

Wheat Market Outlook and Price Report: June 3, 2019
By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

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 June 3, 2019

International Grains Council (IGC) – May 2019 World Wheat Estimates:

| 1. World Estimates | | | | | |
|--------------------------------------|-------|---------------|-----------------|----------------|-------|
| | 16/17 | 17/18 est. | 18/19 f'cast | 19/20 proj. | |
| million tons | | | | 25.04 | 30.05 |
| WHEAT | | | | | |
| Production | 757 | 762 | 733 | 762 | 766 |
| Trade | 177 | 176 | 171 | 174 | 174 |
| Consumption | 736 | 739 | 741 | 752 | 753 |
| Carryover stocks | 248 | 270 | 263 | 274 | 276 |
| year/year change | 21 | 23 | -8 | | 13 |
| Major exporters ^{b)} | 78 | 82 | 68 | 72 | 72 |

- Although wheat will continue to rally with corn in the short-term, there is no real issue with global wheat supply. In their latest update, the IGC increased **global** wheat supply another 4 mln mt from their previous estimate to 766 mln mt, +33 mln mt over last year.
- According to the USDA, the EU, Black Sea, Australia and Canada will produce 316.8 mln mt (+33.7 mln mt y/y) of grain in 2019/20 creating an exportable surplus of 119.5 mln mt (+8.0 mln mt y/y).

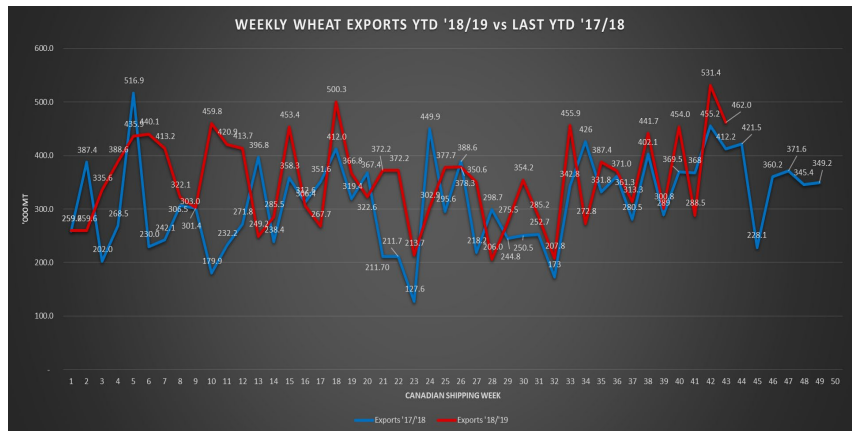
➤ **Global wheat production and trade:**

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:** July '19 contract **Chicago winter wheat** closed at 503-0, down 11-4 cents in Friday's trade, up 32-6 cents for the week.
- July '19 contract **Kansas hard red winter wheat** closed down 6-0 cents at 473-0, up 47-6 cents for the week.
- **Minneapolis**, July '19 contract **hard red spring wheat** closed at 552-0, down 11-4 cents in Friday's trade, up 16-2 cents for the week, while Sept '19 hard red spring wheat closed at 561-0, down 11-0 cents for the day, and up 18-2 cents for the week.
- **Matif:** Matif followed the US to gains of around €7/mt.
- **Funds:** Index Funds did nothing on the week, while Spec Funds were active buying in their total corn short. They are still short wheat and soybeans and we expect them to be wheat buyers as they find fewer offers coming out of Europe.

Canadian Wheat:

