

Wheat Market Outlook and Price Report: June 10, 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

AMIS¹ June View on Global Wheat for the 2019/20 Crop Year:

AMIS World Wheat Balance Sheet

	2018/19	2019/20	
	estimate	9 May	6 June
Production	730.4	767.0	769.5
Supply	1012.3	1035.2	1037.9
Utilization	746.4	756.9	755.0
Trade	168.4	173.5	174.0
Ending Stocks	268.4	278.0	280.8

in million tonnes

- AMIS increased the global wheat production forecast for 2019 by 2.5 mln mt due to better production prospects in the EU and Canada, which are more than offsetting a downward adjustments in Australia and Turkey.
- Wheat utilization in 2019/20 was trimmed slightly on lower feed use of wheat in the EU, but still up 1.2 percent from 2018/19. – Mercantile thinks this is wrong due events in the US corn market and will be readjusted in later reports.
- Wheat trade in 2019/20 (July/June) is pointing to a modest recovery, a rise of 3.3 percent from 2018/19, underpinned by significant increases in exports from Australia and the EU.

¹ AMIS (Agricultural Market Information System) is an inter-agency platform to enhance food market transparency and policy response for food security.

- Wheat stocks (ending in 2020) are projected to increase to a near-record level, largely on higher inventories in China and the EU.

➤ **Global wheat production and trade:**

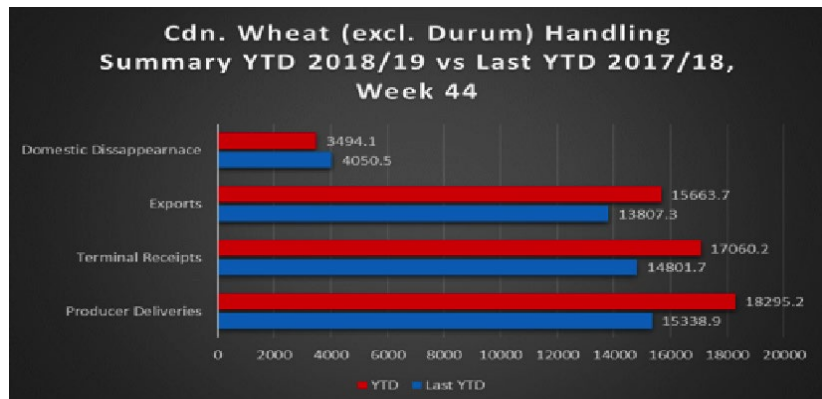
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** July '19 contract **Chicago winter wheat** closed at 504-4, down 5-4 cents in today's trade, *up 1-4 cents for the week.*
July '19 contract **Kansas hard red winter wheat** closed down 6-2 cents at 449-0, *down 24-0 cents for the week.*
Minneapolis, July '19 contract **hard red spring wheat** closed at 568-6, up 3-6 cents in today's trade, up 16-4 cents for the week, while Sept '19 hard red spring wheat closed at 577-2, up 3-0 cents for the day, *up 16-4 cents for the week.*
- **Matif:** Matif followed the US and was pressured by the firm Euro closing down €6/mt after a higher start.
- **Funds:**

CHICAGO & KANSAS WHEAT FUTURES POSITIONS (myn MT)				
	30-Apr	04-Jun	Δ	% Covered
INDEX	19.6	20.2	0.6	
SPEC	-23.2	-11.1	12.1	52%
COMMERCIAL	2.3	-8.6	-10.9	
NON-REPORTING	<u>1.3</u>	<u>-0.5</u>	<u>-1.8</u>	
TOTAL	0.0	0.0	0.0	

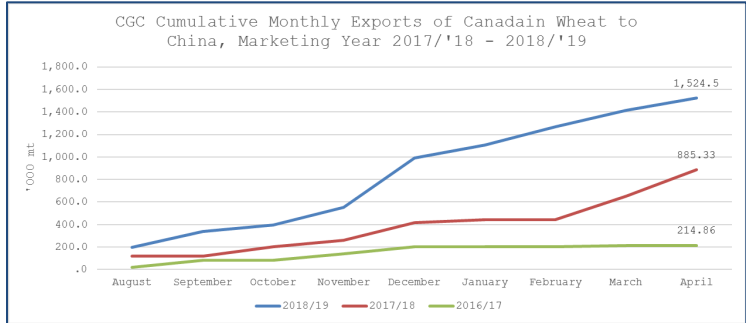
Canadian Wheat:

- Canadian producers delivered 625.6k mt of wheat (excl. durum) into the grain handling system during week 44, ending June 2nd. YTD deliveries are now 18.3 mln mt, up 19% from last year. Exports of 420.7k mt during the week create a total of 15.66 mln mt, up 13% (1.86 mln mt) year over year.

