

Wheat Market Outlook and Price Report: April 8, 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 April 8, 2019

AMIS (Agric. Market Information System) Wheat Supply-Demand Outlook for April '19:

World Balances, with and without China*

In million tonnes

	FAO-AMIS			USDA		IGC	
	2017/18 est.	2018/19 f'cast	2018/19 f'cast	2017/18 est.	2018/19 f'cast	2017/18 est.	2018/19 f'cast
		7-Mar	4-Apr		8-Mar		28-Mar
Production	759.9	728.3	730.9	763.1	733.0	763.5	734.9
	625.6	600.3	599.4	628.7	601.6	629.1	603.4
Supply	1,022.0	1,003.6	1,011.8	1,024.0	1,012.6	1,011.8	1,005.6
	791.4	770.6	768.6	774.8	749.9	776.8	759.9
Utilization	739.5	741.8	748.1	744.4	742.1	741.1	741.8
	616.9	621.1	621.6	623.4	617.1	617.7	614.0
Trade	176.8	171.0	170.5	181.2	178.9	175.2	171.1
	172.9	167.9	167.4	176.2	174.2	171.4	167.2
Stocks	280.9	264.7	267.0	279.6	270.5	270.7	263.8
	169.2	149.4	147.3	148.4	130.5	155.3	142.1

- **Global wheat production** for 2018 was revised upward based on a new estimate for China, but is still down 3.8% from the 2017 record mostly because of sharp projected reductions in Australia and the Russian Federation.
- **Global wheat utilization** in 2018/19 was raised on a higher estimate for China and the Russian Federation; up 1.2% from 2017/18, driven by firm demand in Asia.
- **Global wheat trade** for 2018/19 (July/June) was nearly unchanged from last month; down 3.6% from 2017/18 on lower anticipated shipments to several countries in North Africa as well as in Asia.

- **Global wheat stocks** (ending in 2019) were up from last month, but still down 14 mln mt from the record opening stocks, mostly on sharp expected drawdowns in the EU and the Russian Federation.

- **2019 Wheat conditions:**

EU: Winter wheat conditions are generally favourable, but additional rainfall is needed in southern Europe in the coming month. In

Ukraine: A very warm start to March has led to winter wheat growth being two to three weeks ahead of normal, which tends to be a positive factor for final yields.

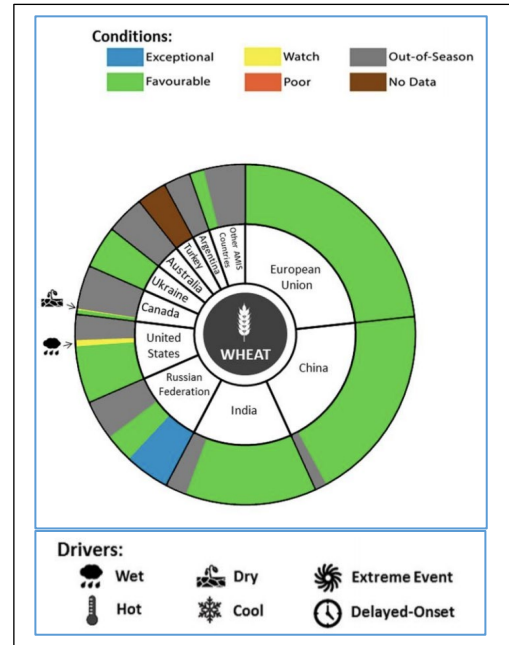
Russian Federation: Winter wheat conditions are off to an exceptional start in the Southern region, while areas further north remain in dormancy under favourable conditions.

China: Conditions for winter wheat are generally favourable as warmer than average weather is bringing the crop out of dormancy earlier than normal.

India: Winter wheat is progressing towards maturity stage under favourable conditions. Total sown area is in line with the previous year.

US: Winter wheat conditions are favourable in the main producing area of the southern Great Plains. Further north, in Nebraska and the Dakotas, very wet and snowy conditions are raising concerns. In

Canada: Winter wheat conditions are favourable for the dormant crop in the main producing provinces. However, delays in sowing in the fall, along with an increased risk of winterkill, may reduce production in the southern Prairies.