- Canadian producers delivered 348.3k mt of wheat (excl. durum) into the grain handling system during week 43, ending May 26th. YTD deliveries are now 1.67 mln mt, up 19% from last year. Exports of 462.0k mt during the week make a total of 15.24 mln mt, up 14% (1.86 mln mt) year over year. Weekly exports will need to be 395k mt to reach AAFC's 18.8 mln mt estimate, (which is unlikely).
- Wheat continued to follow corn on its march higher this past week. Excessive moisture in the US Midwest was maintained in the forecast up to the June 5th final crop insurance planting date. CZ9 corn futures are going to have to reach \$5.00 for producers to consider planting after the deadline and not taking the lucrative prevent plant payout. This has the market thinking that 10 mln acre of corn may not be planted, which would be huge.
- Seeding in MB is reportedly 94% complete (same as last year). Wheat crops in MB are emerged with adequate moisture, but hot temps are expected this week, so more rain will be needed. Seeding is 92% complete in SK. Spring cereal development in SK is 42% behind pace however, as topsoil moisture in crop areas is 47% short and 28% very short.
- *We are hearing of \$7.00 specials in SK and \$7.00 targets being hit in MB. This rally will be a good opportunity to sell remaining O/C. One must remember that this rally is weather driven and is lead by corn, there will be an abundance of wheat in the world once this weather scare is over and the US is going to struggle to compete.*
- *Canadian elevator bids should be around \$7.25 per bushel, which we think, are good levels to sell 30 percent of expected wheat production. Alternatively, we would recommend that \$6.00 Minneapolis wheat futures would be a good sale.*
- Canadian durum producers delivered 100.7k mt of durum into the Canadian grain handling system during week 43. Total deliveries are up 19% from last year at 3.67 mln mt. Exports through the week were 81.3k mt for a season total of 3.64 mln mt, up 8% (261k mt) from last year.



| (CGC) Grain Handling Summary Amber Durum | | Week 43 (to May 26/19) | | |
|--|---------------------|------------------------|---------|------------------------|
| ('000 mt) | Producer Deliveries | Terminal Receipts | Exports | Domestic Disappearance |
| Current Week | 100.7 | 95.2 | 81.3 | 2.2 |
| Week Ago | 47.2 | 111.8 | 45.2 | 3.6 |
| YTD | 3670.1 | 4107.1 | 3644.1 | 285.8 |
| Last YTD | 3078.7 | 3722.6 | 3359.4 | 630.7 |
| YTD less Last YTD (k mt) | ↑ 591.4 | ↑ 384.5 | ↑ 284.7 | ↓ -344.9 |
| YTD over Last YTD (%) | ↑ 19% | ↑ 10% | ↑ 8% | ↓ -55% |

- Durum planting in Montana is 74% complete. Cool and wet weather have caused emergence to lag at 30% emerged in MO and 45% in MN (vs averages of 42% and 62% respectively).
- *With acres down in both Canada and the US, and a lower carry-out than initially expected, we expect 2019/20 durum prices to fair better in 2019/20 than the year previous.*

US wheat:

- The NASS crop report put spring wheat planting at 84% complete and winter wheat conditions are down 5% from last week at 61% (38% last year); 66% of the winter wheat crop has headed. SRW harvest is under way in the southern states, but there are reports of delayed maturity in the saturated Midwest. *There are more questions than answers about the quality of the HRW crop which will be largely unknown until harvest moves further north.*
- Quality issues were already a concern after a very wet spring but now with an additional 5" of rain in the forecast for next week lost production is a real concern. That has helped HRW close the gap with the other classes this week and has brought new crop HRW prices up to the point where contracting is a consideration.
- Although wheat will continue to rally with corn in the short-term, there is no real issue with overall global wheat supply.

Australian wheat:

- Analysts in **Australia** are lowering wheat production estimates as the country continues to suffer from lack of moisture. Originally, the country was expecting a 38% rebound in production from last year's drought-stricken crop, but as little rain has fallen since, analysts are cutting expectations to 18 mln mt.
- Australian wheat futures were up A\$22 midweek but gave back half their gains.
- Australian Fob wheat values increased by \$15.00/mt over the week to \$245/mt FOB.

Argentine wheat:

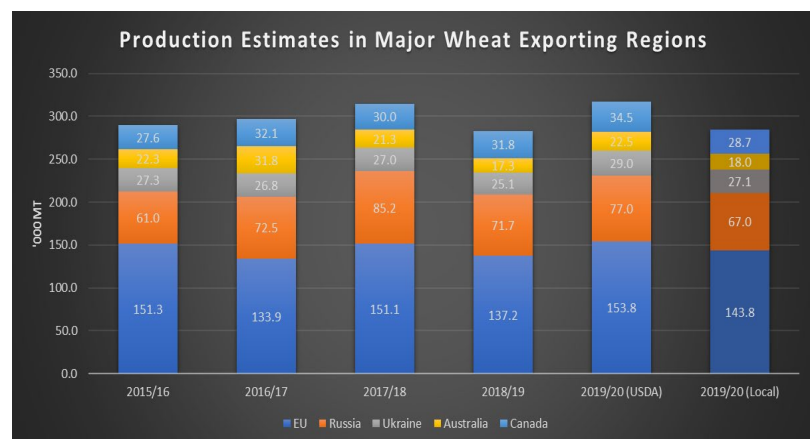
- There were no offers for Argentine old crop wheat. New crop Fob values for 12.5% protein wheat this week were at \$206.00/mt, up \$15/mt from last week. *The protein discount is -\$4.00/mt per ½ percent protein.*

