

Wheat Market Outlook and Price Report: March 4, 2019

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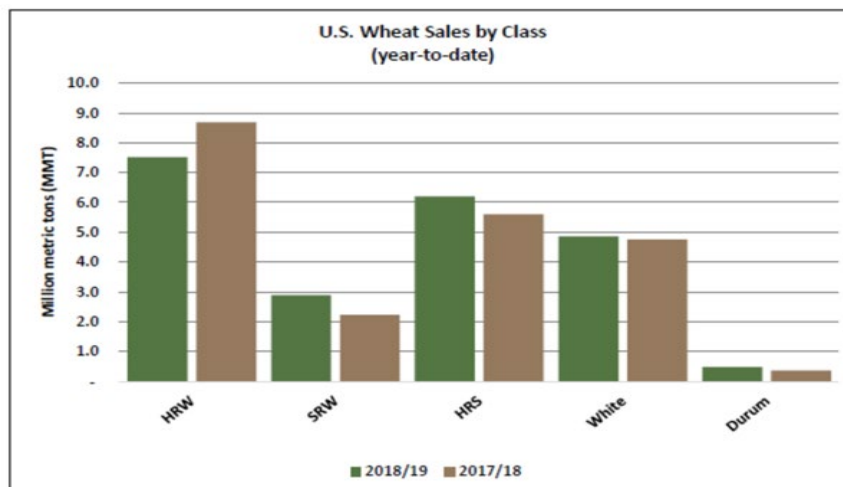
i) Background and Rationale for the Report

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 March 4, 2019

YTD US Wheat sales by Class (USDA data):



- US wheat inspections last week were 694,000 mt. The season total of 604 million bushels is down 2% from last year.
- Sales for the week were 476,000 mt, for a season total 806 million bushels, up 1% on last year against USDA's projected 11% increase.
- HRW commitments have caught up and are now in line with USDA projections, and it is now SRW and HRS which are the laggards. HRS and SRW are now the laggards. HRS and SRW are up just 11% and 30%, respectively, vs the USDA's predicted 32% and 43% respective increases.
- North American wheat was again uncompetitive in the reported cash business last week.
- There were no reports regarding Russia suspending wheat exports.
- In Russia domestic prices are high, however, the millers have had notice of tightening supplies and plenty of time to cover their domestic needs.

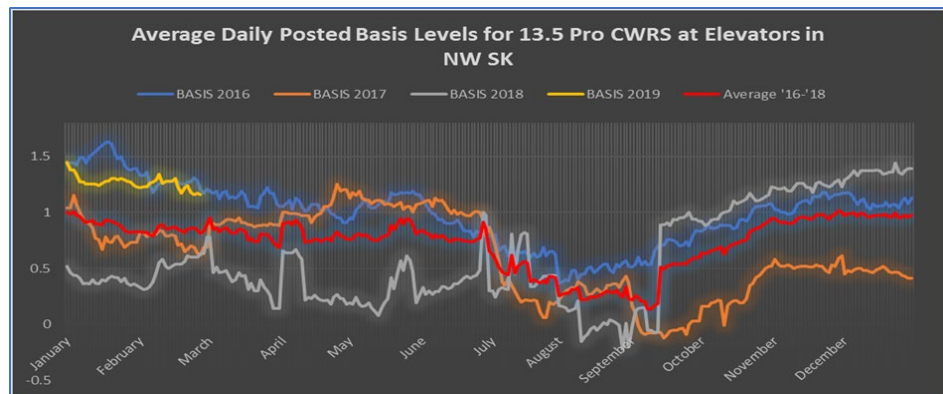
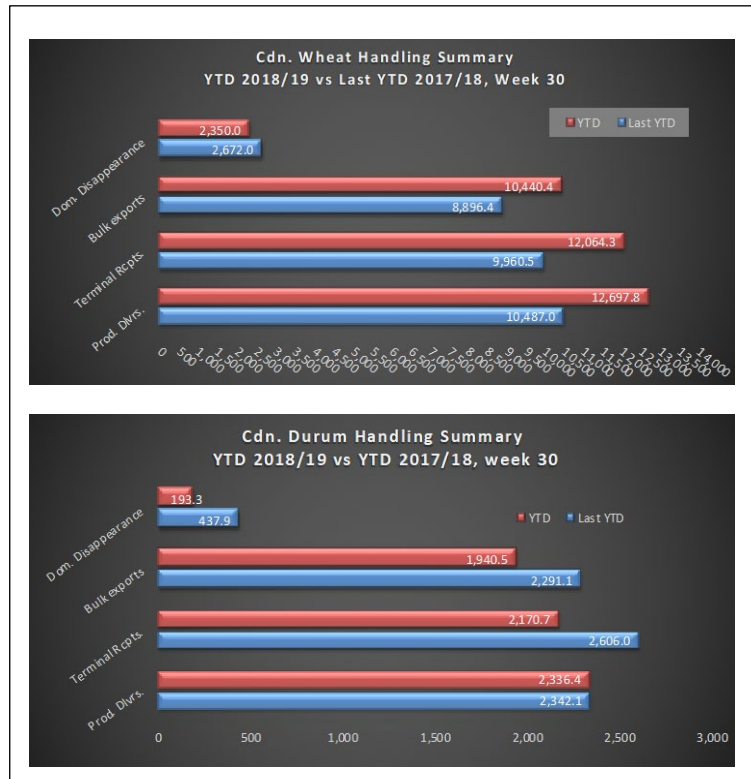
➤ **Global wheat production and trade:**

