

Wheat Market Outlook and Price Report: October 15, 2018
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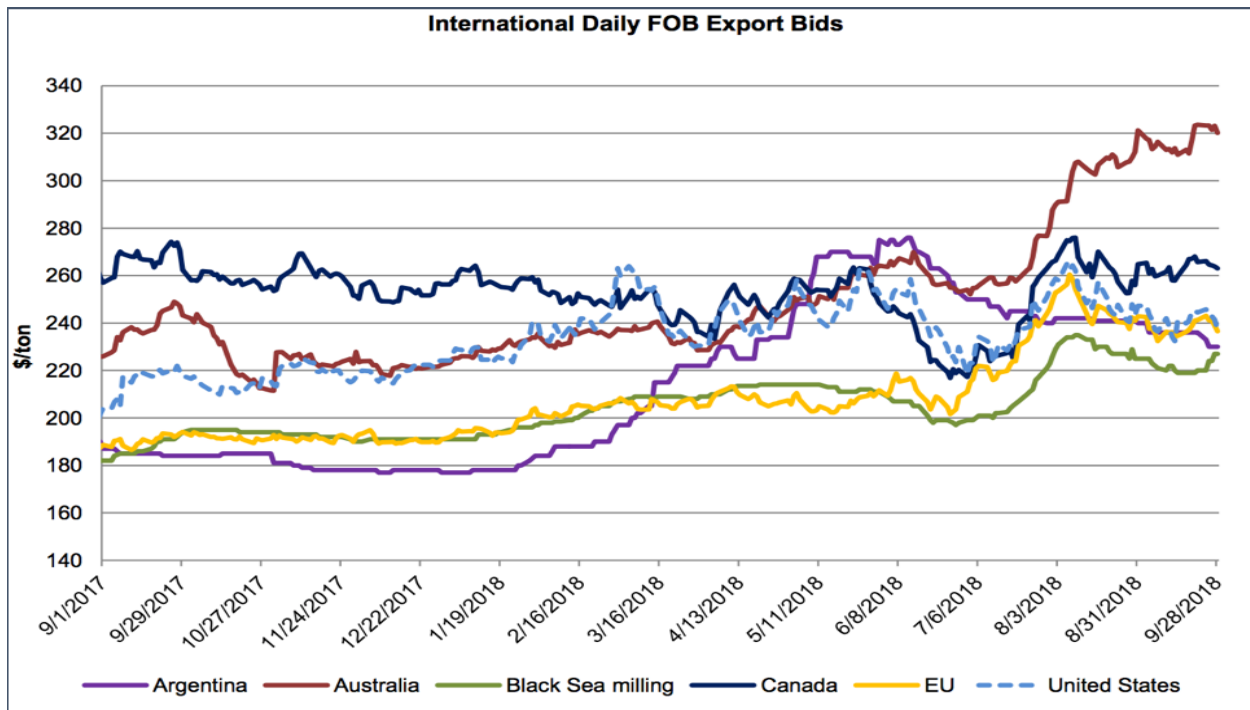
i) Background and Rationale for the Report

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 Oct. 15, 2018

October 11/18 International Grains Council (IGC) FOB Wheat Prices:



- **Exporter prices** for wheat were mixed in September. Argentine, Canadian, EU, and U.S. prices were down, while Australian and Black Sea quotes rose. Australia's drought has resulted in a

smaller crop, leaving Australian wheat increasingly uncompetitive for exports, and therefore keeping supplies for domestic use.

- The **price spread** between U.S. and Black Sea wheat narrowed as the United States has plentiful supplies, making it more competitive on the international wheat market.

