

Wheat Market Outlook and Price Report: November 4, 2019

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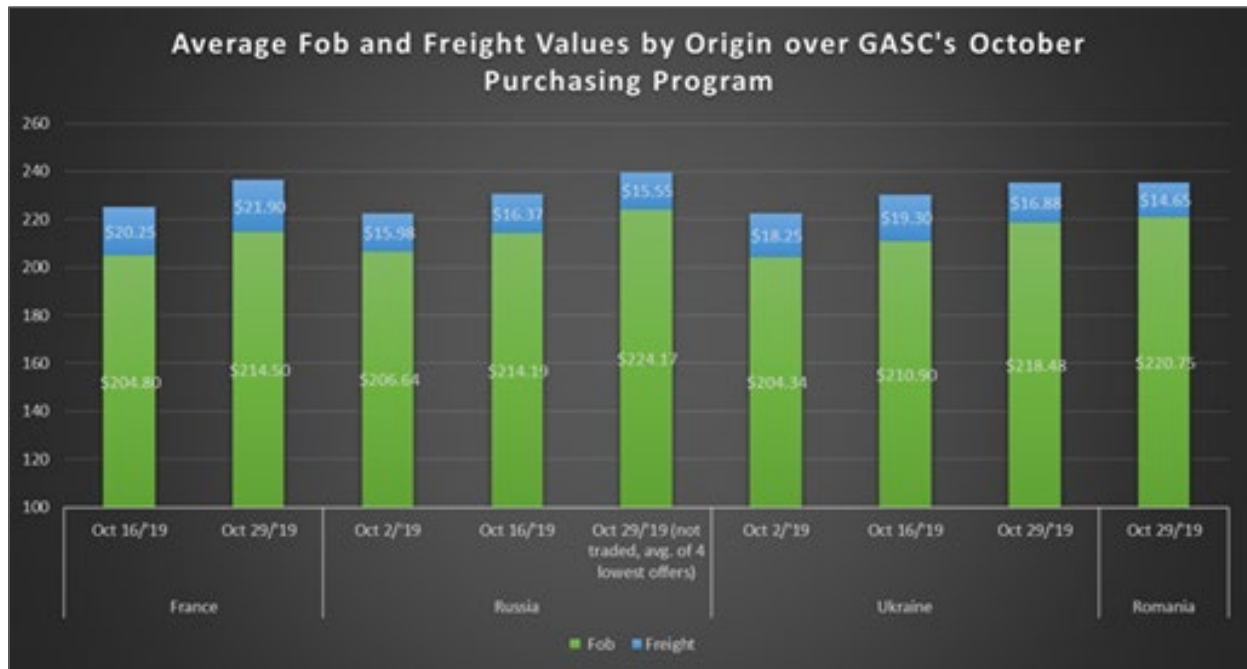
i) Background and Rationale for the Report

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 Oct 24th, 2019

International Grains Council's October World Wheat Supply and Use Estimates



- In their 3rd tender of October, Egypt (GASC) bought another 235,000 mt of French, Ukrainian and Romanian wheat for \$236.16-\$236.40 cost and freight, concluding their record 1 million mt October purchasing program.
- The graph illustrates the average by-origin FOB and freight values that traded at each purchase. For example, on October 2nd, GASC bought 300k mt of Russian origin wheat for an average FOB of \$206.64 and an average freight of \$15.98. On the 16th, average Russian FOB

and freight values were \$7.55 and \$0.38 more expensive respectively at \$214.19 and \$16.37. Russian wheat did not trade in the last October 29th tender, but the average FOB and freight of the lowest four offers was \$224.17 and \$15.55 respectively.

- Premiums at the latest GASC tender over the respective paper markets reflect that the number of traders willing to sell to GASC is declining and those still offering want more protection. French offers were upwards of ~\$14 higher and Russian offers were \$11-15 more.

