

Wheat Market Outlook and Price Report: December 9, 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 Dec 5, 2019

AMIS¹ December 2019 World Wheat Supply and Demand Outlook (Source: AMIS)



- In their December Outlook, AMIS raised world 2019/20 wheat production by 1.4 million mt to 766.4 million mt. The revisions came as a 600k mt decrease in Argentina was more than offset by a 1.977 million mt increase the EU and a 799,000 mt increase in Ukraine.

¹ Agricultural Market Information System - The analysis is a collective assessment of the market situation and outlook by the ten international organizations and entities that form the AMIS Secretariat (FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank, WFP, WTO, GLAM).

- Production in Ukraine is now expected to be 28.78 million mt, nearly 5% more than last year's previous record. Aussie wheat production was left unchanged from last month at 17.5 million mt (vs ABARES 15.8 million mt).
- Utilization was seen 1.2 million mt lower because of less feed use, while trade was seen down 100,000 mt to 172 million mt.
- Overall, stocks were put 3.3 million mt higher than last year at 278.2 million mt, now a 3% increase over last year, the second highest on record.
- The USDA's estimate of world wheat supply and disposition will be out tomorrow, and while traditionally the December report is a non-event, this year will be more interesting given the recent downward revisions in the Southern Hemisphere. We think that trade demand should be higher, and that the USDA should decrease production in Argentina and Australia a combined 2-3 million mt (although they will likely raise EU production a similar amount).

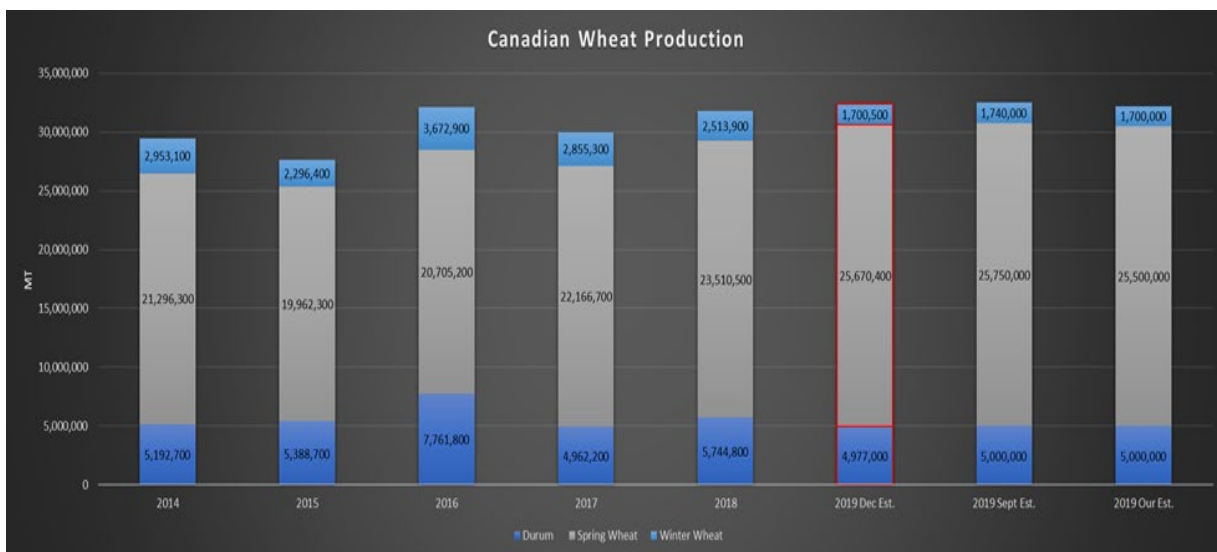
➤ **Global wheat production and trade:**