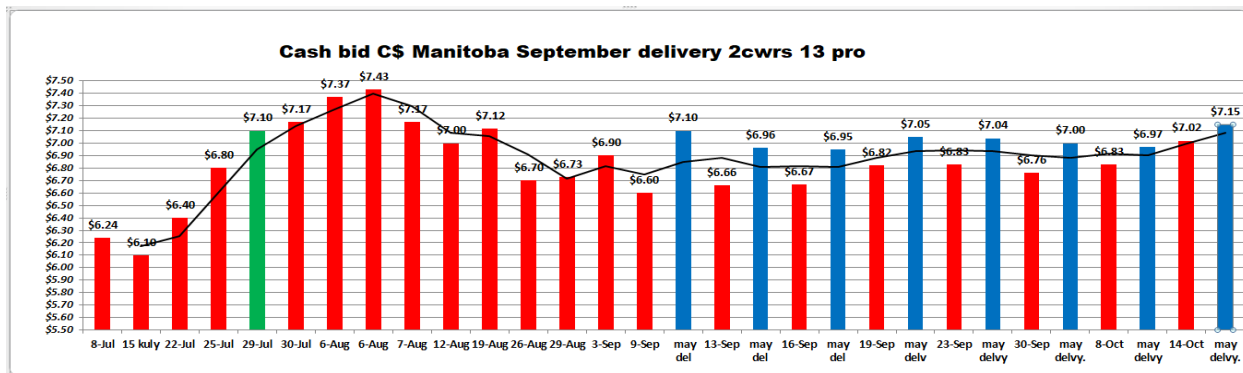
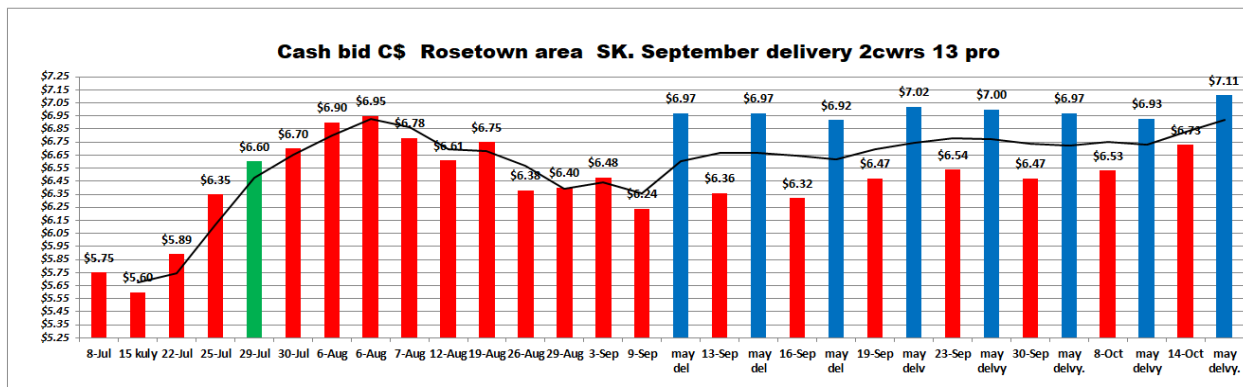
➤ **Global wheat production and trade:**

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 '18 contract Chicago winter wheat closed at 517-2 up 9-2 cents in Friday's trade and down 3-6 cents for the week.
Dec 18 contract Kansas hard red winter wheat closed up 10-4 cents at 524-2, unchanged in the week.
In Minneapolis, Dec '18 contract hard red spring wheat closed at 596-0, up 6-4 cents in Friday's trade and up 4-6 cents for the week. Mar '19 hard red spring wheat closed at 602-2, up 3-4 cents for the day and down 1-2 cents for the week.
- **Funds:** Index funds maintain their overall long and we expect them to continue while there is a concern of inflation. Specs continue to reduce their overall net short.
- **Matif:** Matif ended up €1-2/mt Friday and the Euro closed up 0.4% after hitting 7-week lows early.

Canadian wheat:

- **Spring wheat harvest in SK** continues to plug on, now 65% complete (vs 58% last week and 95% last year). Meanwhile 56.7% of the spring wheat crop has been harvested in AB (up 14.7% from last week but still 25.2% behind last year).
- 85% of the SK durum crop has been harvested, the same percentage as last week.
- The CGC issued no handling or export data for week 10.
- Canadian elevators raised their bids. There are better bids than we report in the chart below:



US wheat:

- Thursday's **USDA/WASDE reports** contained no real surprises for wheat, as the USDA continues to be conservative in their revisions of wheat production. US wheat production was increased 7 mln to 1,884 mln bu, imports were raised 5 mln bu to 140 mln bu, feed/residual use was decreased 10 mln bu to 110 mln bu (due to large corn crop), exports were left (frustratingly) unchanged at 1,025 mln bu, for an overall increase in ending stocks of 956 mln mt (mkt. expectation was for 950mln).
- Global wheat supply was reduced 2.08 mln mt to 730.92 mln. This resulted in a 1.1mln mt decrease in world ending stocks to 260.2mln mt (down 5% from last year's record and 1 mln mt lower than trade guesses). Decreases were seen mainly in Australia, whose production was lowered 1.5 mln mt to 18.5 mln (should be 17mln) and Russia, whose production was lowered 1 mln mt to 70 mln (current Russian yields argue a 68.5 mln mt crop). Aussie exports were lowered 1 mln mt to 13 mln, while Russian exports were unchanged at 35 mln mt (vs the Russian AgMin's 30-35mln). EU carry out was left at 10.05 mln mt which is ~3 weeks worth (too low). Both production and exports in Canada were unchanged at 31.5 mln (should be 30mln) and 24 mln mt respectively.
- *USDA probably remains 2-3 mln tonnes too high on the Aussie crop compared to the trade's estimates, much of Canada remains under snow with harvest put at just 65% complete (against 95% last year).*
- **Durum:** According to USDA, higher than expected volumes of durum were imported to the US in the June-August period; they raised durum imports by 4 mln bu from the September report. Combined with a 4 mln bu increase in production, this results in an 8 mln mt increase in total supply to 154 mln bu (up 20 mln bu from last year). The demand side remained unchanged, for an overall increase of 8 mln bu of carry-over from the September report to 44 mln bu, up 9 mln bu from last year.
- **US wheat sales** of 339k mt were at the low range of trade's 300-600k mt expectation. Despite this, the last 5 weeks of sales have been higher than the previous 5 weeks. Six weeks ago, sales were running 114 mln bu behind last year, now they are just 98 mln. So, US exports *are* picking up, but not enough to force the USDA to raise export numbers.
- USDA announced the sale of 120,000 mt of HRS to Bangladesh following last week's HRW sale to Saudi. We don't have the prices on these trades, but expect they are around US\$250.00/mt parity FOB Vancouver.

Australian wheat:

- Australian futures took a A\$15/mt drop mid-week on forecasted rains, but was still able to finish the week higher, evidence that the rain was disappointing.
- *Australia has had their driest summer on record. In Australia's last 4 serious droughts ('94, '02, '06, and '07) national yields fell by 1 mt/ha. In 2006 and 2007 the USDA lowered their estimate by 8 mln mt. At an estimated 18.5 mln mt, the USDA likely still has Australian production too high.*

Argentine wheat:

- Argentina was dry except for showers in the north-east.
- Rosario Grain Exchange lowered their wheat crop estimate by 2 mln mt to 19 mln mt, due to dryness, but this was still only 500k mt below the USD's unchanged 19.5 mln mt.
- New crop Fob values for Argentine wheat were offered down to US\$230/mt for Dec 12.5% protein wheat, less \$7-8/mt per half point of protein. *This would leave 11.5% protein Argentine wheat offers at US\$215/mt versus French wheat offers at over US\$240/mt.*

EU wheat:

- EU season shipments rose by 83k mt to a cumulative 4.85 mln mt, down 25% from last year.
- The USDA stayed with a 23 mln mt EU export number, in spite of French wheat still being priced out of every export market [see above].
- Winter wheat seeding still seems to have major problems due to dry, rock-hard soils across Europe. France does have rain in the forecast.

Black Sea wheat:

- Another 1.5 mln mt of Russian wheat/barley/rye reserves from 2008-2016 are going to be auctioned off within the next two weeks. The sales are due to concerns about rising food prices resulting from the size of the current crops and the pace of exports.
- Russian wheat yield reports kept crop ideas around 68-69 mln mt. And while the USDA came down 1 mln mt to 70 mln mt, they left exports unchanged on the month at 35 mln mt. In contrast, the Russian AgMin still puts total grain exports at 30-35 mln mt, much below the USDA's 43 mln mt.
- Current wheat shipments are still on target for 25 mln mt by end December.
- Ukrainian wheat shipments are at 6 mln mt, on pace for the 16 mln mt "memorandum" agreement.
- Like in the EU, Black Sea winter plantings going into very dry soils.
- Black Sea 12.5% protein wheat is priced around US\$233/mt and 11.5% protein wheat is at a US\$10-12/mt discount. There are still no forward offers of wheat from Russia/FSU origins.