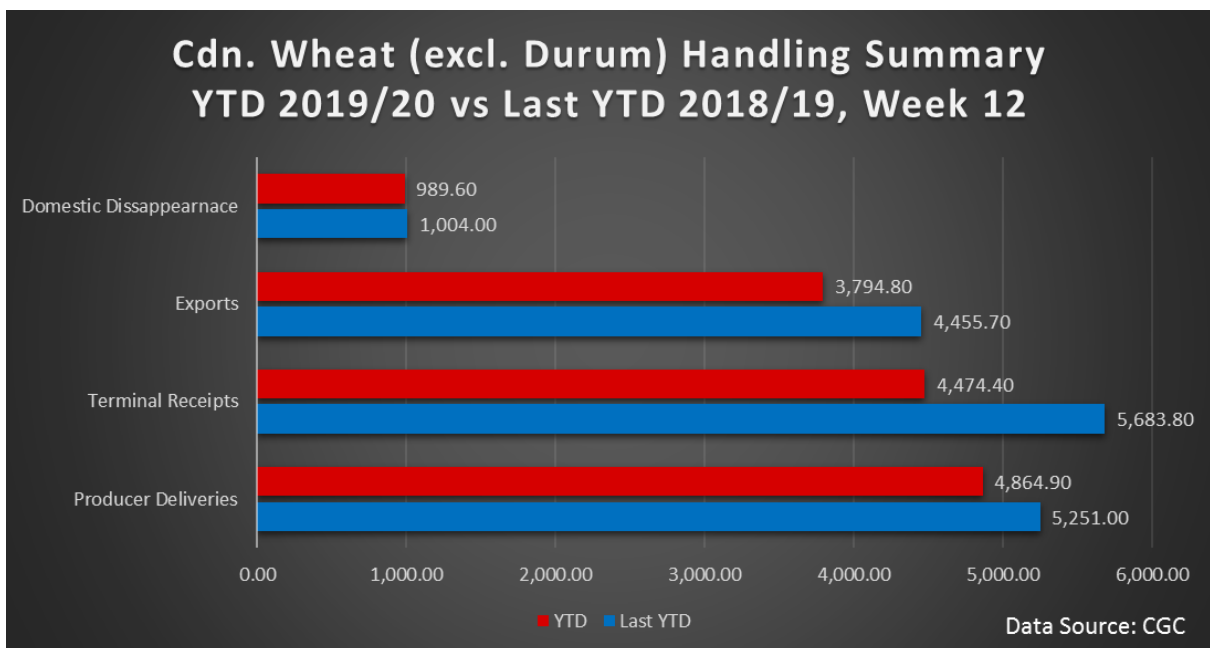
➤ **Global wheat production and trade:**

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.

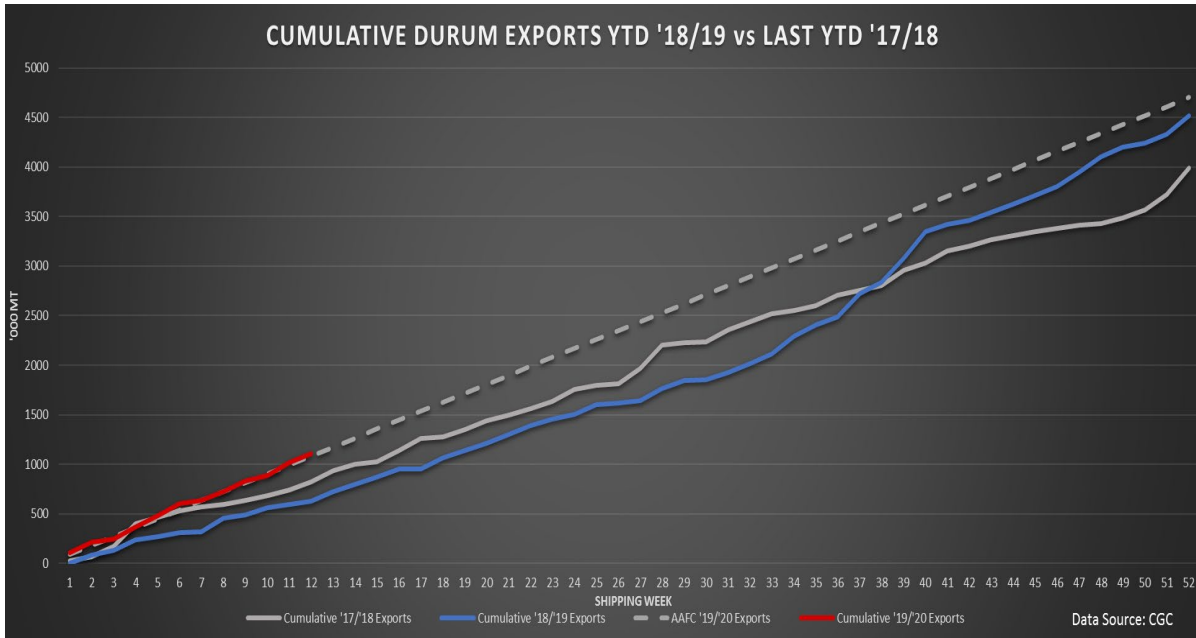
- **Futures:** Dec '19 contract **Chicago** winter wheat closed at 516-0, up 7-2 cents for the day, down 3-0 cents for the week.
- Dec '19 contract **Kansas** hard red winter wheat closed at 426-0, up 6-2 cents for the day, up 2-0 cents for the week.
- **Minneapolis**, Dec '19 contract hard red spring wheat closed at 531-2, up 7-2 cents for the day, down 7-2 cents for the week, while March '20 hard red spring wheat closed at 548-0, up 7-4 cents for the day, down 5-2 cents for the week.

