

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

Global Wheat Supply-Demand Outlook – Summary Major Stats Agencies:

World Balances, with and without China*

Wheat	FAO-AMIS			USDA		IGC	
	2018/19	2019/20		2018/19	2019/20	2018/19	2019/20
	est	6 Jun	4 Jul	est	11 Jun	est	27 Jun
Prod	730.2	769.5	770.8	731.7	780.8	733.1	768.5
	598.8	637.5	638.8	600.3	648.8	601.6	637.3
Supply	1,011.0	1,037.9	1,037.4	1,012.6	1,057.4	1,003.2	1,031.2
	768.0	786.7	786.2	750.0	785.4	757.5	779.7
Utiliz.	747.1	755.0	758.4	736.1	763.1	740.5	756.3
	620.7	628.1	630.7	611.1	635.1	612.7	628.4
Trade	169.7	174.0	173.8	175.7	185.4	171.4	174.4
	166.4	170.2	170.0	170.7	176.5	167.7	170.8
Stocks	266.6	280.8	278.5	276.6	294.3	262.7	274.8
	147.4	153.3	151.9	136.6	148.2	141.2	147.6

- The **wheat production** forecast for 2019 increased slightly, mostly due to an upward revision in India more than offsetting a cut in Pakistan.
- **Wheat utilization** in 2019/20 was increased, now up 1.5% from 2018/19, supported by improved production prospects and higher use of wheat for animal feed in place of maize.
- **Wheat trade** in 2019/20 (July/June) points to a rebound from the 2018/19 reduced level, underpinned by stronger import demand in Africa and Asia.
- **Wheat stocks** (ending in 2020) were reduced, largely reflecting lower expected inventories in China and the US more than offsetting the higher forecast for Australia.

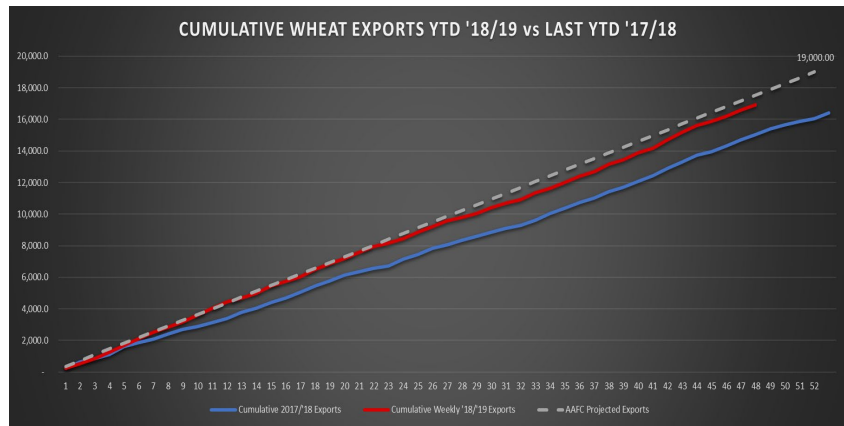
➤ **Global wheat production and trade:**

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.

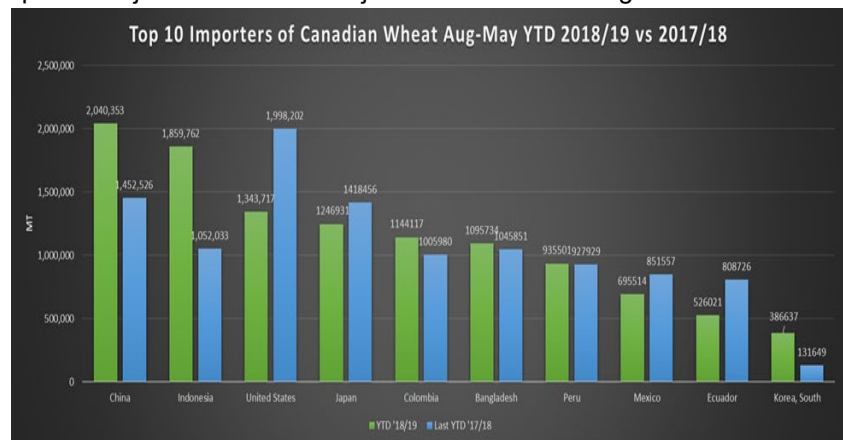
- **Futures:** Sept '19 contract **Chicago winter wheat** closed at 515-0, up a penny in today's trade, *down 31-6 cents for the week.*
Sept '19 contract **Kansas hard red winter wheat** closed up 1-4 cents at 445-2, *down 36-2 cents for the week.*
Minneapolis, Sept '19 contract **hard red spring wheat** closed at 533-2, down 6-6 cents in Friday's trade, down 23-4 cents for the week, while Dec '19 hard red spring wheat closed at 548-2, down 6-0 cents for the day, *down 22-4 cents for the week.*

Canadian Wheat:

- Canadian producers delivered 334.7k mt of wheat (excl. durum) into the grain handling system during week 48, ending June 30rd. YTD deliveries are now 19.87 mln mt, up 16% from last year.
- Exports of 333.7k mt were strong, but still below the weekly avg. of 470k mt needed to reach the AAFC's 19 mln mt estimate. YTD Cdn. wheat exports are just 17 mln mt with just 4 weeks remaining in the MY.