EU wheat:

- Brussels increased their 2019/20 **EU** wheat production estimates by 2.5 mln mt to 143.8 mln mt, a 15 mln mt increase over last year's drought-stricken crop.
- Export demand is under threat with EU Fob values still \$10-15 above comparable Black Sea quality wheat.

Black Sea wheat:

- Local analysts believe **Russia's** 2019/20 wheat crop could be 4% lower than last year at 67 mln mt. Long-term weather models are calling for hot and dry conditions to persist over Ukraine and Russia which will be watched closely. Russian spring wheat planting is 81% complete.
- However, vegetation maps showed crops to be in better shape than last year, but heat is becoming more amplified both in intensity and coverage (from Kazakhstan, through Russia and Ukraine into central Europe) and the next 10 days could be very important.



- Russian 12.5 protein wheat for August traded midweek at \$198.50/mt early, and the bid-offer spread on the harvest positions ended the week at \$197-202/mt.

➤ Significant purchases/ trades:

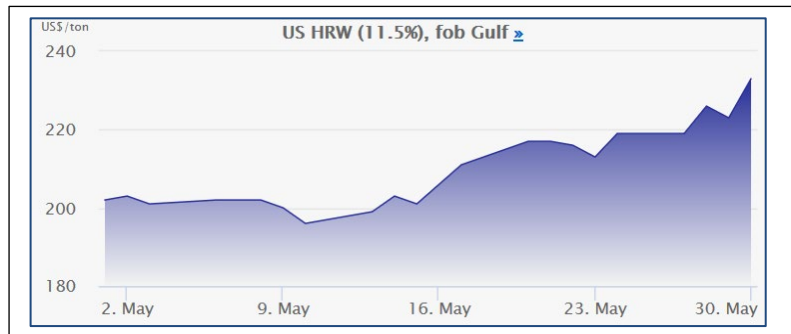
Cash wheat markets were quiet as buyers are adjusting to the recent rally. Consumers lack coverage even in the nearby, and as Ramadan ends next week, buying activity should pick up again.

- **US export inspections** were 494k mt for a season total of 889 mln bu vs the USDA's 925 mln bu. There is one week remaining in the US wheat marketing year.
- **Korea** bought Aug feed wheat at \$208/mt, Oct at \$209 and Nov arrival \$214, just \$2 below what they paid for corn. These feed wheat purchases look cheap to us normally Korea will pay a US\$20/mt premium for wheat over corn.

➤ Wheat Market Outlook:

Significant events:

- **Wheat continued to follow corn** higher this week. Excessive moisture in the US Midwest was maintained in the forecast up to the June 5th final crop insurance planting date. The market is thinking that 8-12 mln acre of corn may not be planted, which would be huge. – *In that case Wheat will need to be used for feed to compensate in the loss of corn supplies.*
- **Heat and dryness in southern Russia** is being added to the concern in the Volga, heavy rain and hail in the Balkans could bring a late season threat to crops there, Canada and Australia remain dry, and USA quality remains an unknown with unwanted rains persisting in the central and Southern Plains.
- **Consumers** are stunned and **low on coverage** as the world's cheapest wheat, Russian, are up almost \$20 from the lows and with few offers.
- **Funds** still remain net short around 14 mln tonnes of Futures contracts.



➤ Outlook:

Weather concerns: Heat and dryness in southern Russia is being added to the concern in the Volga, heavy rain and hail in the Balkans could bring a late season threat to crops there, Canada and Australia remain dry, and USA quality remains an unknown with unwanted rains persisting in the central and Southern Plains.

Wheat quality concerns: Quality issues were already a concern in the US after a very wet spring but now with an additional 5" of rain in the forecast for next week lost production is a real concern. That has helped HRW close the gap with the other classes this week and has brought new crop HRW prices up to the point where contracting is a consideration.