Canadian Wheat:

- After two weeks of no progress, spring wheat harvest in MB advanced 2% and is now 97% complete as of the 29th. Most of the crop remaining is in the province's SW region where just 90% of the crop is off. Harvest in SK advanced 8% from last week and is now 92% complete. Harvest in AB is 84% done having made headway on 7% of their crop last week.



- Canadian producers delivered 426,800 mt of wheat (excl. durum) into the Canadian grain handling system during week 12 of the 2019/20 marketing year. Exports during the week were 357,700 mt, for a YTD total of 3.795 million mt, 661,000 mt less than this time last year.
- We have been disappointed with how Canadian elevators have responded to world market conditions. World wheat prices are such that Canada could do some volume, but our elevators seem to be content to keep basis levels wide and make strong margins on low volumes.
- Ninety percent of the SK of the durum crop has been harvested as of Oct 21th having made progress on 7% of the crop. There was no update from AB, which was 97% complete as of the 22nd.

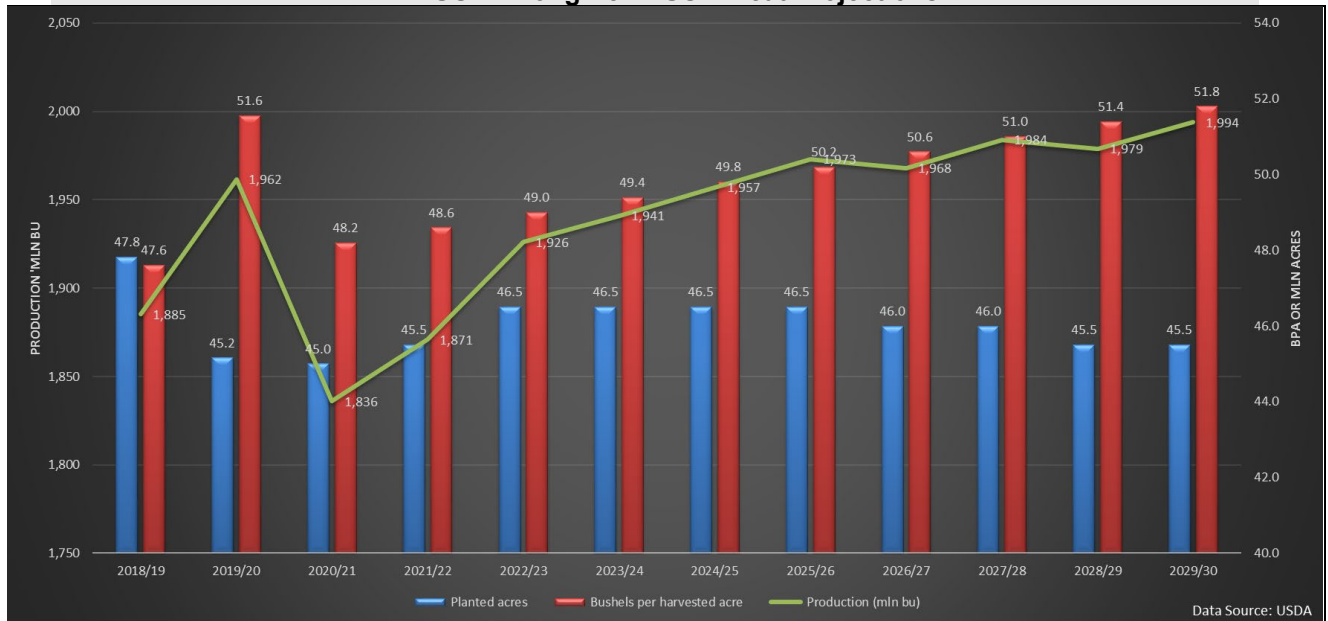


- Canadian producers delivered 132,100 of durum into the grain handling system during week 12 of the marketing year. Exports throughout the week were 94,100 mt for a year-to-date total of 1,139,400 mt, 476,200 mt more than this time last year. The durum at the Port of Churchill that we have been talking about was shipped. The CGC reported that 34,300 mt of durum was exported from the port during week 12. This makes for a year-to-date total of 69,000 mt of durum being shipped from the Churchill this year. It was confirmed that the first load went to Turkey, and we believe the second load was destined there as well.
- **Given the wheat values that have traded in recent weeks, Canada should be doing more wheat business, particularly in durum and lower grade wheat.**
 - **Traded durum for values 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\$330.50/mt (\$9.00/bushels) at the elevators in central SK. The current posted bid is \$8.00, giving a generous \$36.58/mt margin after costs.**
 - **Similarly, global feed wheat values back off to ~US\$200.00/mt parity Vancouver. Using a similar method as above, this backs off to C\$213.66/mt (\$5.82/bushels) at the elevator in central SK vs the current posted bid of \$4.80. This is another healthy \$37.31/mt margin.**

US wheat:

- Reporting for US Spring wheat harvest has been discontinued which was at 96% last week (92% in Montana and 95% in ND)
- Winter wheat planting is 85% complete as of Oct 28th and the first crop rating report of the season showed US winter wheat to be 56% good to excellent vs 53% last year and 55% average.