➤ **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:** May '19 contract Chicago winter wheat closed at 467-6, down 3-0 in Friday's trade, up 10-0 cents for the week.
May '19 contract Kansas hard red winter wheat closed down 8-2 cents at 431-2, up 1-2 cents for the week.
Minneapolis, May '19 contract hard red spring wheat closed at 522-4, down 4-6 cents in Friday's trade, down 32-2 cents for the week, while Jul '19 hard red spring wheat closed at 531-6, down 4-6 cents for the day, down 25-2 cents for the week.
- **Matif:** Matif rose €3.50 on old crop on Friday.
- **Funds:** Funds were inactive last week.

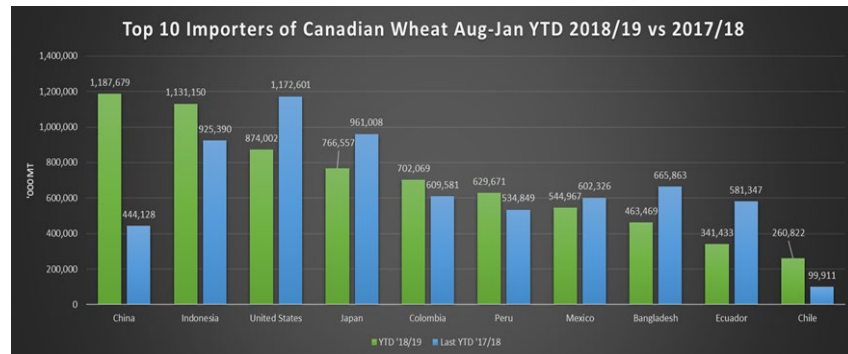
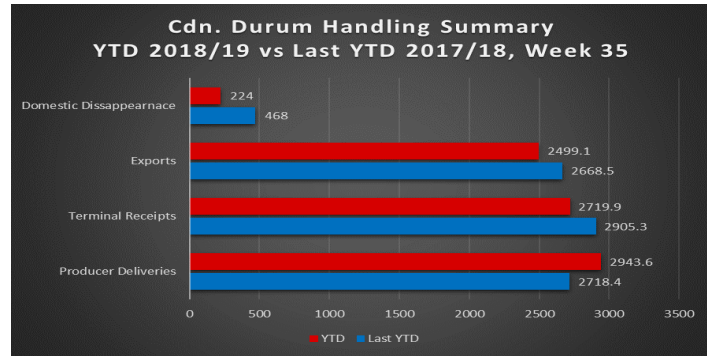
Canadian Wheat:

- Minneapolis wheat made and then extended contract lows. The market believes that China blocking Canadian canola will cause Canadian producers to plant significantly more area to wheat. The AAFC has 2019/20 spring wheat harvested area at 18.548 mln acres, up 8% from their 2018/19 estimate of 17.120 mln acres. Although we previously found this number too high, the trouble with China will likely cause Canadian farmers to plant more cereals. So, our current estimate for Canadian wheat (excl. durum) is for 18.784 mln acres (also up 8% from our 2018/19 estimate).

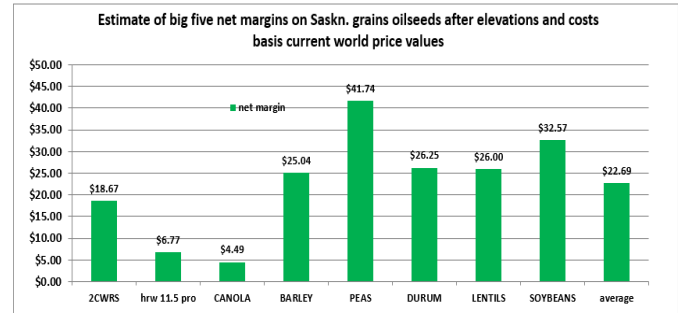
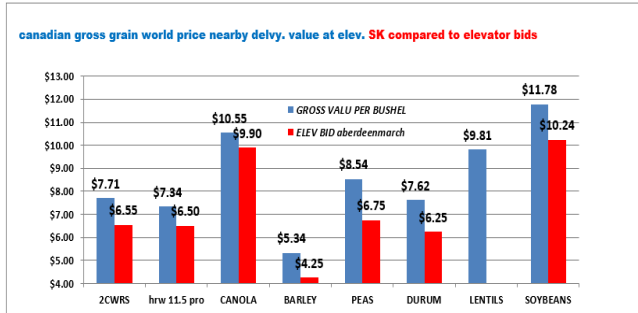
- Canadian wheat exports of 387.4k mt during the week create a total of 12.08 mln mt, up 16% (1.66 mln mt) year over year. Given the current pace, the AAFC's 18.7 mln mt export estimate looks 300-500k mt too high. To reach this, average exports from now to the end of the season would need to be 390k mt. The current weekly average is 45k mt less than that.

