

Wheat Market Outlook and Price Report: August 6, 2019
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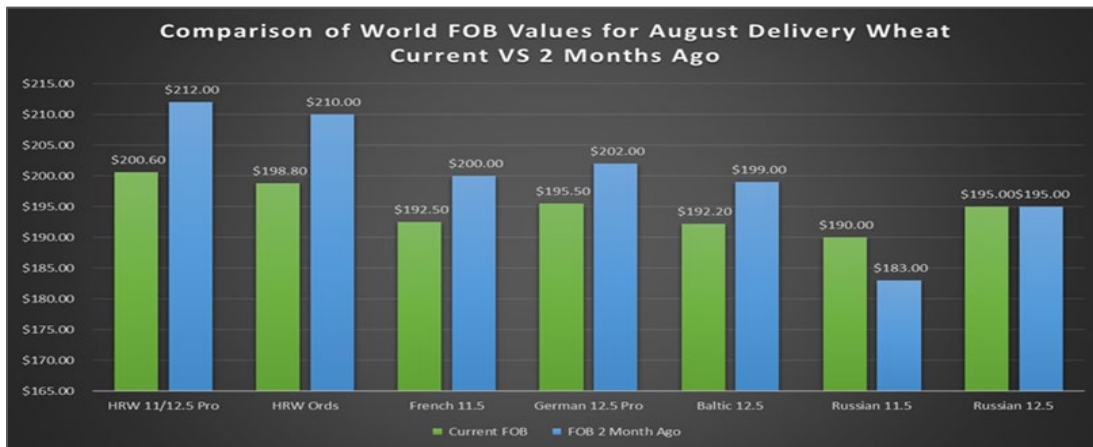
i) Background and Rationale for the Report

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 Aug 6, 2019

World Cash Wheat Comparison



- Since it's highs in late June, **US FOB has moved considerably closer to EU and Black Sea values** but remains too high to buy any incremental demand.
- **FOB spreads have all narrowed considerably** over the past two months as US values are down \$12 and the EU is down \$5 while Russian 12.5 pro is unchanged, and 11.5 pro is up \$7.
- Current shipments from the EU and Black Sea continue to argue that **demand is being overstated**, however, the market is currently discounting the amount that will be used for feed if corn supplies are down.
- The USDA will likely be conservative in any revision it makes on Aug 12 and the next USDA report will likely show US end stocks around 1 bln bu again. This level of stocks does not require price rationing.

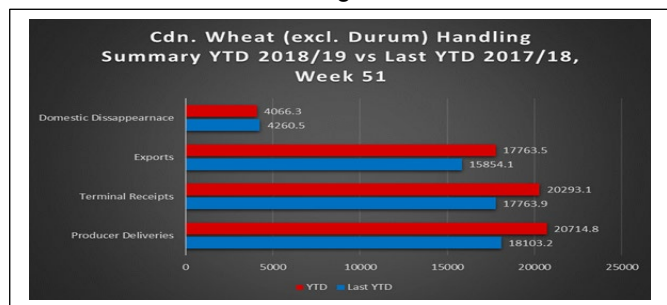
➤ **Global wheat production and trade:**

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.

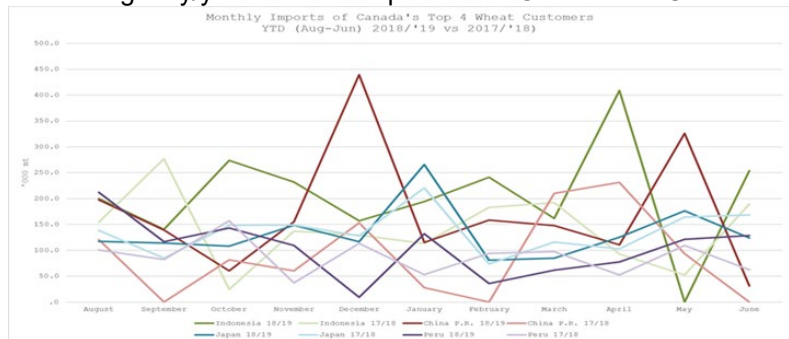
- **Futures:** Sept '19 contract **Chicago** winter wheat closed at 490-6, up 15-0 cents in Friday's trade, down 7-2 cents for the week.
Sept '19 contract **Kansas** hard red winter wheat closed up 6-0 cents at 421-6, down 11-2 cents for the week.
In **Minneapolis**, Sept '19 contract hard red spring wheat closed at 522-2, up 3-6 cents in Friday's trade, down 2-4 cents for the week, while Dec '19 hard red spring wheat closed at 534-6, up 2-4 cents for the day, down 1-4 cents for the week.