Wheat buyers lack forward coverage: Consumers are stunned and low on coverage as the world's cheapest wheat, Russian, are up almost \$20 from the lows and with few offers.

Fund effect: Funds still remain net short around 14 myn tonnes of Futures contracts.

Substitution effect: Additional wheat will need to be used for feed to compensate in the loss of corn supplies.

Canadian elevator bids should be around \$7.25 per bushel, which we think, are good levels to sell 30-40 percent of expected wheat production.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: June 3, 2019

| NW Sask | Spot | | NW Sask | Deferred | |
|--------------------|--------|----------|--------------------|-----------------|-----------------|
| | (bu.) | (mt) | | Sept. '19 (bu.) | Sept. '19 (mt.) |
| 1 CWRS 13.5 | \$6.77 | \$248.76 | 1 CWRS 13.5 | \$6.60 | \$242.51 |
| 1 CWAD 13.0 | \$6.46 | \$237.37 | 1 CWAD 13.0 | \$6.26 | \$230.02 |
| 1 CPSR 11.5 | \$6.43 | \$236.26 | 1 CPSR 11.5 | \$5.84 | \$214.58 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$6.69 | \$245.82 | 1 CWRS 13.5 | \$6.50 | \$238.84 |
| 1 CWAD 13.0 | \$6.49 | \$238.47 | 1 CWAD 13.0 | \$6.26 | \$230.02 |
| 1 CPSR 11.5 | \$6.35 | \$233.32 | 1 CPSR 11.5 | \$5.80 | \$213.12 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$6.50 | \$238.84 | 1 CWRS 13.5 | \$6.37 | \$234.06 |
| 1 CWAD 13.0 | \$6.55 | \$240.67 | 1 CWAD 13.0 | \$6.23 | \$228.92 |
| 1 CPSR 11.5 | \$6.23 | \$228.92 | 1 CPSR 11.5 | \$5.63 | \$206.87 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$6.52 | \$239.57 | 1 CWRS 13.5 | \$6.34 | \$232.96 |
| 1 CWAD 13.0 | \$6.64 | \$243.98 | 1 CWAD 13.0 | \$6.34 | \$232.96 |
| 1 CPSR 11.5 | \$6.19 | \$227.45 | 1 CPSR 11.5 | \$5.62 | \$206.50 |

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 | | | | |
|--------------------------------------|------------------------------|-----------------------|--------------------|--|
| June 3, 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 | \$326.44 | \$302.20 | | |
| HRS | \$319.02 | | | |
| HRW 11.5 | \$315.56 | | | |
| SWW 12.0 | \$311.10 | | | |
| 1 CWRS 13.53 | \$326.44 | | \$258.68 | \$67.76 |
| 2 CWRS 13.03 | \$319.02 | | \$249.49 | \$69.53 |
| 3 CWRS3 | \$315.56 | | \$236.63 | \$78.92 |
| CPS3 | \$304.18 | | \$253.53 | \$50.65 |
| 1 CWAD4 | | \$309.62 | \$233.32 | \$76.30 |
| Competing wheat: | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$197.00 | Jly. | | |
| French 11.5 (Rouen) | \$204.38 | Jly. | | |
| APW 10.5 (W Coast) | \$245.00 | Jly. | | |
| Argentine 12.0 | n/a | Jly. | | |

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 | | | | | |
|--|-----------------|---------------|---------------|--------------------|---------------|
| June 3, 2019 | | | | | |
| Canadian Funds | Grade | | | | |
| PNW value/Vancouver | 1CWRS13. | 2CWRS | 3CWRS | Winter wht. | CPS |
| May/June delivery | \$8.70 | \$8.49 | \$8.40 | \$8.28 | \$8.28 |
| Parity Track Rosetown | \$7.20 | \$7.00 | \$6.90 | \$6.78 | \$6.78 |
| Track Bid Rosetown Area | \$7.04 | \$6.79 | \$6.44 | \$6.90 | \$6.90 |
| Gross Margin at Elevator (\$/bu)* | \$0.16 | \$0.21 | \$0.46 | -\$0.12 | -\$0.12 |
| Gross Margin at Elevator (\$/mt)* | \$5.85 | \$7.62 | \$17.02 | -\$4.34 | -\$4.34 |

* to cover elevation, elevator market risk, margin