(CGC) Grain Handling Summary Wheat (excl. Durum)				Week 35 (to Mar 31/19)	
('000 mt)	Producer Deliveries	Terminal Receipts	Exports	Domestic Disappearance	
Current Week	392.1	288.9	387.4	44.1	
Week Ago	349.9	247.8	272.8	50.4	
YTD	14792	13399.5	12080.6	2666.7	
Last YTD	12301.8	11392.7	10424.9	3074.2	
YTD less Last YTD (k mt)	2,490.2	2,006.8	1,655.7	-407.5	
YTD over Last YTD (%)	20%	18%	16%	-13%	

- According to the Canadian International Merchandise Trade Database, Canada exported 1,616,290 mt of wheat (excl. durum) during Jan. 2019 for a YTD total of 10 mln mt, 1.263 mln mt more than during the same period last year. As of Jan., China continues to be the largest customer, importing a total of 1.188 mln mt since the beginning of the MY, a 744k mt increase from last year. Indonesia has also ramped up Cdn. wheat imports this year for a YTD total of 1.131 mln mt, a 206k mt increase from last year. Y/Y decreases have been in the US (-299k mt), Japan (-194k mt), Bangladesh (-202k mt) and Ecuador (-240k mt).



- CPTTP:** Effective April 1st, **Japan** has implemented a tariff on US wheat that is \$20/mt more than the tariff on wheat imported from Canada and Australia. This is because the US is not a member of the CPTPP. Furthermore, tariffs for CPTPP wheat origins will continue to fall every April 1, until 2026. Japan buys about 6 mln mt worth of wheat every year and buys 3.1 mln mt of this from the US, making them one of the largest markets for US wheat. Japanese milling industry sources estimate that US wheat imports will fall by 50% within a few years of the start of the CPTPP as eventually, the decrease in tariffs for CPTPP members will cause US wheat to be subject to a \$70/mt higher tariff than CPTPP members. So far, since the conception of the CPTPP on December 31, 2018, the US has not experienced a decrease in wheat sales to Japan. On April 4th Japan bought 84.3k mt from the US in their weekly tender while only buying 35.6k mt from Canada.
- Old crop wheat trading is rapidly drawing to a close, the trade is bored with the China-US negotiations, and although the first USDA new crop S&D's are still 5 weeks away, new crop is increasingly the focus. But for now, the bottom line still looks like we will need a major weather problem to change the tone and get buyers to think about longer-term coverage rather than covering short term needs.*
- Canadian elevator cash bids – some elevators pay better:**



US wheat:

- Chicago and Kansas wheat were able to close higher on the week (SRW is back to pre-USDA report levels) on strong export sales and short covering. Minneapolis wheat however was lagging. Improved planting conditions in the N Plains and the expected increase in Canadian planted area caused HRS to make contract lows at the beginning of the week and extended them though-out the week.
- The US winter wheat crop is rated 56% G/E, well above the 32% last year. HRW's rating is above average, but SRW's rating is well below.
- US wheat sales of 704,700mt for the week ending March 28th were strong vs the 500k mt expected. Included in this number was the 200k mt HRW sale to Iraq and the 119.5k mt SRW sale to Egypt. Total YTD commitments of 24.324 mln mt are 93% of the USDA's 24.324 mln mt of total exports. So, although inspections are running behind, total commitments will easily make, and surpass, the USDA's projection. HRW accounted for 266.6k mt of last week's sales. Total HRW commitments are now 99% (8.636 mln mt) of the USDA's export projection (of 8.709 mln mt), which will easily be exceeded. HRS sales of 196.8k mt were also strong. *However, HRS remains 9% lower than USDA's expectation. SRW sales were 158.2, YTD commitments are also 8% behind the USDA's expectation. We think the USDA will raise all wheat exports slightly while making some intra-class changes (HRW up, all others down) in their next report*

