

Wheat Market Outlook and Price Report: July 23, 2018

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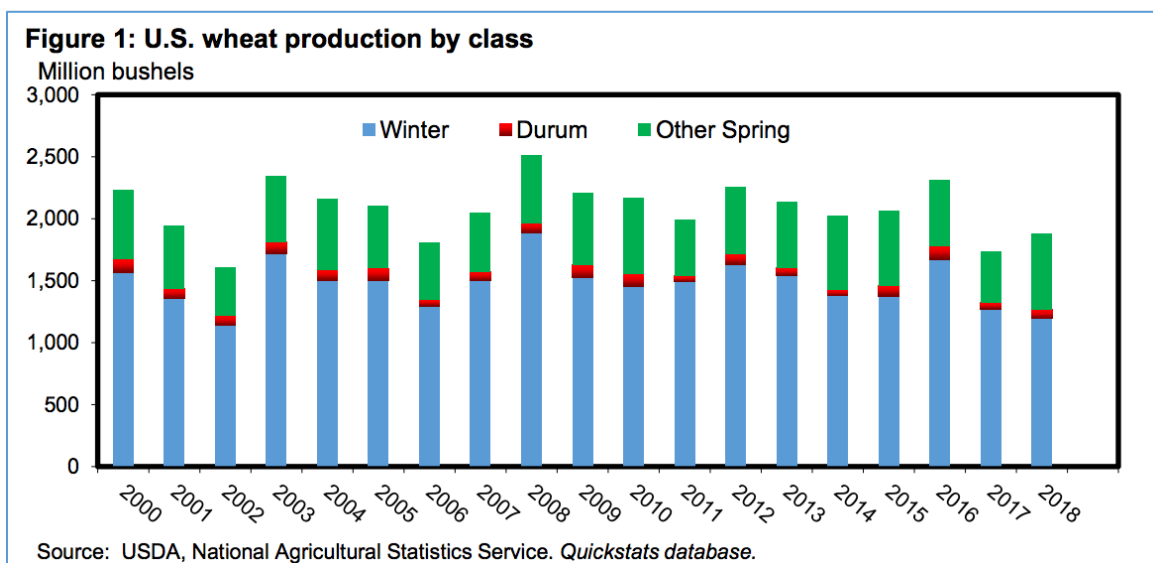
i) Background and Rationale for the Report

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.

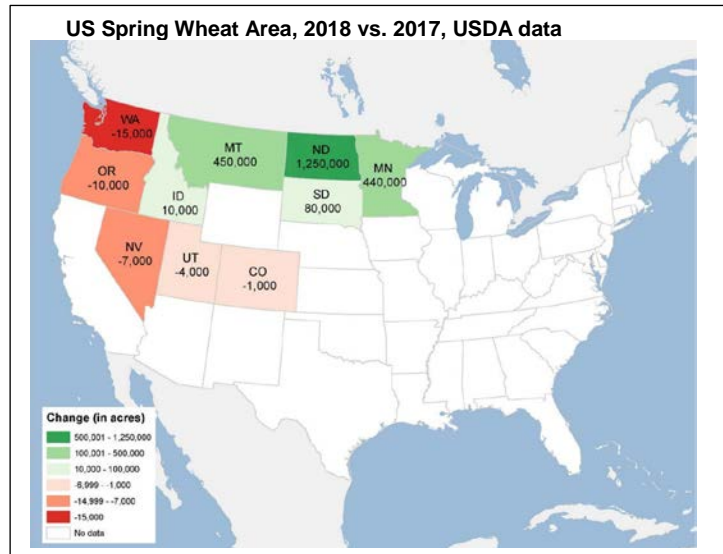
ii) Wheat Market Outlook July 23, 2018

U.S. Spring Wheat Outlook:



- Vastly improved weather from a year ago has helped lift the projected yield for U.S. spring wheat to a new high of 47.6 bushels per acre.