➤ **Significant purchases/ trades:**

This was not a very active week for cash trades last week:

- Private US export sales of 120k mt of HRS to **Bangladesh** were reported today for ~US\$25/mt Fob PNW, which is about \$290 C&F.
- **US** weekly wheat sales of 339k mt were at the low end of expectations, and are 98 mln bu behind last year's sales.

➤ **Wheat Market Outlook:**

Significant events:

- **Bangladesh** bought 120,000 mt of US wheat at ~US\$255/mt Fob PNW, which is about \$290 C&F.
- **USDA/ WASDE** probably remains 2-3 mln tonnes too high on the Australian crop compared to the trade's estimates, much of Canada remains under snow with harvest put at just 65% complete (against 95% last year).
- The USDA did reduce the Australian/Russian crop prospects, but not as much as the trade thinks they should.
- There does not appear to be any significant weather improvement in **Europe** to improve winter planting conditions.
- We could see buyers taking some forward wheat coverage, although the market does have more concerns over recession due to Trump's policies and mounting debt.
- New crop Fob **Argentine wheat** was offered down to US\$230/mt for Dec 12.5% protein wheat, less \$7-8/mt per half point of protein. This would leave 11.5% protein Argentine wheat offers at US\$215/mt compared to French wheat offers at over US\$240/mt, and will likely leave the important Algerian market open to Argentine wheat (Algeria normally buys French wheat).

➤ **Outlook:**

All the USDA's non-US export numbers are too high basis current crops/prices, and EU/FSU winter wheat is going into rock solid soils in a year when a major acreage expansion is required. It is to be expected that the USDA remains conservative on reducing production. *However, we and others think it is necessary, and prices will have to increase in 2019.*

Note there are still no forward offers of wheat from Russia/FSU origins.

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)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$6.98	\$256.47	1 CWRS 13.5	\$7.21	\$264.92
1 CWAD 13.0	\$5.67	\$208.34	1 CWAD 13.0	\$5.81	\$213.48
1 CPSR 11.5	\$5.93	\$217.89	1 CPSR 11.5	\$6.39	\$234.79
SW Sask			SW Sask		
1 CWRS 13.5	\$6.92	\$254.27	1 CWRS 13.5	\$7.09	\$260.51
1 CWAD 13.0	\$5.84	\$214.58	1 CWAD 13.0	\$5.88	\$216.05
1 CPSR 11.5	\$5.80	\$213.12	1 CPSR 11.5	\$6.29	\$231.12
NE Sask			NE Sask		
1 CWRS 13.5	\$6.71	\$246.55	1 CWRS 13.5	\$6.94	\$255.00
1 CWAD 13.0	\$5.80	\$213.12	1 CWAD 13.0	\$5.74	\$210.91
1 CPSR 11.5	\$5.68	\$208.71	1 CPSR 11.5	\$6.11	\$224.51
SE Sask			SE Sask		
1 CWRS 13.5	\$6.73	\$247.29	1 CWRS 13.5	\$6.94	\$255.00
1 CWAD 13.0	\$5.88	\$216.05	1 CWAD 13.0	\$5.91	\$217.16
1 CPSR 11.5	\$5.69	\$209.07	1 CPSR 11.5	\$6.12	\$224.87

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)
- 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				October 15, 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	\$336.98	\$314.13		
HRS	\$329.84			
HRW 11.5	\$316.51			
SWW 12.0	\$302.71			
1 CWRS 13.5 ³	\$336.98		\$249.12	\$87.85
2 CWRS 13.0 ³	\$329.84		\$232.96	\$96.88
3 CWRS ³	\$316.51		\$220.10	\$96.42
CPS ³	\$296.05		\$206.87	\$89.18
1 CWAD ⁴		\$291.76	\$215.69	\$76.08
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$233.00			
French 11.5 (Rouen)	\$241.29			
APW 10.5 (W Coast)				
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					October 15, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.99	\$8.80	\$8.43	\$8.06	\$8.06
Parity Track Rosetown	\$7.49	\$7.30	\$6.94	\$6.56	\$6.56
Track Bid Rosetown Area	\$6.78	\$6.34	\$5.99	\$5.63	\$5.63
Gross Margin at Elevator (\$/bu)*	\$0.71	\$0.96	\$0.95	\$0.93	\$0.93
Gross Margin at Elevator (\$/mt)*	\$26.21	\$35.23	\$34.77	\$34.19	\$34.19

* to cover elevation, elevator market risk, margin