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:** Mar '20 contract **Chicago** winter wheat closed at 524-4, up 0-6 cents for the day, *down 17-2 cents for the week.*
- Mar '20 contract **Kansas** hard red winter wheat closed at 431-0, down 4-4 cents for the day, *down 16-0 cents for the week.*
- **Minneapolis**, Mar '20 contract hard red spring wheat closed at 512-0, down 1-6 cents for the day, *down 1-6 cents for the week,* while May '20 hard red spring wheat closed at 521-0, down 1-6 cents for the day, *down 1-2 cents for the week.*

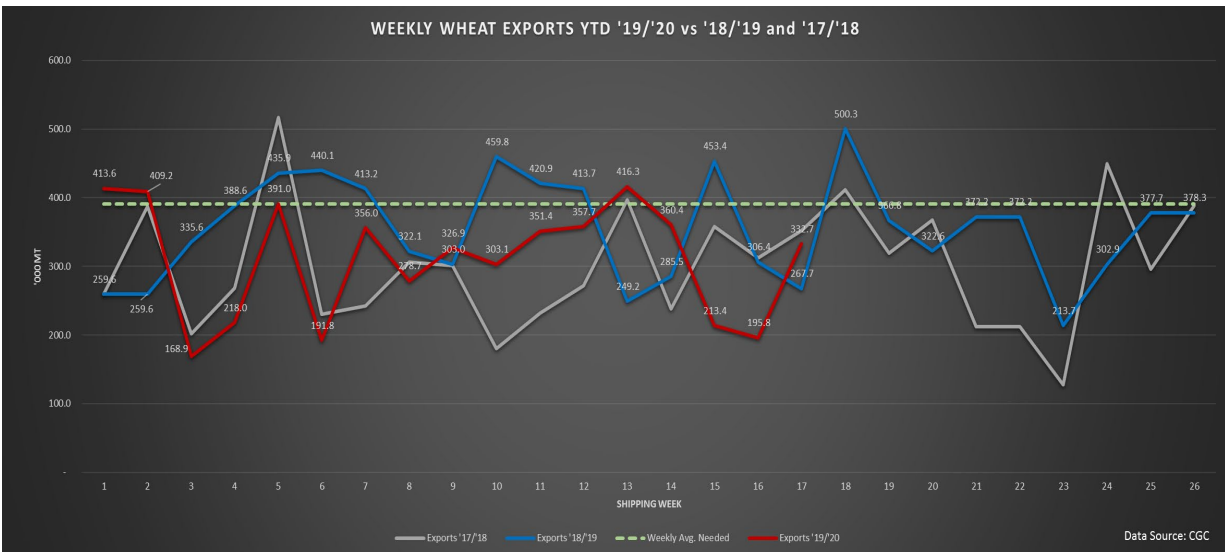
Canadian Wheat:

- Stats Canada released their December estimates of **wheat production** for 2019. Canadian all wheat production was reduced by 143k mt from the September estimate at 32,347,900 mt, 229,100 less than what the trade was expecting, but 147,000 mt more than last year.



- **Spring wheat** is estimated to account for 25,670,400 mt of this, which is 80,000 mt less than the Sept estimate, but 1.73 million mt (7%) more than last year. Stats Canada's estimate is still 170,400 mt more than our estimate for spring wheat, but the difference in production estimates is largely a moot point this year when assumptions about quality are most important. We have said for a while now, that we think that the quality is lower than what the CGC or Stats Canada is saying.

- Durum production was put at 4.977 million, mt down 23,000 mt from their September estimate and roughly in-line with trade's expectation. Their current estimate is at 87% of last year's production and at 83% of the previous 4-year average.



- Canadian producers delivered 468,800 mt of wheat (excl. durum) into the Canadian grain handling system during week 17 of the 2019/20 marketing year.
- **Exports** during the week were up to 332,700 mt for a **YTD total of 5.33 million mt, 689,300 mt (11%) less than this time last year.**
This coming week we may see a little more impact in movement from the rail strike, but then should return to normal. Now at week 17, average weekly exports need to be 391,000 mt to reach AAFC's 19.0 million mt estimate, a feat we have only accomplished 4 times this market year.