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 '19 contract **Chicago winter wheat** closed at 454-0, up 1-4 cents in Friday's trade and down 32-6 cents for the week.
- Mar '19 contract **Kansas hard red winter wheat** closed down 0-2 cents at 440-6, down 17-6 cents for the week.
- In **Minneapolis**, Mar '19 contract **hard red spring wheat** closed at 562-4, down 4-4 cents for the day, down 4-2 cents for the week while May '19 hard red spring wheat closed at 558-2, down 1-0 cent for the day, down 7-0 cents for the week.
- **Matif:** Matif May wheat took its 3-week losses to €20/mt (50¢/bu).

Canadian wheat:

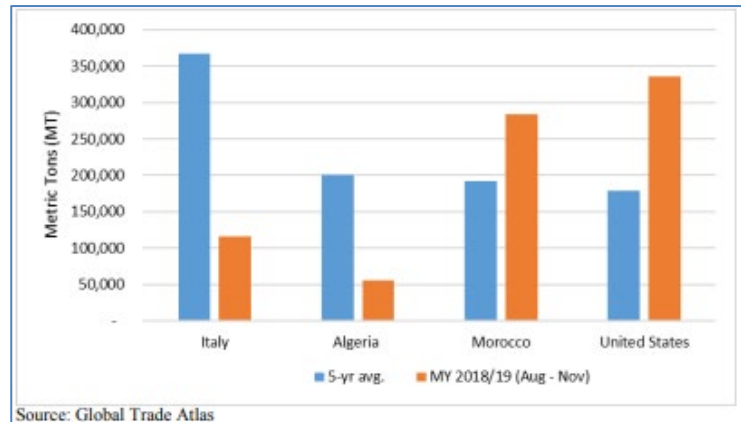
- Canadian producers delivered 370.8k mt of wheat (excl. durum) into the grain handling system during week 30 ending Feb 24th. YTD deliveries are now 12.70 mln mt, up 21% from last year.
- Exports of 354.2k mt over the week create a total of 10.44 mln mt, up 17% (1.544 mln mt) y/y vs the AAFC's predicted 7% increase.
- Basis levels in the W Prairies have continued to deteriorate since the beginning of the New Year. At the start of 2019, average posted basis levels in NW SK were \$1.45/bu, making for a cash price of \$6.94. At the end of Feb (28th) average basis levels had lost \$0.29/bu at \$1.16/bu for a cash price of \$6.75/bu. So far, 2019 basis levels have been trending close to 2016. There is normally a spike in basis levels in Apr-May as elevators must increase the incentive to haul grain while producers are seeding. After spring, basis levels tend to deteriorate into harvest, falling sharply in July.



- **Durum:** Canadian producers delivered 131.9k mt of durum into the Canadian grain handling system in week 30. Total deliveries are down 5.7% from last year at 2.34 mln mt. Exports during

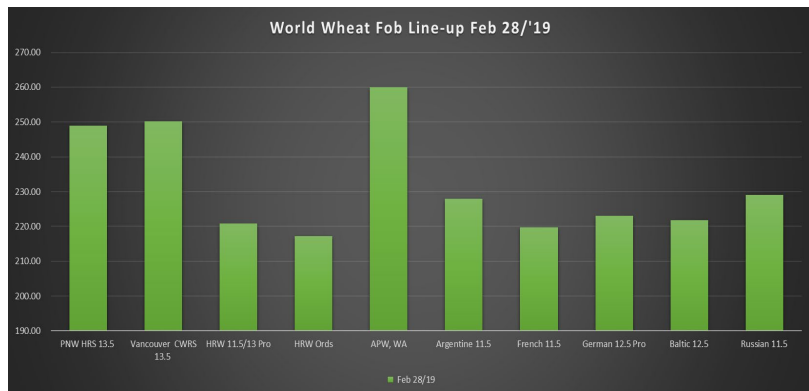
the week were 0.4k mt for a season total of 1.94 mln mt, down 15% from last year vs the AAFC's - 4.3% estimate. We would need 102.7k mt worth of durum exports per week to achieve the AAFC's 4.2 mln mt number (which will not happen).

