.

- *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: February 1, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May. '19 (bu.)	May. '19 (mt.)
1 CWRS 13.5	$7.01	$257.58	1 CWRS 13.5	$7.19	$264.19
1 CWAD 13.0	$6.23	$228.92	1 CWAD 13.0	$6.44	$236.63
1 CPSR 11.5	$6.39	$234.79	1 CPSR 11.5	$6.54	$240.31
SW Sask			SW Sask		
1 CWRS 13.5	$6.88	$252.80	1 CWRS 13.5	$7.08	$260.15
1 CWAD 13.0	$6.21	$228.18	1 CWAD 13.0	$6.40	$235.16
1 CPSR 11.5	$6.07	$223.04	1 CPSR 11.5	$6.10	$224.14
NE Sask			NE Sask		
1 CWRS 13.5	$6.77	$248.76	1 CWRS 13.5	$6.92	$254.27
1 CWAD 13.0	$6.46	$237.37	1 CWAD 13.0	$6.50	$238.84
1 CPSR 11.5	$6.08	$223.40	1 CPSR 11.5	$6.24	$229.28
SE Sask			SE Sask		
1 CWRS 13.5	$6.10	$224.14	1 CWRS 13.5	$6.88	$252.80
1 CWAD 13.0	$6.47	$237.73	1 CWAD 13.0	$6.60	$242.51
1 CPSR 11.5	$6.00	$220.46	1 CPSR 11.5	$6.22	$228.55

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.

<u>Assumptions, Definitions, and Methodology</u>

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 Basis[1] (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)

- <u>Hard wheat price calculations:</u>
  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.

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[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

Releveant FOB Prices and Export Basis				January 4, 2019
	FOB Prices CDA[1] (calculated)		Street Prices	Export Basis[2]
Type of Wheat	West Coast (Cdn./mt$)	Great Lakes (Cdn.$/mt)	Rosetown (Cdn.$/mt)	Basis: West Coast-Centr. SK (Cdn$/mt)
DNS 14.0	$334.56			
HRS	$329.74			
HRW 11.5	$327.81			
SWW 12.0	$320.10			
1 CWRS 13.5[3]	$334.56		$252.06	$82.50
2 CWRS 13.0[3]	$329.74		$244.72	$85.03
3 CWRS[3]	$327.81		$224.51	$103.31
CPS[3]	$313.35		$226.71	$86.64
1 CWAD[4]			$0.00	$0.00
Competing wheat:	US$/mt			
Russia 12.5 (Black Sea, 25k mt)	$254.00			
French 11.5 (Rouen)	$239.60			
APW 10.5 (W Coast)	$277.00			
Argentine 12.0	$240.00			

[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 4, 2019
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	$8.92	$8.79	$8.74	$8.53	$8.53
Parity Track Rosetown	$7.43	$7.29	$7.24	$7.03	$7.03
Track Bid Rosetown Area	$6.86	$6.66	$6.11	$6.17	$6.17
Gross Margin at Elevator ($/bu)*	$0.57	$0.63	$1.13	$0.86	$0.86
Gross Margin at Elevator ($/mt)*	$20.76	$23.29	$41.57	$31.66	$31.66

* to cover elevation, elevator market risk, margin