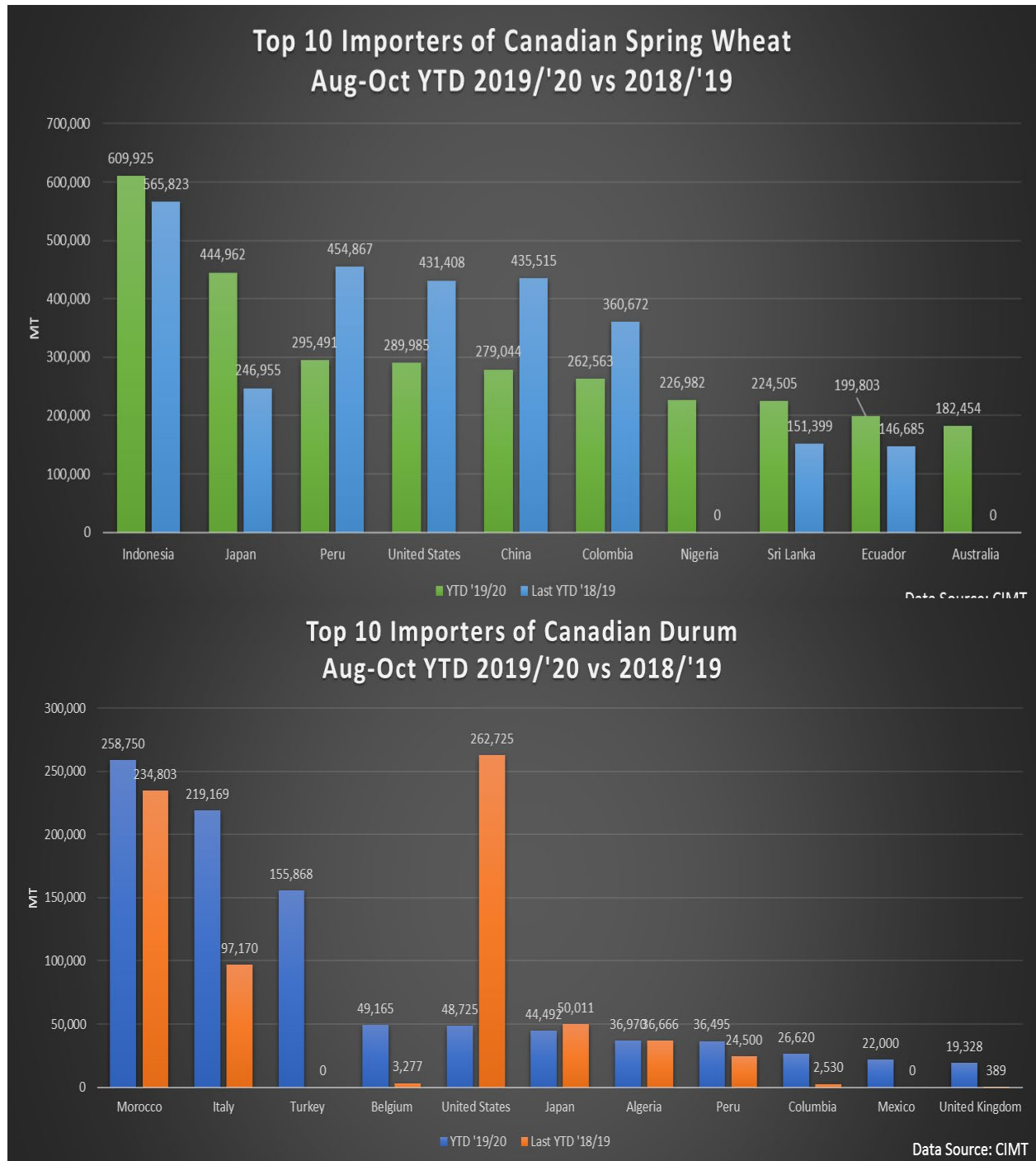


- Canadian producers delivered 115.3k of **durum** into the grain handling system during week 17 of the marketing year.
- Exports throughout the week were again very strong at 144,400 mt for a **YTD total of 1.7 million mt, 69% (693,100mt) more than this time last year.**
- According to the Canadian International Merchandise Trade Database (CIMT), Canada exported 1.623 million mt of wheat (excl. durum) during October. The main customer was Japan who bought 229,000 mt of wheat over the month. Exports to Japan now total 445,000 mt, 80% (198,000 mt)