- US commercial sales were within expectations (200-500k mt) at 494,000 mt, for a YTD total of 14.6 million mt, double the amount sold this time last year vs the USDA's 25.9 million mt projection which is just a 1% increase over last year.

USDA Long-Term US Wheat Projections



- The USDA released their long-term projections for wheat production in the US. The projection extending from the current year to 2029/30 calls for a general decline in wheat area planted, but an increasing yield trend makes for a rising production picture. Significantly, the USDA is calling for a 126-million-bushel production decline in 2020/21 to 1.836 million bushels, as planted area falls 0.2 million acres to 45.0 million acres (the lowest area planted to wheat since records began). Yield is forecast to be down 3 million bushels from 2019/20's near-record high to 48.2 bushels-per-acre.

Australian wheat:

- Australia received some rain in the east, but this is largely seen as being too little too late for winter crops.
- Private estimates for the Aussie crop are coming down to NAB's 15.5 million mt estimate which would create an exportable surplus of ~7 million mt, vs last year's 9 million mt, regardless of the amount, little has been sold at current levels although with Black Sea FOB rising, Aussie wheat bid at \$234 is starting to price into some Asian markets.

Argentine wheat:

- Argentina's market is still digesting the news of the newly elected Alberto Fernandez, running mate of Cristina Fernandez de Kirchner who implemented heavy-handed trade controls and export limits when she was last in power. Alberto Fernandez said he would not be as confrontational, but his policies are unclear, and farmers worry about increases in grain export taxes and/or a full return to Fernandez de Kirchner's policies.
- Argentina got some rain in E BA, SE La Pampa and Entre Rios, but everywhere else was dry (notably all of Cordoba and W La Pampa).
- BAGE put their wheat production estimate down to 18 million mt (in-line with many private estimates) vs the USDA's 20.5 million mt. Average yield forecasts are now down to 2.8 mt/ha (41.7 bushels-per-acre) from 3.2 mt/ha (47.6 bushels-per-acre).
- Just 20% of Argentina's crop is in "good" condition and none of it is rated "excellent".
- The country did say that it could fill any gap in Vietnamese supply that may arise by thistle seed contamination in Russian wheat exports. Argentina reportedly has 2 million mt of certified pest free wheat available.
- There was talk of Brazil halting imports from Argentina because of "friction" between the two countries.