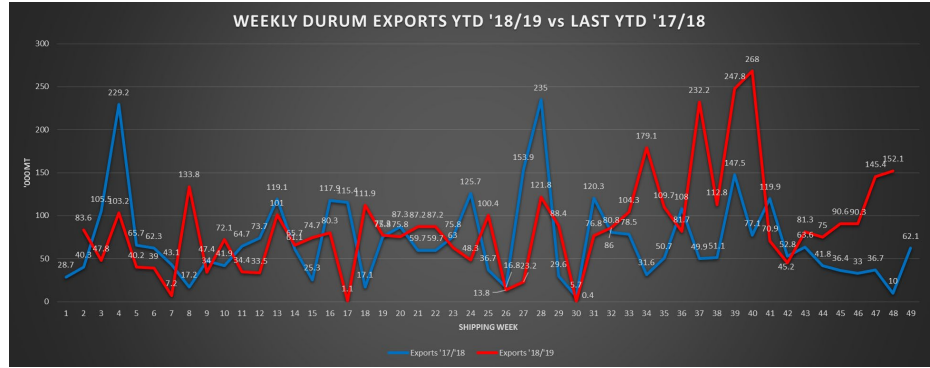


- May was the strongest month for Canadian wheat exports YTD. Cdn. exporters shipped 2,042,091 mt of wheat over the month creating a total of 16,686,974 mt. This is 14% (+2.05 mln mt) more than last year.
- Three of the largest customers in May where China (419,428 mt), Japan (179,484 mt) and Australia (120,337 mt), who imported their first



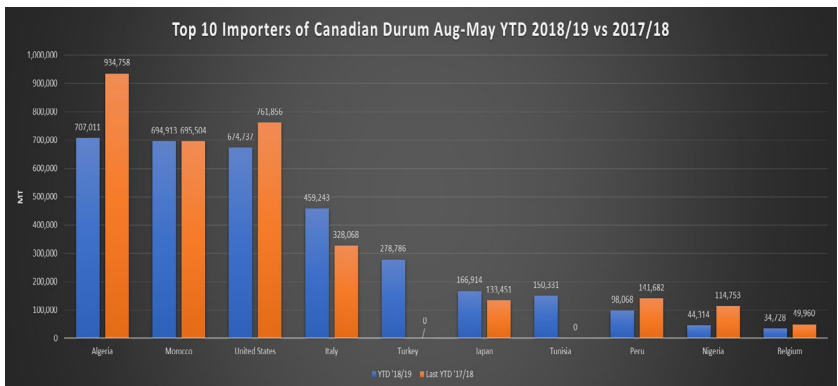
shipments of wheat in over a decade. Exports to China continue to be strong, now totalling 2.04 mln mt, up 40% (587,827 mt) from last year. China has now surpassed Indonesia as the biggest customer of Canadian wheat this MY. The US currently has the largest y/y decrease, having imported just 1.86 mln mt this year; a 33% (-654,485 mt) decrease.

- Canadian producers delivered 87.1k mt of durum into the Canadian grain handling system. Total deliveries are up 17% from last year at 4.29 mln mt.

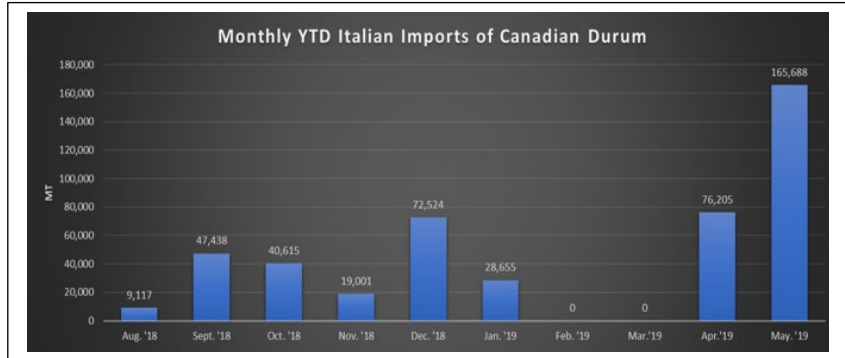


- Exports through the week were 152.1k mt for a season total of 4.2 mln mt, up 18% (419.3k mt) from last year. Durum exports need to average just 50k mt per week to reach the AAFC's 4.4 mln mt projection, and we think there should be no trouble accomplishing this now.