more than last year. Two other bright spots have been exports to Nigeria and Australia, both countries did not import any Canadian wheat last YTD but have imported 227,000 mt and 182,000 mt respectively this marketing year. Australia has been consistently importing over 60,000 mt/month since May 2019.

- Canada exported 990,000 mt of durum YTD Aug-Sep, an 11% (95,000 mt) increase from last year.
- As illustrated on the graph below, Turkey and Italy have been the largest increases in imports over last year, up 156,000 mt and 122,000 mt respectively. *Meanwhile exports to the US have been lagging, 214,000 mt from last year at 48,725 mt.*

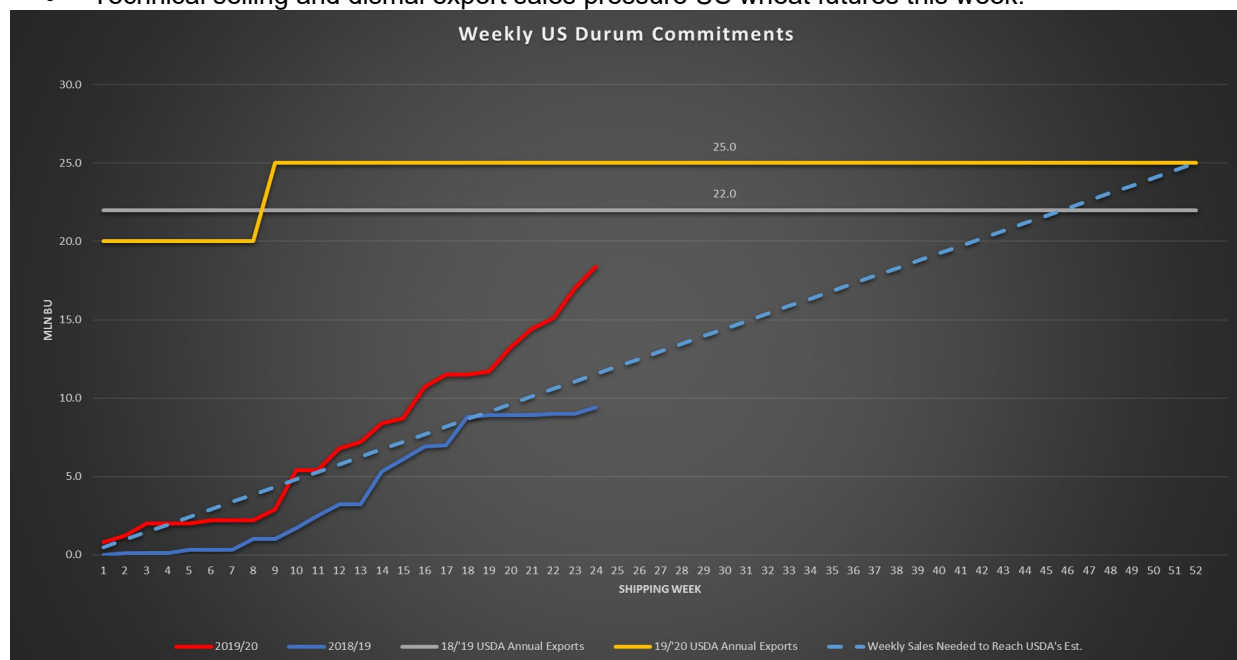
Top 10 Importers of Canadian Wheat and Durum Aug-Oct YTD 2019/20 vs YTD 2018/19