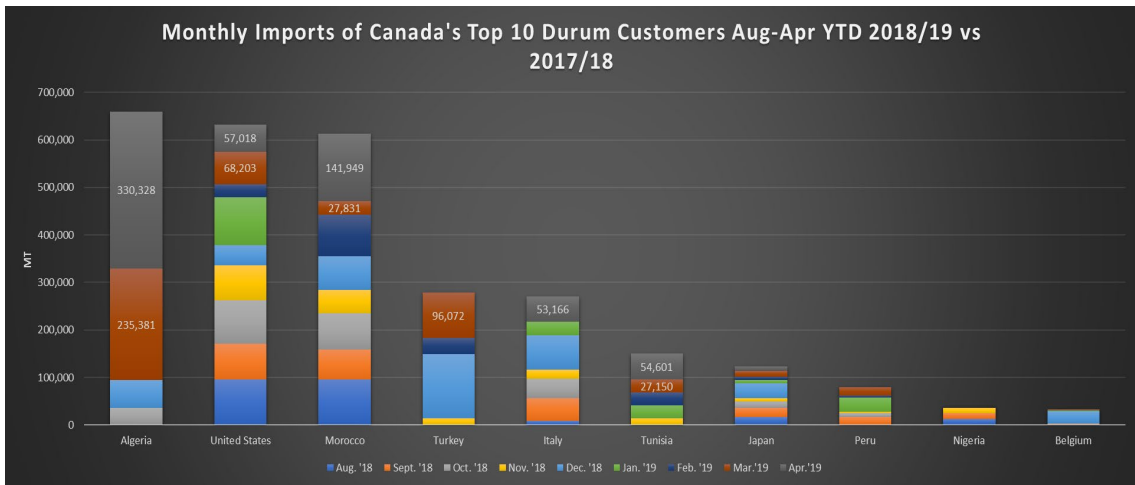
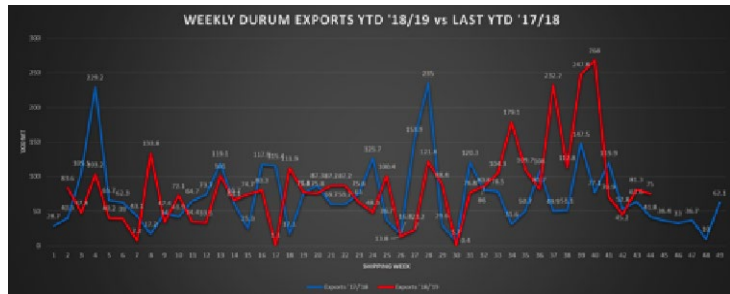


- Wheat continued to follow corn on its march higher this past week. Excessive moisture in the US Midwest was maintained in the forecast up to the June 5th final crop insurance planting date. CZ9 corn futures are going to have to reach \$5.00 for producers to consider planting after the deadline and 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.
- Despite diplomatic tensions leading to China restricting canola imports from Canada, YTD Canadian wheat shipments to China have reached a 14-year high. Since the start of the 2018/19 MY, China has bought 1.5 mln mt of wheat from Canada Aug-Apr. According to CGC data, this is nearly double last year's YTD and the most imported during the same timeframe since 2004/05. China generally buys high quality wheat from Australia, the US and Canada. The small Aussie crop (because of the drought) and 25% tariffs on US wheat have Chinese buyers to turning towards Canada for their high-protein wheat needs.

US wheat exports to China are an 11-year low of 42,000 mt, and analysts expect this will not change significantly so long as the trade war continues (China did not purchase any US wheat in May). China is Canada's second largest export market (next to Indonesia) this year, accounting for 11% of total wheat exports.