Canadian Wheat:

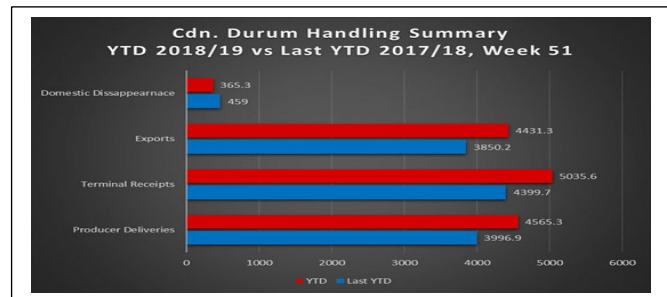
- Data for the final shipping week (52) will not be made available until August 8th. As of week 51, total wheat (excl. durum) deliveries were sitting at 20.71 mln mt, and total exports were 17.76 mln mt. AAFC's total export number for 2018/19 were 19.20 which we think is impossible, but there was 982k mt worth of wheat sitting in Cdn. ports at the end of week 51. So, while this year's exports will likely only be just over 18 mln mt, 2019/20 exports should have a strong start.



- Canadian wheat exports have been strong this year and a large reason for this is because to the shortfall in production in Australia. Two of the largest customers with the largest y/y increase in imports from Canada are China and Indonesia who have respectively imported 902k mt and 715k mt more wheat this year-to-date than last. Exports to Japan were down slightly (-33k mt) while exports to Peru were consistent with last year. 2018/19 export to the US were also significantly higher this year, up 430k mt from last year.

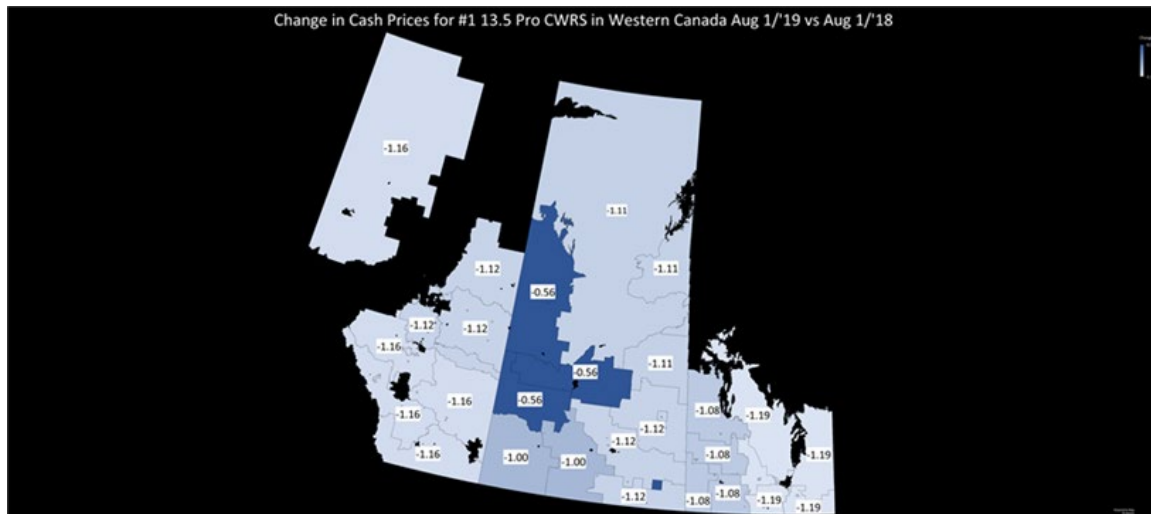


- For durum, as of week 51, total producer deliveries were 4.6 mln mt and total exports were 4.4 mln mt (vs AAFC's 4.5 mln mt). Last week there was 268.6k mt worth of durum sitting in Cdn. ports and we see no issues in reaching the AAFC's number.
- The SK Ag crop report showed most of the regions (70%) continue to have adequate soil moisture for crop growth. Crop conditions are variable, although most of the crop is in good condition.
- In AB, G/E ratings fell 3.3% to 71.7%.
- Fall rye and winter wheat harvest in MB is well under way and spring wheat harvest will begin this week.