- Record yields combine with a 27% increase in projected harvested area to increase spring wheat production to 16.7 million mt.
- Expanded U.S. spring wheat production, a lower season-average all wheat farm price, and reduced production from foreign competitors increase opportunities to market the 2018/19 crop.
 - EU (down 4.4 million mt from June forecast), Australia (down 2 million), Russia (down 1.5 million), and Ukraine (down 1 million)
- USDA raised U.S. marketing-year exports this month to 26.5 million mt, up nearly 2 million mt from 2017/18.
- USDA raised their Canadian wheat export projection by 1 million mt in their July report to 24.5 million mt.

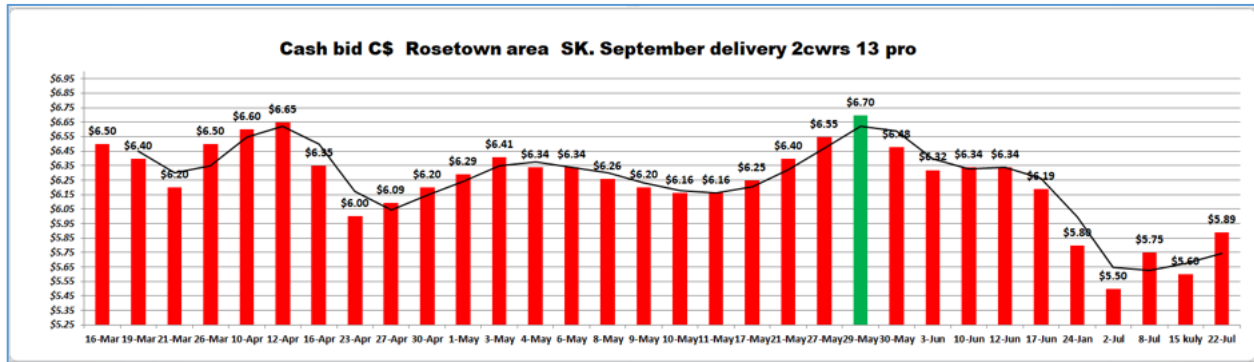


➤ **Global wheat production and trade:**

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:** Sep'18 contract Chicago winter wheat closed at 516-0, up 11-6 cents in Friday's trade and up 19-0 cents for the week.
Sep'18 contract Kansas hard red winter wheat closed up 12-0 cents at 508-4, up 16-2 cents for the week.
Minneapolis Sep'18 contract hard red spring wheat closed at 553-4, up 16-6 cents in Friday's trade, and up 22-2 cents for the week. Dec'18 hard red spring wheat closed at 571-2, up 16-4 cents for the day and up 22-0 cents for the week.
- Funds:** Both Index Funds and Spec Funds were buyers this week on weather concerns.
- Matif:** Matif increased €8/mt due to increasing concerns for the northern EU crop and due to a lack of farmer selling.
 - Canadian wheat:**
- Japan's ban on Canadian wheat has been lifted.
 - On July 20th, 1 month and 5 days after first implementing a ban on all Cdn. wheat imports, Japan has announced that they will resume buying Cdn. wheat. They are currently looking to buy 62.957k mt of 13.5 pro Cdn. wheat for Aug-Sept.
- AAFC has *Canadian wheat* increasing by 13% from '17/18 as a 11% decrease in winter wheat is well off-set by a 15% increase in spring wheat. Yields are expected to return to trend for a 1.5% increase in production for a total of 25.4 mln mt (our lower acreage estimate but slightly above trend yields gives us a similar number). Despite this, lower carry-in stocks have the AAFC increasing total supply by only 50k mt to 30.17 mln mt. Lower global production has exports forecast up 1% for an overall 2% decrease in ending stocks of 4.6mln mt.

- AAFC has '18/19 seeded acreage for *durum* up 11% from '17/18 resulting in a 5.7 mln mt production (15% increase). Low soil moisture has this estimate down from previous estimates as many of the AB durum areas have been either too dry or too wet driving yields below trend although still 5% higher than '17/18 (assuming timely rains). Supply is 2% higher on good supply and higher ending stocks (up 15%).
- *Canadian elevator bids are steeply discounted to the world price due to very expensive handling and elevator company margins and in our view should be ignored. We expect that Elevator companies will need to originate and move more Canadian wheat in 2018/19, so prices will improve. Growers should not deliver unpriced grain or priced "basis" wheat to elevator companies.*