- With just 40% of average rainfall YTD, topsoil moisture conditions continue to deteriorate in SK, which is now rated just 22% adequate and 78% short/very short. Crop growth is becoming increasingly delayed, and rain will be needed within the next week to avoid permanent damage.
- We are hearing of \$7.00 specials in SK and \$7.00 targets being hit in MB. Make sure that you take advantage of selling remaining O/C into this rally before it ends. We recommend that \$6.00 Minneapolis wheat futures would be a good sale.
- **Durum:** Canadian producers delivered 155.1k mt of durum into the Canadian grain handling system during week 44. Total deliveries are up 21% from last year at 3.83 mln mt. Exports through the week were 75k mt for a season total of 3.72 mln mt, up 9% (314.2k mt) from last year.



- For the majority of the MY, durum exports were well behind pace. Exports jumped significantly in March and April as Algeria made 2 huge (235k mt and 300k mt) purchases of Canadian durum. Algeria is now the top buyer of Canadian durum in 2018/19, importing 659,866 mt worth of durum (-198,142 y/y). YTD exports to the US and Morocco are 632,076 mt (-43,443 mt y/y) and 612,567 mt (+14,905 mt y/y) respectively. Turkey and Tunisia have been strong buys this year having not purchased any durum in 2017/18.
- *With acres down in both Canada and the US, and lower '18/19 ending stocks than initially expected, we expect 2019/20 durum prices to fair better in 2019/20 than the year previous.*

US wheat:

- Spring wheat planting in the US is 93% complete, only 3% behind average. The crop is rated as 83% Gd/Exc. Spring wheat planting estimates from IEG Vantage are 12.2 mln acres, below the USDA's 12.8 mln number.
- Durum planting is now 86% complete in MO and 92% complete in ND. Emergence is behind the 5-year average.
- Wheat futures were under pressure this week with a drier forecast and the NASS crop report showing US winter wheat G/E ratings improving 3% to 64% (market expectations were for a decrease). The winter wheat crop is 76% headed (84% avg.). KC wheat found some support as rain has hampered the HRW harvest. OK is just 1% harvested and the market is realizing that excessive water may have damaged KS yields. Dry conditions in the SRW area have been favourable for development and harvest. The first SRW harvest samples are expected next week.
- Despite the higher prices, US new crop sales were strong at 501,900 mt vs the 100-400 expected. Included in N/C sales were 62,300 mt to Algeria. Net reductions of 26,000 mt were reported for old crop, which was lower than expected. Lots of these reductions were flipped to N/C.

Australian wheat:

- Additional rain continued in Australia in spite of a forecast to the contrary.
- Australian wheat futures dropped by A\$14/mt over the past week. Domestic markets also fell with bids being pulled as the 2-3 week forecasts also turned wetter.
- Australian Fob wheat values remained at~ \$245/mt.

Argentine wheat:

- The Buenos Wires Grain exchange (BAGE) put wheat plantings at 20% complete, still very close to last year's level despite the expected bigger acreage.
- The only quote for old crop Argentine Fob 11.5 protein wheat was at \$240/mt.
- New crop Fob values for 12.5% protein wheat this week were at \$205.00/mt, down \$1/mt from last week. *The protein discount is -\$4.00/mt per ½ percent protein.*

EU wheat:

- The EC in 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.
- Matif followed the US and was pressured by the firm Euro closing down €6/mt after a higher start.
- There are still few threats to the EU crop, but export demand is thin and EU Fob values are \$10-20 higher than comparable Black Sea wheat.
- EU areas of concern are confined to Spain, where drought will take 2-3 mln mt off the crop, and to the Balkans, where excessive rain, storms and hail may have hurt production/quality.

Black Sea wheat:

- Ukraine's AgMin estimates the country could have a 70 mln mt crop, and despite the dryness, Russia is still poised for a large ~77 mln mt crop.
- Russian 12.5 protein wheat for August was down US\$2.50/mt on the week at \$196.00/mt.

➤ **Significant purchases/ trades:**

Global cash markets were quiet again last week as traders are waiting for the rally to fizzle out before buying more. Wheat importers have low coverage and will need to return.

- US new crop sales were strong at 501,900 mt vs the 100-400 expected.
- Japan purchased 77,042 mt of US and Canadian wheat in their weekly tender, 58,157 mt of which were bought from the US.