- May was a slower month for durum exports, which totalled just 405,690 mt. Exports to Algeria were small (31.5k mt) putting them well behind (-24%) last year, but given their poor growing year, we expect this will pick up again. Morocco's imports of Canadian durum have been very similar to last year, but exports to the US are down (-87,77 mt y/y).



- Significantly, Italy imported 165,688 mt of durum in May, creating a total YTD number of 459,243mt, +40% from last year. While we like the increase in Italian demand we have heard nothing official of any reduction in the non-tariff barriers against Canadian durum and so are not getting too excited yet.



- The US is going to have a larger than expected carry-out, but the Canadian carry-out is going to be much smaller than originally expected. Add in a very low 2019 acreage number (we think Stats Can's number is too low) and there is beginning to be a bullish picture developing in the durum market.*

US wheat:

- The US winter wheat harvest is progressing steadily. HRW samples show no grading issues average protein levels of 11.3%. SWR samples have low test weights, but strong protein (12.7%).
- US wheat sales for 2019/20 delivery were within 100-300k mt expectations at 276,500 mt. Current sales are 17.5 mln bu higher than last year and (4 weeks in) are in-line with the average sales needed to reach the USDA's 950 mln bu estimate.

- *There is little change to the global outlook. There is lots of wheat, and demand is running behind expectations. Sales are strong so far, but US wheat is expensive and when it's price falls in search of demand, other origin's prices fall accordingly. The shortfall in corn production is the only story supporting wheat prices.*

Australian wheat:

- There were ongoing light rains and crops look generally good in WA, VIC/SA but less so in NSW.
- Australian wheat futures closed the week down A\$16/mt (~US\$11/mt), the lowest weekly close since mid-May.
- New crop Fob prices fell this past week with APW at \$227/mt (Western Australia), \$10/ mt less for ASW. However, this still puts ASW Fob about even money with recent Black Sea C&F values into Asia.

Argentine wheat:

- Wheat plantings were put at 74% complete last Friday, up 13% over the past week.
- New crop Dec. Fob values for 12.5% protein wheat this week dropped by \$5/mt to \$201.00/mt. *The protein discount is -\$4.00/mt per ½ percent protein.*

EU wheat:

- Stratégie Grains has also lowered **EU** wheat soft wheat production estimates 1 mln mt to 143 mln mt. This is still a strong improvement from the 127 mln mt of last year.
- Yields in **S France** are strong, but quality is lower. Harvest is yet to move to the N where the heat was the most severe.
- Analysts expect **Germany** to produce 24.1 mln mt of wheat in 2019 vs the 19.6 mln mt from the drought stricken 2018 crop.
- Matif wheat futures made their lowest intra-day close in 6 weeks.
- *French 11.5% protein wheat closed last week at \$198.75/mt FOB, down almost \$5/mt on the week.*

Black Sea wheat:

- IKAR lowered **Russian** wheat supply expectations 700k mt to 79.3 mln mt after suffering 3 weeks of hot and dry weather. Yields remain strong at 4.38 tph vs 4.03 tph in 2018. The country has missed two of the last large tenders as protein levels are high (13.5%) and farmers are demanding premiums which buyers, like GASC, have been unwilling to pay. This has prompted some of Russia's largest export terminals to introduce "take or pay" systems to incentivize customers to boost export volumes. The new systems will charge \$10/mt penalties for quota holders who do not use 90% or more of their port allocation.
- **Ukraine** has raised export expectations 400k mt from their last estimate to 16.2 mln mt.
- Very strong wheat quality in the **Black Sea** has analysts speculating about a feed wheat shortage as a high percentage of production will be milling grade and farmers will expect premiums accordingly.
- There were 4 cargoes (3 Romanian and 1 Ukraine) ahead of the cheapest Russian offer at last week's Egyptian (GASC) tender. Russian quality is excellent and farmers did not want to sell cheaply into a lower quality market (GASC) which also has its share of execution issues.
- The Russian vessel line-up is quite small, and there are reports that some of the major quota "owners" have no July program which can only add to the eventual selling pressure on Aug-Sept wheat. Reports surfaced that the quota agreements in Russian ports involved large up-front Fobbing payments which will be forfeited if not used, and with the current program well under normal levels, that could get expensive.
- Russian 12.5 pro replacement was quoted at around \$197/mt, but Fob traded down to \$190-192/mt.

➤ **Significant purchases/ trades:**

We had **active global cash markets** last week.