- The Grain World Crop Tour was carried out last week and concluded that the overall wheat crop in the western Prairies looks quite good. They estimate that the Cdn. wheat (excl. durum) at 52.1 bpa for a final production of 26.90 mln mt. This is very similar to Stats Canada's 51.15 bpa and 27 mln mt. Durum yield was put at 40.8 bpa and production at 5.6 mln mt, slightly higher than AAFC's estimate of 38.4 bpa and 5 mln mt.
- Cash prices across the Canadian Prairies are generally lower this year vs last year. The map below depicts the average change in spot cash prices from Aug 1, 2018 to Aug 1, 2019 for CWRS 13.5 pro in Western Canada. There has been a general decrease in cash prices y/y from \$0.56 (in NW SK) to \$1.19 (In E MB). The decline in cash prices are due to a combination of lower basis levels (\$0.03-\$0.12) and \$1.08 lower futures. Two exceptions to this are in NW and SW SK where average basis levels are \$0.52 and \$0.03 respectively higher y/y.

Year/Year Change in Cash Prices for #1 13.5 Pro CWRS in Western Canada



US wheat:

- The NASS crop report lowered US spring wheat conditions to 3% to 73% G/E (76% was expected), down 5% from last year. The largest decrease in spring wheat condition was in SD (down 8%). Ninety-seven percent of the spring wheat crop is headed and is now caught up to both last year and the 5-year avg.
- Ratings for the durum crop in ND lost 8 points over the week and is now 65% G/E. Meanwhile the MO crop gained 15% over the week to 76%. The crop is now 93% headed and 27% of the crop has turned color.
- US winter wheat harvest progressed just 6% over the week and is is 75% complete vs the 84% of both last year and the 5-year average.

Australian wheat:

- Crops in Australia are looking good, but the forecast remains dry.
- Aussie wheat futures were lower in US\$ terms as the AU\$ hit an all-time lower. This kept cash markets ill-defined.

Argentine wheat:

- Planting in Argentina is essentially complete, and the ratings are strong at 52% G/E vs 45% G/E last year.
- Argentine FOB was consistent through the week with 12.5 pro offered at \$200. The domestic market however was sharply lowered with nearby positions down \$10 through the week at \$195. New Crop also fell \$5-10, December wheat was bid at \$163. Farmers are not sellers at these prices.
- Frost in Brazil has hurt wheat production, but the strong Argentine crop will fill any gaps this creates (some estimate the lost in production was up to 500k mt).

EU wheat:

- Algeria tendered and purchased 570k mt of wheat for an average price of \$215.00 C&F. Most of this is expected to have been sourced from France.
- French wheat is 87% harvested, up 24% from last week. French farmers are on pace to harvest their second largest wheat crop in history of 39.17 mln mt, up 14.9% from last year's drought-stricken crop. Projected national yield is at 7.82 tph, 12% higher than last year on 2.66% (5 mln ha) more area. Algeria will be a needed trading partner as there will be a glut of French wheat available this year.
- There is little upcoming demand to support prices. Germany, Poland and the Baltic will see unwanted rains, but premiums were unchanged as the EU market continues to be aggressive for harvest positions, working hard to buy new demand. Baltic 12.5 pro is now bid cheaper than Russian 11.5 pro and \$5.50 less than Russian 12.5 pro at \$189.50.
- The German co-op cut wheat production estimates another 2 mln mt to 22 mln. This is still 12% higher than last year.

Black Sea wheat:

- Ukraine's winter grain harvest is 86% complete. To date, 24.1 mln mt of wheat and 7.8 mln mt worth of barley have been harvested with strong yields. The strong crop caused the country's July export program to be more than 50% higher than last year at 3.7 mln mt (1.4 mln mt was wheat).
- Russian wheat Yields seemed to stabilize at 3% below last year vs the USDA's projected 4% increase. Basis current yields and USDA acreage, the Russian crop would be <70 mln mt vs the USDA's 74.2 mln mt.
- Current Russian FOB and interior prices are 15% lower than this time last year making farmers reluctant sellers. Russia's July export program is projected to be 3.1 mln mt, 18% lower than last year. Russian farmers are cash adequate and are choosing to store their grain in expectation of higher prices because of deteriorating crop prospects. A further hinderance to Russian exports has been the strong ruble which appreciated 5% in June. This trend looks like it is changing however as the ruble lost 2% last week.

➤ Significant purchases/ trades:

- Algeria bought 570,000 tonnes Sep at \$215.50; Bangladesh bought 100,000 tonnes Russian at \$267 Liner Out; Jordan bought 60,000 tonnes FH Oct at \$229.50; the Philippines bought 165,000 tonnes Oct-Jan feed at \$225. USA inspections were 391,000 tonnes (season total 140 myn bushels, up 25%), sales were 383,000 tonnes (season total 327 myn bushels, up 24%).
- USA inspections were 391,000 tonnes for a season total 140 myn bushels, up 25% from last year. Net sales were 383,000 tonnes for a season total 327 myn bushels, up 24% from last year. Current exports are on track the reach the USDA's current total wheat export forecast of 25.9 mln mt.