➤ **Wheat Market Outlook:**

Significant events:

- The EC in 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.
- Canada, Russia, Ukraine and now central Europe are hot and dry. SovEcon lowered 2019 wheat production because of the dry May. Russian Fob has risen \$8-\$11 since it's most recent low on May 16th. **But Ukraine's AgMin estimates the country could have a 70 mln mt crop, and despite the dryness, Russia is still poised for a large ~77 mln mt crop.** Black Sea sellers will continue to be aggressive to win global demand, especially during the fall months.
- **Cash business** was subdued but the trade expects both Algeria and Egypt (GASC) in the market next week once the USDA report is behind us. There are also reports from Asia that importers had been caught out by the recent rally in the market and have little cover August onwards.
- We will receive the June **USDA-WASDE** reports this coming Tuesday. We expect the USDA will increase world wheat production, so overall, we don't think this report will be that bullish.

➤ **Outlook:**

Apart from a potential increase in trade volume next week, there is little to talk about other than weather, and how the USDA will give their version of crop prospects around the world on Tuesday. - We expect them to again show ample supplies of wheat. The May wheat report had 2019/20 world ending stocks (excluding China) rising by 12 mln mt from a crop that was 45 mln mt bigger than last years (of which 35 mln mt was in the major exporters), and that broad-brush picture is unlikely to change very much. *However, feeding use could be up significantly.* Wheat quality also remains an issue but that won't be resolved until the combines roll.

If Canadian elevator bids reach around \$7-7.25 per bushel, we think these 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 10, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '19 (bu.)	Sept.'19 (mt.)
1 CWRS 13.5	\$6.83	\$250.96	1 CWRS 13.5	\$6.68	\$245.45
1 CWAD 13.0	\$6.48	\$238.10	1 CWAD 13.0	\$6.33	\$232.59
1 CPSR 11.5	\$6.08	\$223.40	1 CPSR 11.5	\$5.55	\$203.93
SW Sask			SW Sask		
1 CWRS 13.5	\$6.74	\$247.65	1 CWRS 13.5	\$6.60	\$242.51
1 CWAD 13.0	\$6.50	\$238.84	1 CWAD 13.0	\$6.34	\$232.96
1 CPSR 11.5	\$5.52	\$202.83	1 CPSR 11.5	\$5.55	\$203.93
NE Sask			NE Sask		
1 CWRS 13.5	\$6.55	\$240.67	1 CWRS 13.5	\$6.44	\$236.63
1 CWAD 13.0	\$6.58	\$241.78	1 CWAD 13.0	\$6.34	\$232.96
1 CPSR 11.5	\$5.89	\$216.42	1 CPSR 11.5	\$5.31	\$195.11
SE Sask			SE Sask		
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	\$6.43	\$236.26
1 CWAD 13.0	\$6.66	\$244.72	1 CWAD 13.0	\$6.43	\$236.26
1 CPSR 11.5	\$5.71	\$209.81	1 CPSR 11.5	\$5.32	\$195.48

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 Basis² (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

² 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.”

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				June 10, 2019
Type of Wheat	FOB Prices CDA1 (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	\$320.97	\$305.41		
HRS	\$313.68			
HRW 11.5	\$285.96			
SWW 12.0	\$303.46			
1 CWRS 13.53	\$320.97		\$245.82	\$75.15
2 CWRS 13.03	\$313.68		\$244.72	\$68.96
3 CWRS3	\$285.96		\$231.49	\$54.47
CPS3	\$296.66		\$218.63	\$78.03
1 CWAD4		\$304.44	\$225.61	\$78.83
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$196.00	Jly.		
French 11.5 (Rouen)	\$201.07	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 10, 2019
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Vinter wht.	CPS	
May/June delivery	\$8.55	\$8.35	\$7.60	\$8.07	\$8.07	
Parity Track Rosetown	\$7.05	\$6.86	\$6.10	\$6.58	\$6.58	
Track Bid Rosetown Area	\$6.69	\$6.66	\$6.30	\$5.95	\$5.95	
Gross Margin at Elevator (\$/bu)*	\$0.36	\$0.20	-\$0.20	\$0.63	\$0.63	
Gross Margin at Elevator (\$/mt)*	\$13.36	\$7.17	-\$7.32	\$23.04	\$23.04	

* to cover elevation, elevator market risk, margin