- **Saudi Arabia** bought 715,000 mt wheat for Sep-Nov arrival at an average \$230.50 basis Jeddah.
- **Egypt** (GASC) bought just 60,000 mt of Romanian wheat at \$210.50 FH August.
- **Algeria** bought an estimated 570,000 mt wheat for August at \$217-217.50.
- **Tunisia** bought 67,000 mt wheat for August 5-25 at \$203.70-211.70/mt.
- **Japan's** weekly tender was for 124k mt of wheat from Australia, Canada, and the US (66k mt).
- **US inspections** were 609,000 mt (season total 70 mln bushels vs 54 mln bushels last year) sales of 277,000 mt took the season total to 265 mln bushels (220 mln bushels last year).

➤ **Wheat Market Outlook:**

Significant events:

- There were 4 wheat cargoes (3 Romanian and 1 Ukraine) ahead of the cheapest Russian offer at last week's **Egyptian (GASC) tender**. Russian quality is excellent and farmers did not want to sell cheaply into a lower quality market (GASC), which also has its share of execution issues.
- **May was the strongest month for Canadian wheat exports YTD**. Cdn. exporters shipped 2,042,091 mt of wheat over the month creating a total of 16,686,974 mt. This is 14% (+2.05 mln mt) more than last year.
- **Italy** imported 165,688 mt of Cdn. durum in May.
- All **wheat futures** mkts. (CBOT, KC, MPis., Matif, Australia) dropped last week as the Northern Hemisphere harvest ramps up.
- It was a good volume week for **cash wheat trade**, but once again Russian/FSU/Black Sea did all the business as their harvest ramps up and storage shortages push the wheat to market. This will continue for the next 60 days.
- **Corn** remains the key to the markets and this will remain volatile as traders continue to be unsure on the acreage that will get planted and its potential yield. In our view, actual harvest acres will be around 79 mln and yield around 165 bu/ac, which makes for a tight balance sheet *and would require increased use of wheat for feeding purposes*.

➤ **Outlook:**

It still is something of a vicious cycle - US prices go down while looking for demand, but other origins just follow, taking the whole price structure lower (although the Fob spreads have narrowed considerably over the last few weeks).

As the Northern Hemisphere harvest ramps up, the world wheat market continues to be a little bearish as harvest supplies need to find homes, and this will not change unless more wheat is needed for feeding and storage space is found for eastern European production.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 08-07-2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '19 (bu.)	Oct.19 (mt)
1 CWRS 13.5	\$6.27	\$230.38	1 CWRS 13.5	6.05	\$222.30
1 CWAD 13.0	\$6.52	\$239.57	1 CWAD 13.0	6.20	\$227.81
1 CPSR 11.5	\$5.80	\$213.12	1 CPSR 11.5	5.29	\$194.38
SW Sask			SW Sask		
1 CWRS 13.5	\$6.16	\$226.34	1 CWRS 13.5	6.00	\$220.46
1 CWAD 13.0	\$6.60	\$242.51	1 CWAD 13.0	6.27	\$230.38
1 CPSR 11.5	\$5.32	\$195.48	1 CPSR 11.5	5.16	\$189.60
NE Sask			NE Sask		
1 CWRS 13.5	\$6.02	\$221.20	1 CWRS 13.5	5.78	\$212.38
1 CWAD 13.0	\$6.79	\$249.49	1 CWAD 13.0	6.33	\$232.59
1 CPSR 11.5	\$5.63	\$206.87	1 CPSR 11.5	5.05	\$185.56
SE Sask			SE Sask		
1 CWRS 13.5	\$6.03	\$221.57	1 CWRS 13.5	5.82	\$213.85
1 CWAD 13.0	\$6.85	\$251.70	1 CWAD 13.0	6.41	\$235.53
1 CPSR 11.5	\$5.49	\$201.72	1 CPSR 11.5	5.03	\$184.82

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				08-07-2019
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	\$300.66	\$307.38		
HRS	\$293.45			
HRW 11.5	\$273.76			
SWW 12.0	\$298.74			
1 CWRS 13.5 ³	\$300.66		\$226.71	\$73.95
2 CWRS 13.0 ³	\$293.45		\$215.69	\$77.77
3 CWRS ³	\$273.76		\$208.34	\$65.42
CPS ³	\$292.01		\$205.03	\$86.98
1 CWAD ⁴		\$300.66	\$225.61	\$75.05
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$192.00	Aug.		
French 11.0 (Rouen)	\$198.75	Aug.		
ASW 10.5 (W Coast)	\$232.00	Aug.		
Argentine 12.0	n/a	Aug.		

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				
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$7.80	\$7.27	\$6.08	\$6.08
Parity Track Rosetown	\$6.31	\$5.77	\$6.45	\$6.45
Track Bid Rosetown Area	\$5.87	\$5.67	\$5.58	\$5.58
Gross Margin at Elevator (\$/bu)*	\$0.44	\$0.10	\$0.87	\$0.87
Gross Margin at Elevator (\$/mt)*	\$16.06	\$3.71	\$32.00	\$32.00

* to cover elevation, elevator market risk, margin