- Given the wheat values that have traded in recent weeks, Canada should have been doing more wheat business, particularly in durum and lower grade wheat.
 - Durum was traded for values that back off to ~US\$285/mt parity Thunder bay. Accounting for the exchange rate and backing off 112 car rail freight rates and actual handling expenditures calculates to C\$333.32/mt (\$9.07/bu) at the elevators in central SK. The current posted bid is \$8.00, for a generous \$39.40/mt margin after costs.
 - Similarly, traded global feed wheat values are worth ~US\$205.00/mt parity Vancouver. Using a similar method as above, this backs off to C\$222.26/mt (\$6.05/bu) at the elevator in central Saskatchewan vs the current posted bid of \$5.20. This is another healthy \$31.22/mt margin.
- Canadian basis levels continue to lag behind US levels which we have accepted the last two weeks given the CN strike, but the backlog from the strike (and subsequently this is excuse) will soon be gone and Canadian elevators are going to have to sharpen their pencils.
- Weather remains problematic in Europe and we see Europeans wanting higher prices for cash wheat. North American prices should rally so we would wait to sell additional wheat.

US wheat:

- Technical selling and dismal export sales pressure US wheat futures this week.



- US sales for the week were just 228,000 mt vs trade's expected 300,000-700,000 mt. Year-to-date commercial sales are now 16.5 million mt, 5% ahead of last year's pace vs USDA's projected 1% increase from last year.
- The US has been having a very strong durum export program; exporting 18.4 million bu of durum this MY almost double the 9.4 million bu of last year. It is likely that the USDA will increase their expectations for durum exports, which will decrease ending stocks below the current 49 million bu estimate.

Australian wheat:

- There was limited news from Australia outside of the continued reaction to ABARES latest production forecasts:
 - The Aussie wheat crop was lowered to 15.8 million mt (vs USDA's 17.2 million mt). This is 17% lower than last year and the smallest production since 2008.
 - The Aussie sorghum crop was put at just 400,000 mt vs the USDA's 1.1 million mt and last year's 1.3 million mt (reports indicate that there is room for sorghum production to fall

further yet). Thus, most of the Aussie barley crop and additional wheat will be needed for feed use needs. *We have heard of reports of elevators in Saskatchewan buying sprouted wheat destined for Australia which will be to supply the tight feed situation. Australia has been importing over 60,000 mt of Canadian wheat per month since May 2019.*

- Aussie FOB values are now at \$245 which is too expensive except for the most inelastic of demand.

Argentine wheat:

- Harvest in Argentina made strong progress last week and is now 46% complete. Yields are estimated at 2.75 million mt/ha which allowed BAGE to maintain their 18.5 million mt outlook (vs USDA's 20 million mt).
- Argentina's wheat crop is just 4% good to excellent condition vs 36% last year.
- Argentine wheat is rumored to have traded to Algeria last week and could have traded to Thailand (although we hope Canada got that). Fob values are up \$5.50 from last week and are bid at \$196.00-200.00/mt.

EU wheat:

- Wheat planting in France continues to drag along now at 83% complete, up 3% from last week. Ratings for the French soft wheat crop are 73% good to excellent, down 2% from last week and well behind the 82% of last year.
- The European forecast shows a return to wet weather next week which will end any field work that may still be happening.
- Dec 5th was strike day in France. While strikes at the ports lasted just one day, the rail strike is indefinite and the length and resulting impact of the strike is unknown.
- Fob values in the EU firmed with French 11.5 pro bid at \$208.40 (+\$2.10 from last week), German 12.5 protein bid at \$211.00 (+\$3.40) and Baltic 12.5 pro bid at 210.40 (+\$3.30).

Black Sea wheat:

- Russian grain exports to Kazakhstan during Jul-Nov 2019 were 630,000 mt, three times larger than last year. The pull-on Russian wheat from the Kazakh milling sector has been one large reason for the high domestic Russian prices.
- Russia won the entirety of the Egyptian wheat tender which helped Black Sea values higher from last week and FOB values for 11.5 protein are now \$207.00 (+\$2.00), while 12.5 protein is bid at 211.00 (+\$3.00).