➤ Wheat Market Outlook:

Significant events:

- All wheat futures prices fell week-over-week due to spillover pressure from soybeans after **President Trump announced that an additional 10% tariff would be placed on \$300 billion worth of Chinese imports on September 1**, effectively bringing to an end the US-China trade war truce.
- After approving wheat imports from Central Russia and soybeans from all of Russia, **China has approved barley imports from 7 disease-free regions of Russia**. A significant threat to Canadian barley exports.
- *What the **USDA** does with their review of corn acres on August 12th will be key to the next direction of grain markets*. We expect this report to be conservative but longer term we think the market underestimates the weather effect on USA grains.

- **Weather** around the world: The USA forecast looks cool with rain mostly in the Delta and Eastern Plains. **Canada** remains dry but will turn much cooler, **Europe** looks mostly dry in the west, wetter in the east, with temperatures generally above normal except Western Russia. **South America** looks almost entirely dry; **Australia** again has showers in the South West and South East corners **India's** monsoon should again be above average.

➤ **Outlook:**

It will be a volatile week as the anticipated USDA report is out next Monday. As the next direction of the market depends on what the USDA gives us in their August WASDE report. We expect this report to be conservative but longer term we think the market underestimates the weather effect on USA grains. Prices currently are under pressure from harvest offers from Europe. Unfortunately, President Trump continues to interfere in grain markets and new tariffs on Chinese imports to the USA won't help exports.

iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '19 (bu.)	Oct. '19 (mt.)
1 CWRS 13.5	\$5.95	\$218.63	1 CWRS 13.5	\$5.97	\$219.36
1 CWAD 13.0	\$6.31	\$231.85	1 CWAD 13.0	\$6.28	\$230.75
1 CPSR 11.5	\$5.10	\$187.39	1 CPSR 11.5	\$5.09	\$187.03
SW Sask			SW Sask		
1 CWRS 13.5	\$5.86	\$215.32	1 CWRS 13.5	\$5.87	\$215.69
1 CWAD 13.0	\$6.30	\$231.49	1 CWAD 13.0	\$6.33	\$232.59
1 CPSR 11.5	\$5.06	\$185.92	1 CPSR 11.5	\$5.07	\$186.29
NE Sask			NE Sask		
1 CWRS 13.5	\$5.71	\$209.81	1 CWRS 13.5	\$5.71	\$209.81
1 CWAD 13.0	\$6.27	\$230.38	1 CWAD 13.0	\$6.44	\$236.63
1 CPSR 11.5	\$4.88	\$179.31	1 CPSR 11.5	\$4.80	\$176.37
SE Sask			SE Sask		
1 CWRS 13.5	\$5.70	\$209.44	1 CWRS 13.5	\$5.71	\$209.81
1 CWAD 13.0	\$6.38	\$234.43	1 CWAD 13.0	\$6.50	\$238.84
1 CPSR 11.5	\$4.88	\$179.31	1 CPSR 11.5	\$2.82	\$103.62

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 14.0	0.05	1.89
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.05)	-1.84
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).

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.”

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			August 6, 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	\$300.04	\$284.97		
HRS	\$293.72			
HRW 11.5	\$268.92			
SWW 12.0	\$293.72			
1 CWRS 13.5 ³	\$300.04		\$212.38	\$87.66
2 CWRS 13.0 ³	\$293.72		\$201.36	\$92.36
3 CWRS ³	\$268.92		\$194.01	\$74.91
CPS ³	\$286.91		\$173.06	\$113.85
1 CWAD ⁴		\$307.82	\$0.00	\$307.82
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$196.00			
French 11.5 (Rouen)	\$193.60			
APW 10.5 (W Coast)	\$240.00			
Argentina 12.0	n/a			

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					August 6, 2019
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$7.98	\$7.81	\$7.13	\$7.81	\$7.81
Parity Track Rosetown	\$6.48	\$6.31	\$5.64	\$6.31	\$6.31
Track Bid Rosetown Area	\$5.78	\$5.48	\$5.28	\$4.71	\$4.71
Gross Margin at Elevator (\$bu)*	\$0.70	\$0.83	\$0.36	\$1.60	\$1.60
Gross Margin at Elevator (\$mt)*	\$25.87	\$30.57	\$13.12	\$58.86	\$58.86

* to cover elevation, elevator market risk, margin