Week ending Mar 28/'19	US 2018/19 Export Sales by Class					
	'000 mt	HRW	HRS	SRW	White	Durum
Weekly Sales	266.6	196.8	158.2	82.9	0.2	704.7
YTD Total Commitments	8,636	6,718	3,243	5,245	481	24,324
Last YTD Commitments	8,981	5,996	2,406	5,162	374	22,918
Y/Y Change	-3.8%	12.0%	34.8%	1.6%	28.8%	6.1%
USDA Export Forecast	8,709	7,484	3,538	5,715	816	26,263
Y/Y Change in USDA Forecast	-14%	21%	43%	9%	67%	7%
Weeks Left in the MY	9	9	9	9	9	9
Amount Needed/wk to Meet USDA	8	85	33	52	37	215
% Sold	99%	90%	92%	92%	59%	93%
USDA Total Supply	32,992	22,133	12,526	8,934	3,545	84,130
USDA Ending Stocks	12,472	6,865	3,436	606	334	27,712
Stock/Use	66%	52%	49%	19%	42%	51%

Australian wheat:

- On 4 March, **Australia and Indonesia** signed a Comprehensive Economic Partnership Agreement (IA-CEPA) under which Indonesia will issue automatic import permits for duty-free access of 500,000 mt of feed grains, including wheat, in the first year. The tariff quota volume will be increased by 5 percent annually thereafter. IA-CEPA is expected to come into to force in 2020, pending ratification by the Indonesian House of Representatives and the Australian Parliament.
- Given a small increase in wheat acreage and a return to trend yield, production would be around 21 mln mt with an exportable surplus of around 13 mln mt. According to the Australian Met Bureau, soil moisture in WA is close to average, but NSW remains below/much below normal and the drought in SA worsened during March.
- Australian Fob wheat values were unchanged from last week at \$250/mt.

Argentine wheat:

- There was no confirmation that Argentine wheat traded to Algeria as some traders had expected.
- Argentine old crop Fob values for 12% protein wheat were unchanged this week at \$218.00/mt, with 11.5% protein wheat at \$214-215/mt.

EU wheat:

- There still is large French vessel line-up, good weekly EU shipments and a lack of farmer selling.
- New crop wheat values were slightly lower this past week on a perceived improved weather outlook.
- Old crop wheat Matif futures values increased by €3.55/mt on Friday.

Black Sea wheat:

- Russian March wheat exports were 1.8 mln mt for a season total 31 mln mt, suggesting 33-34 mln mt is still a realistic annual export number.
- The Black Sea was again quiet. Russian 12.5 protein wheat traded lower by \$2-4 at \$228-226/mt.

➤ **Significant purchases/ trades:**

There was some business done last week:

- **Algeria** bought up to 180,000 mt of wheat for LH May shipment at \$235.50/mt.
- **Jordan** purchased 60,000 mt wheat for FH Sep at \$222.50/mt.
- The **Philippines** bought 50,000 mt Jun-Jul Black Sea feed wheat at around \$220 which was \$30 below the Aussie price despite a 7% import duty.
- Durum: **Japan** tendered for 18,000 mt of durum for May/June shipment and US mills purchased a few trains of optional origin durum (US HAD's or CWAD to be applied) for new crop earlier in the week.
- **Ethiopia** has 1 mln mt wheat to buy by the end of April.
- **US inspections** were 418,000 mt (season total 691 mt bushels down 6%), sales of 705,000 mt took that total to 894 mt bushels up 6% on last year and very close to the USDA's projected 7% increase. There were also 313,000 mt of 2019/20 wheat sales.