➤ **Significant purchases/ trades:**

- **Algeria** bought 500,000 mt optional origin February wheat (January, if from South American) at \$227-228/mt. Note: There have been no further comments regarding Algeria's intention to lower annual imports from 6 million mt to 4 million mt. The current season total is now 4.2 million mt.
- **Egypt** (GASC) bought 295,000 mt of Russian wheat for Jan 21-31 at an average \$235.95/MT C&F, which was \$3.50/mt above what they paid two weeks ago.
- **Thailand** bought 60,000 mt of Jan-Feb feed wheat at \$236.50 (believed to be Canadian or Argentine – **hopefully it was Canadian**), which was higher than what both GASC and Algeria paid for milling wheat, and also \$30 above corn.
- **USA** inspections were just 247,000 mt (season total 464 million bu, up 19%), sales were just 228,000 mt (season total 605 million bu, up 6%).
- **EU** soft wheat shipments advanced 365,000 mt to a total 11.14 million mt, up 52% on last year.
- Through week 17 **Canadian** exports were 5.3 million mt down 700,000 mt (12%) from last year.

➤ **Wheat Market Outlook:**

Significant events:

- **Sales levels:** USA inspections were just 247,000 tonnes (season total 464 million bushels, up 19%), sales were just 228,000 tonnes (season total 605 million bushels, up 6%). EU soft wheat shipments advanced 365,000 tonnes to a total 11.14 million tonnes, up 52% on last year. Through week 16 Canadian exports were 5.3 million tonnes, down 700,000 tonnes down 12 percent.
- **Technical selling and weak export sales pressured all wheat futures contracts week-over-week.** Soft red winter (SRW) March futures fell 17 cents to close at \$5.28/bu. Hard red winter (HRW) March futures fell 16 cents to end at \$4.39/bu. Hard red spring (HRS) March futures dropped 2 cents to close at \$5.12/bu. CBOT March corn futures lost 4 cents to end at \$3.82/bu. CBOT March soybean futures gained 12 cents to close at \$9.18/bu.
- **Increased farmer selling reduced export demand and cheaper rail rates pressured HRW export basis** out of the Pacific Northwest (PNW) and Gulf this week. Minimal farmer selling kept PNW and Gulf export basis steady and high for December deliveries.
- According to Reuters, as of November 29, **winter wheat planted area in France and the United Kingdom is expected to fall year-over-year** on overly wet autumn field conditions
- On December 4, the **Iraqi Grain Board said it plans to purchase 750,000 MT of wheat in 2020** from Canada, the U.S. and Australia to blend with domestic production. According to Reuters, nationwide protests have not disrupted grain shipments into Iraq.
- As of December 5, according to Bolsa de Cereales, **only 4% of Argentina's wheat crop is in good condition** and none of the crop is in excellent condition compared to 31% in good condition and 5% in excellent condition this time last year. The Argentinian wheat harvest is now 46% complete compared to 44% last year and the 5-year average of 38%.
- The USA saw heavy snow in the north, rain in the Delta and south-east, but the Plains stayed dry. **Corn harvested was reported at 89 percent complete**, 9 percent below the previous five-year average and *significant amounts will now not be harvested till next spring*.
- **Weather around the world:**
 - **Argentina** is the most concerning with another dry week expected, with temperatures above normal and declining soil moisture as the early corn crop moves into pollination. **Brazil** will see near normal rainfall and building soil moisture levels. Significant rain will persist in **Western Europe** (except for Iberia) whilst the east and **Black Sea** will stay dry. Temperatures remain above/much above normal everywhere. Winter plantings remain a problem in Europe. **Australia** remains totally dry and hot.

➤ **Outlook:**

EU and Black Sea cash wheat decoupled from the CBOT as the pace of exports, the difficulties with plantings, and the seasonal slowdown in farmer selling kept markets firm. Argentine wheat could provide some competition, but is already well committed to Asia, while the USA and Australia are becoming more competitive to the Pacific export markets.