- FOB markets were largely unchanged, with 12.5 protein ranging from \$188-\$195, as trade tries to anticipate what changes the new President will implement.

EU wheat:

- EU wheat exports are 43% higher than last year at 9 million mt. Strong export performance caused the EU Commission to raise wheat export forecasts by another 2 million mt.
- Planting in France was able to pick up pace finishing the month at 50% complete, still well behind last year.
- Limited farmer selling and strong exports supported EU Fob which rose week/week with 12.5 pro offered at \$205.3 in Germany and \$204.1 in the Baltic, while French 11.5 pro was \$201.6.

Black Sea wheat:

- Total grain harvest in Russia is now 95% complete. Russian farmers have harvested 77.5 million mt of wheat as of Oct 28th, up from the 73.1 million mt harvested by this time last year.
- Weekly Russian wheat exports ending October 29th were 3% higher than the previous week, largely thanks to buying from Bangladesh.
- Russian FOB made fresh season highs with 12.5 pro now bid at \$211 and 11.5 pro bid at \$206
- Prices have been supported by a stronger ruble, good demand, lower stockpiles and high interior prices. Further contributing to the price is that farmers have not been sellers. Recently, Russian farm profits have been strong allowing them to invest in new tech, equipment, and significantly, storage capacity. Russian exports are 11% behind last year's pace. Slower exports in the first half of the season usually means Russia will be more active than usual during Jan-Jun.

➤ Significant purchases/ trades:

- **Egypt** (GASC) bought 235,000 mt of French/Ukraine/Romanian wheat for December 5 to 15 at \$234.50-236.50, some \$5 above their previous purchase.
- **Jordan** bought 60,000 mt at \$241.00.
- **Ethiopia** postponed its 200,000 mt tender to Nov 13th, whilst the Nov 5th 400,000 mt tender was further postponed to Nov 14th.
- **Syria** tenders Nov 4 for 150,000 mt of Russian wheat.
- **EU** shipments advanced 500,000 mt to an all-wheat total of 9 million mt, **up 43% on last year.**
- **USA** inspections were 522,000 mt (**season total 317 million bushels, up 23%**), sales were 494,000 mt (**season total 536 million bushels, up 11%**)
- **Canadian wheat sales (excl. durum) were down 15 percent year to date.**

➤ Wheat Market Outlook:

Significant events:

- Despite end-of-week strength in all wheat future contracts over rumors of Chinese interest in US high-pro wheat, week-over-week futures contract changes were mixed. **Technical selling pressured soft red winter (SRW) and hard red spring (HRS) futures prices week-over-week.** SRW December futures fell 2 cents to close at \$5.16/bushels. HRS December futures lost 5 cents to end at \$5.31/bushels. Hard red winter (HRW) December futures gained 3 cents to close at \$4.26/bushels.
- **Minimal farmer and elevator selling supported HRS export basis out of the Great Lakes, Gulf and Pacific Northwest (PNW) for November and December deliveries. Minimal farmer selling also supported HRW export basis out of the Gulf for nearby and deferred deliveries. SRW export basis for November delivery came up week-over-week on tight ending stocks.**
- On Oct. 28, USDA reported **U.S. winter wheat planting at 85% complete** compared to 77% last year and the 5-year average of 82%.
- As of Oct. 28, according to the Russian Ministry of Agriculture, **Russian farmers have harvested 77.5 million tonnes of wheat** compared to 73.1 million tonnes the same time last year. The 2019/20 Russian total grains harvest is now 95% complete at 44.4 million hectares (110 million acres).