(CGC) Grain Handling Summary Wheat		Week 50 (to July 15/18)		
('000 mt)	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	357.2	239.2	218.0	49.5
Week ago	271.3	317.6	349.2	39.8
YTD	17,720.8	17,271.6	15,679.7	4,462.7
Last YTD	17,842.8	17,051.3	14,086.0	2,842.9
YTD less Last YTD (kmt)	-122.0	220.3	1,593.7	1,619.8
YTD over Last YTD (%)	99%	101%	111%	157%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum		Week 50 (to July 15/18)		
('000 mt)	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	142.3	81.4	152.4	45.9
Week ago	77.5	84.1	62.1	4.3
YTD	3,873.3	4,210.0	3,757.4	725.9
Last YTD	4,959.5	5,586.9	4,161.2	318.0
YTD less Last YTD (kmt)	-1,086.2	-1,376.9	-403.8	407.9
YTD over Last YTD (%)	78%	75%	90%	228%

Mercantile based on weekly CGC Handling Data

○ **US wheat:**

- Weather has turned negative and we expect US wheat ratings to be down 1-2% on Monday. Widespread rain was seen in the N and E US. The Central Plains are looking wetter next week, while the Cdn. Prairies are dry in many areas (hot temps have caused severe weather (hail) damage in many localized areas).
- US wheat exports for the week ending July 12 at 469,529 mt were considered quite good. US export sales were as expected at 300k mt creating a season total of 235mln bu, down 32% from LY. There is strong support to the notion that US exports will pick up significantly and will surpass the USDA's 975mln bu number. We expect spill over demand to turn to the US as production is reduced in many other exporting countries.

○ **Australian wheat:**

- Australia had showers in the west but the east stayed dry.
- Australian new crop wheat futures hit contract highs and domestic markets continued to rally with no/little rain in the forecast through the end of the month.
- The trade is talking abt a potentially sub-20 mln mt crop against the USDA's 22 mln mt wheat crop. This would put the exportable surplus at just 12 mln mt vs. the USDA's 16 mln mt.

○ **Argentine wheat:**

- Argentina turned considerably wetter.
- The Buenos Aires Grain Exchange (BAGE) put wheat plantings at 93% complete (83% last year), but crop ratings fell with GD/EX at just 37% against 40% last week and 66% a year ago.
- Argentine Fob new crop 12.5% protein wheat rose US\$5/mt to US\$213/mt.

- **China:**
 - The National Bureau of statistics has China's 2018 wheat crop down 2.4% from LY to 128.35 mln mt.
- **EU wheat:**
 - N EU remains very dry as all the rain (heavy at times) is confined to the Balkans.
 - EU production is still a big question, which has Matif wheat rising to contract highs. Early German yields are down 20% from LY (test weights are variable but pro levels are good). Despite early harvest yields supporting 35-36 mln mt estimates, Reuters has the French wheat crop down 6.5% from LY to 34.2 mln mt as yields are down 7% from avg. to 9.92 mt/ha (pro levels are expected to be strong).
 - French wheat remains very expensive compared to Black Sea wheat, but northern Europe is seeing one of the worst droughts in decades and Germany's final crop could be considerably smaller than current.
 - German/Baltic premiums were nominally unchanged but the market is already repeating last year's anomaly of the domestic feed outlets paying higher prices than the milling export market.
- **Black Sea wheat:**
 - The size of the Russian wheat crop has traders concerned following the Russian AgMin's report of a small 64.4 mln mt crop (vs USDA 69.5 mln and trade's 71 mln). If the AgMin's report is correct it would leave only 20 mln mt for export compared to 35 mln in '17/18. Consequently, deferred months are tough to buy, and cash prices are higher whilst the crop size is being assessed. As Russian wheat harvest has progressed, yields have increased slightly to 3.87 mt/ha yield which is still 16.5% less than last year.
 - Russian 12.5% protein wheat quotes ended the week at US\$207/mt for August shipment, and \$212 for September, but beyond that there were no selling quotes and there were mounting reports of Russian wheat struggling to make 12.5% protein.

➤ **Significant purchases/ trades:**

It was a very quiet week in cash trade, while buyers watched good crop conditions and wondered what new trade developments might occur.