➤ **Wheat Market Outlook:**

Significant events:

- **Global wheat stocks** (ending in 2019) were up from last month, but still down 14 mln mt from the record opening stocks, mostly on sharp expected drawdowns in the EU and the Russian Federation.
- On 4 March, **Australia and Indonesia** signed a Comprehensive Economic Partnership Agreement (IA-CEPA) under which Indonesia will issue automatic import permits for duty-free access of 500,000 mt of feed grains, including wheat, in the first year. The tariff quota volume will be increased by 5 percent annually thereafter. IA-CEPA is expected to come into force in 2020, pending ratification by the Indonesian House of Representatives and the Australian Parliament.
- There is a new **WASDE report** due on the 9th of April and buyers will wait to see this publication before committing to new purchases. The traders' estimates are close to the USDA's March estimate - we think the WASDE report will show slightly higher stocks than the March estimate.
- **Spring wheat:** The market believes that China blocking Canadian canola will cause Canadian producers to plant significantly more area to spring wheat.
- **CPTTP:** Effective April 1st, **Japan** has implemented a tariff on US wheat that is \$20/mt more than the tariff on wheat imported from Canada and Australia.

➤ **Outlook:**

We don't expect to see much change in the pattern of trade in the coming week. Weather is a non-factor. There is a new WASDE report due on the 9th of April and buyers will wait to see this publication before committing to new purchases. The trades' estimates are close to the USDA's March estimate - we think the WASDE report will show slightly higher stocks than the March estimate.

Old crop wheat trading is rapidly drawing to a close, the trade is bored with the China-US negotiations, and although the first USDA new crop S&D's are still 5 weeks away, new crop is increasingly the focus. But for now, the bottom line still looks like we will need a major weather problem to change the tone and get buyers to think about longer-term coverage rather than covering short term needs.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 8, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '19 (bu.)	July '19 (mt.)
1 CWRS 13.5	\$6.54	\$240.31	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	\$6.45	\$237.00	1 CWAD 13.0	\$6.74	\$247.65
1 CPSR 11.5	\$5.84	\$214.58	1 CPSR 11.5	\$5.62	\$206.50
SW Sask			SW Sask		
1 CWRS 13.5	\$6.41	\$235.53	1 CWRS 13.5	\$6.52	\$239.57
1 CWAD 13.0	\$6.47	\$237.73	1 CWAD 13.0	\$6.50	\$238.84
1 CPSR 11.5	\$5.33	\$195.85	1 CPSR 11.5	\$5.50	\$202.09
NE Sask			NE Sask		
1 CWRS 13.5	\$6.28	\$230.75	1 CWRS 13.5	\$6.36	\$233.69
1 CWAD 13.0	\$5.51	\$202.46	1 CWAD 13.0	\$6.51	\$239.20
1 CPSR 11.5	\$5.65	\$207.60	1 CPSR 11.5	\$5.62	\$206.50
SE Sask			SE Sask		
1 CWRS 13.5	\$6.22	\$228.55	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$5.56	\$204.30	1 CWAD 13.0	\$6.61	\$242.88
1 CPSR 11.5	\$5.50	\$202.09	1 CPSR 11.5	\$5.48	\$201.36

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)

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				
April 8, 2019				
Type of Wheat	FOB Prices CDA1 (calculated)		Street Prices	Export Basis2
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$318.73	\$304.57		
HRS	\$311.41			
HRW 11.5	\$305.55			
SWW 12.0	\$299.69			
1 CWRS 13.53	\$318.73		\$238.10	\$80.63
2 CWRS 13.03	\$311.41		\$228.92	\$82.49
3 CWRS3	\$305.55		\$216.05	\$89.49
CPS3	\$292.86		\$214.95	\$77.91
1 CWAD4		\$348.50	\$221.93	\$126.57
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$228.00			
French 11.5 (Rouen)	\$220.47			
APW 10.5 (W Coast)	\$250.00			
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					
	April 8, 2019				
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.49	\$8.29	\$8.13	\$7.97	\$7.97
Parity Track Rosetown	\$6.99	\$6.79	\$6.63	\$6.47	\$6.47
Track Bid Rosetown Area	\$6.48	\$6.23	\$5.88	\$5.85	\$5.85
Gross Margin at Elevator (\$/bu)*	\$0.51	\$0.56	\$0.75	\$0.62	\$0.62
Gross Margin at Elevator (\$/mt)*	\$18.81	\$20.67	\$27.68	\$22.92	\$22.92

* to cover elevation, elevator market risk, margin