In our view, the USDA should increase export demand and lower production estimates in this week's reports.

- Weather remains problematic in Europe and we see Europeans wanting higher prices for cash wheat. **North American prices should rally, so we would wait to sell additional wheat.**

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) | | Feb. '20 (bu.) | Feb. '20 (mt.) |
| 1 CWRS 13.5 | \$5.93 | \$217.89 | 1 CWRS 13.5 | \$6.04 | \$221.93 |
| 1 CWAD 13.0 | \$7.21 | \$264.92 | 1 CWAD 13.0 | \$7.26 | \$266.76 |
| 1 CPSR 11.5 | \$5.15 | \$189.23 | 1 CPSR 11.5 | \$5.21 | \$191.44 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$5.86 | \$215.32 | 1 CWRS 13.5 | \$5.90 | \$216.79 |
| 1 CWAD 13.0 | \$7.20 | \$264.56 | 1 CWAD 13.0 | \$7.26 | \$266.76 |
| 1 CPSR 11.5 | \$4.85 | \$178.21 | 1 CPSR 11.5 | \$5.13 | \$188.50 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$5.71 | \$209.81 | 1 CWRS 13.5 | \$5.78 | \$212.38 |
| 1 CWAD 13.0 | \$7.56 | \$277.78 | 1 CWAD 13.0 | \$7.64 | \$280.72 |
| 1 CPSR 11.5 | \$4.88 | \$179.31 | 1 CPSR 11.5 | \$4.93 | \$181.15 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$5.74 | \$210.91 | 1 CWRS 13.5 | \$5.81 | \$213.48 |
| 1 CWAD 13.0 | \$7.56 | \$277.78 | 1 CWAD 13.0 | \$7.62 | \$279.99 |
| 1 CPSR 11.5 | \$4.81 | \$176.74 | 1 CPSR 11.5 | \$4.90 | \$180.05 |

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 | (0.10) | -3.67 |
| 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)

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.”

- 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 | | | | December 9, 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 | \$339.18 | \$323.63 | | |
| HRS | \$333.14 | | | |
| HRW 11.5 | \$291.56 | | | |
| SWW 12.0 | \$293.50 | | | |
| 1 CWRS 13.5 ³ | \$339.18 | | \$213.85 | \$125.33 |
| 2 CWRS 13.0 ³ | \$333.14 | | \$189.97 | \$143.17 |
| 3 CWRS ³ | \$291.56 | | \$151.39 | \$140.18 |
| CPS ³ | \$286.70 | | \$181.15 | \$105.55 |
| 1 CWAD ⁴ | | \$373.44 | \$293.95 | \$79.49 |
| Competing wheat: | | | | |
| | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$211.00 | | | |
| French 11.5 (Rouen) | \$208.00 | | | |
| APW 10.5 (W Coast) | \$245.00 | | | |
| Argentine 12.5 | \$196.00-200.00 | | | |
| 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 | | | | | December 9, 2018 |
|--|------------------|--------------|--------------|--------------------|------------------|
| Canadian Funds | | | | Grade | |
| PNW value/Vancouver | 1CWRS13.5 | 2CWRS | 3CWRS | Winter wht. | CPS |
| May/June delivery | \$9.05 | \$8.88 | \$7.75 | \$7.80 | \$7.80 |
| Parity Track Rosetown | \$7.55 | \$7.38 | \$6.25 | \$6.31 | \$6.31 |
| Track Bid Rosetown Area | \$5.82 | \$5.17 | \$4.12 | \$4.93 | \$4.93 |
| Gross Margin at Elevator (\$/bu)* | \$1.73 | \$2.21 | \$2.13 | \$1.38 | \$1.38 |
| Gross Margin at Elevator (\$/mt)* | \$63.54 | \$81.38 | \$78.39 | \$50.57 | \$50.57 |

* to cover elevation, elevator market risk, margin