- **Saudi Arabia** bought 625,000 mt of Sep-Oct.'18 arrival wheat at US\$254/mt basis CIF Jeddah.
- We did not hear of any other business.

➤ **Wheat Market Outlook:**

Significant events:

- The extreme heat in parts of the EU is causing a decline in both yield and quality in the EU. There are also problems in the Black Sea, Australia and possibly Canada.

➤ **Outlook:**

The extreme heat in parts of the EU is causing a decline in both yield and quality in the EU. There are also problems in the Black Sea, Australia and possibly Canada. Argentina's good to excellent rating is down at just 37% against 66% a year ago. The world wheat Supply/Demand is turning increasingly bullish, and the market needs to make a major re-allocation of the origins of demand compared to the USDA's current estimates. The last WASDE report predicted unrealistic export numbers from some countries; e.g. Russian wheat exports 34 mln tonnes. These exports will need to be switched to North American supplies. There

are some reports of rain in the forecasts, which in the short term will dampen markets, but for now heat continues.

Canadian elevator bids are steeply discounted to the world price due to very expensive handling and elevator company margins and in our view should be ignored. We expect that Elevator companies will need to originate and move more Canadian wheat in 2018/19, so prices will improve. Growers should not deliver unpriced grain or priced “basis” wheat to elevator companies.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 23, 2018					
NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Oct. '18 {bu.}	Oct. '18 {mt.}
1 CWRS 13.5	\$5.89	\$216.42	1 CWRS 13.5	\$5.87	\$215.69
1 CWAD 13.0	\$6.36	\$233.69	1 CWAD 13.0	\$6.29	\$231.12
1 CPSR 11.5	\$5.60	\$205.77	1 CPSR 11.5	\$5.50	\$202.09
SW Sask			SW Sask		
1 CWRS 13.5	\$6.25	\$229.65	1 CWRS 13.5	\$6.28	\$230.75
1 CWAD 13.0	\$6.93	\$254.64	1 CWAD 13.0	\$6.78	\$249.12
1 CPSR 11.5	\$5.50	\$202.09	1 CPSR 11.5	\$5.45	\$200.25
NE Sask			NE Sask		
1 CWRS 13.5	\$6.23	\$228.92	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$6.75	\$248.02	1 CWAD 13.0	\$6.77	\$248.76
1 CPSR 11.5	\$5.33	\$195.85	1 CPSR 11.5	\$5.30	\$194.74
SE Sask			SE Sask		
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.26	\$230.02
1 CWAD 13.0	\$6.88	\$252.80	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$5.32	\$195.48	1 CPSR 11.5	\$5.28	\$194.01

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	0.11	4.15
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.18)	(6.61)
1 CWRS 12.5	(0.37)	(13.60)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.03	1.10
2 CWAD 13.0	(0.79)	(29.03)
2 CWAD 12.5	(0.97)	(35.64)

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)

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.”

- 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				July 23, 2018
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	\$327.47	\$311.05		
HRS	\$320.23			
HRW 11.5	\$317.33			
SWW 12.0	\$294.15			
1 CWRS 13.5³	\$327.47		\$237.73	\$89.74
2 CWRS 13.0³	\$320.23		\$217.52	\$102.70
3 CWRS³	\$317.33		\$213.85	\$103.48
CPS³	\$287.38		\$199.52	\$87.86
1 CWAD⁴		\$351.62	\$244.72	\$106.91
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$207.00			
French 11.5 (Rouen)	\$232.53			
APW 10.5 (W Coast)	\$248.00			
Argentine 12.0				

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						July 23, 2018
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$8.73	\$8.53	\$8.45	\$7.82	\$7.82	
Parity Track Rosetown	\$7.23	\$7.03	\$6.96	\$6.32	\$6.32	
Track Bid Rosetown Area	\$6.47	\$5.92	\$5.82	\$5.43	\$5.43	
Gross Margin at Elevator (\$/bu)*	\$0.76	\$1.11	\$1.14	\$0.89	\$0.89	
Gross Margin at Elevator (\$/mt)*	\$27.99	\$40.96	\$41.73	\$32.88	\$32.88	

* to cover elevation, elevator market risk, margin