- **Weather around the world:**

- The **USA** looks quite cold but generally dry which will allow for fieldwork to progress. Look for colder than normal temperatures across most of the USA for the coming 10 days, with less precipitation coming for the corn/soy belt in that time. **Central and Southern Brazil** should see much improved rain this week, but rain in **Argentina** looks confined to the east and north with the dry west and south missing out. **Europe** looks dry in the west (Iberia) and east (Ukraine, Russia) but generally wet everywhere else. Temperatures are becoming more seasonal in the west but remain much above normal across the former **Soviet Union**. **Australia** continues to see widespread showers in the east, but the west remains completely dry.

➤ **Outlook:**

In the trade's view wheat still looks oversupplied and recent higher prices are encouraging winter wheat growers in Europe to plant more acres and perhaps hedge new crop prices. In the meantime, exports continue to be very good and, in our view, overall demand is better. Canadian exports are poor compared to what the rest of the world is doing, and exporters need to sharpen their pencils. The WASDE report is out on Friday and will be watched closely. In our view, USDA needs to reduce world wheat production by ~2 million mt and increase consumption by 3 million mt. For corn they should reduce the yield and planted acres. Overall, we expect the USDA to be conservative and reserve any big surprises to the December 10th report. Trade to be limited this week. **We would be looking for \$5.25 on feed wheat and would sell some #2 CWRS for \$7.00 or better.**

iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan. '19 (bu.)	Jan. '19 (mt.)
1 CWRS 13.5	\$6.16	\$226.34	1 CWRS 13.5	\$6.24	\$229.28
1 CWAD 13.0	\$7.30	\$268.23	1 CWAD 13.0	\$7.29	\$267.86
1 CPSR 11.5	\$5.21	\$191.44	1 CPSR 11.5	\$5.25	\$192.91
SW Sask			SW Sask		
1 CWRS 13.5	\$6.08	\$223.40	1 CWRS 13.5	\$6.17	\$226.71
1 CWAD 13.0	\$7.30	\$268.23	1 CWAD 13.0	\$7.27	\$267.13
1 CPSR 11.5	\$4.91	\$180.41	1 CPSR 11.5	\$5.00	\$183.72
NE Sask			NE Sask		
1 CWRS 13.5	\$5.92	\$217.52	1 CWRS 13.5	\$6.05	\$222.30
1 CWAD 13.0	\$7.73	\$284.03	1 CWAD 13.0	\$7.59	\$278.89
1 CPSR 11.5	\$4.95	\$181.88	1 CPSR 11.5	\$4.97	\$182.62
SE Sask			SE Sask		
1 CWRS 13.5	\$5.98	\$219.73	1 CWRS 13.5	\$6.08	\$333.64
1 CWAD 13.0	\$7.68	\$282.19	1 CWAD 13.0	\$7.47	\$274.48
1 CPSR 11.5	\$4.86	\$178.58	1 CPSR 11.5	\$4.91	\$180.41

Table 2: Grade Spreads, in Canadian Dollars per Bushels 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 bushelst 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.
 - 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 bushelsyer 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.

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.”

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				November 4, 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	\$342.89	\$326.10		
HRS	\$338.09			
HRW 11.5	\$292.53			
SWW 12.0	\$294.45			
1 CWRS 13.5 ³	\$342.89		\$223.40	\$119.48
2 CWRS 13.0 ³	\$338.09		\$201.36	\$136.73
3 CWRS ³	\$292.53		\$153.59	\$138.94
CPS ³	\$287.74		\$184.45	\$103.28
1 CWAD ⁴		\$375.02	\$0.00	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$211.00			
French 11.5 (Rouen)	\$201.60			
APW 10.5 (W Coast)	\$234.00			
Argentine 12.5	\$188-195			
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				

ADENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						November 4, 2019
Canadian Funds	Grade		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$9.15	\$9.02	\$7.78	\$7.83	\$7.83	
Parity Track Rosetown	\$7.65	\$7.52	\$6.28	\$6.33	\$6.33	
Track Bid Rosetown Area	\$6.08	\$5.48	\$4.18	\$5.02	\$5.02	
Gross Margin at Elevator (\$/bu)*	\$1.57	\$2.04	\$2.10	\$1.31	\$1.31	
Gross Margin at Elevator (\$/mt)*	\$57.78	\$75.03	\$77.24	\$48.30	\$48.30	
* to cover elevation, elevator market risk, margin						