- Canada exported 1.1 mln mt of durum in the first 4 month of the MY, 25% behind the 5-year average. Durum exports to Italy have not recovered since country-of-origin labeling was imposed in July 2017. Exports to Algeria, traditionally Canada's 2nd top durum customer, have also suffered due to a record Algerian crop. Exports to Morocco have been strong for the first 4 months of the MY, probably because they imported less in May 2018 ahead of their harvest.



US wheat:

- The CFTC update showed the funds had sold 19,000 wheat contracts in the week ending Feb 12th for a total short of 48,000 contracts. Since then, the continued sell off has the current net short est. at ~100,000 contracts.
- The first US crop ratings since Nov are mixed. Most states were lower, except for KS which was put at 51% G/E, up from 46%. All ratings are better than last year.
- Extreme cold has intensified in the US Plains with sub-zero temperatures extending into OK. There is limited snow cover in many areas of the south-central Plains, but the impact of this could be reflected in Monday's crop ratings. To date, the markets have not paid any attention. Many parts of the EU are unseasonably warm brining winter crops out of dormancy which could be negative if cold returns.
- Saudi Arabia's SAGO is tendering for 595k mt of Apr-Jun 12.5 pro hard milling wheat. Results will be released Monday. US HRW is the cheapest on a Fob basis, but freight is making it too expensive. *Saudi Arabia still does not buy Canadian wheat (or barley) because of the tweet by Chrystia Freeland last year.*



Australian wheat:

- Australian wheat futures fell by A\$25/mt (55¢/bu), breaking through long term support to make their lowest weekly close since the last week of July 2018. We note that Australia still has 9-10 mln mt of export surplus wheat, so needs to buy demand.
- New crop Jan 2020 wheat futures also hit 8-month lows, but the May-Jan old crop-new crop inverse is now in to "just" A\$52/mt, from AU\$85 a few weeks ago. The trade is worrying about the long-term forecasts which remains dry into June (planting starts late April).
- Australian Fob APW fell by A\$13/mt during the week to at \$255/mt.

Argentine wheat:

- Argentine March Fob wheat for 12.5% protein wheat fell by \$2/mt over the week and closed at US\$230/mt. The discount per ½% protein was at US\$2/mt.

EU wheat:

- Improving Brussels/EU shipments also lent support to the cash but futures could do nothing against the spillover from US fund selling.
- EU wheat will likely win most of the sale to Saudi Arabia (SAGO tender for 595k mt of wheat). See FOB price lineup above.

Black Sea wheat:

- There were no reports regarding Russia suspending exports. In Russia domestic prices are high, however, the millers have had notice of tightening supplies and plenty of time to cover their domestic needs.
- SovEcon, a Russian agriculture consultancy, raised its 2018/19 wheat export estimates from 35.6 mln mt to 35.9 mln mt.
- The Black Sea wheat values again fell sharply as March 12.5 protein wheat ended at US\$229/mt with the 11.5 protein discount at \$5/mt, and feed a further \$5/mt less.
- There appears to be a more than adequate new crop supply with the Russian/FSU crops expected to lead the markets in the first part of the crop year.
- IKAR raised their 2019 Russian wheat estimate by 900,000 mt to 78.5 mln mt.

➤ Significant purchases/ trades:

There was a good amount of business done last week, but no significant sales by N America:

- **Jordan** bought 60,000 mt of wheat for FH Aug at \$226/mt.
- **Thailand** bought 110,000 mt of September feed wheat at \$212.75/mt
- **Saudi Arabia's** SAGO was tendering last week for 595k mt of Apr-Jun 12.5 protein hard milling wheat. They bought 100% EU wheat; 625K mt Apr-Jun arrival at an average \$244.60 basis Jeddah, exactly \$20 below their previous purchase. Saudi Arabia still does not buy Canadian wheat (or barley) because of the tweet by Chrystia Freeland last year.
- **Jordan** is tendering again Monday for 120,000 mt of wheat, with offers due by March 5.
- **US wheat inspections** were 694,000 mt (season total 604 mln bushels down 2%), sales were 476,000 mt (season total 806 mln bushels, up 1% on last year against USDA's projected 11% increase).

➤ Wheat Market Outlook:

Significant events:

- **US HRW commitments** have caught up and are now in line with USDA projections, and it is now SRW and HRS, which are the laggards.
- **North American wheat** was again uncompetitive in the reported cash business.
- Until there is concrete evidence that the **US-China trade talks** will amount to an agreement that will result in significant buying, wheat markets will continue to trend down.
- **Weather** will be watched but has not been significant enough to cause concern yet.
- There were no reports regarding **Russia** suspending exports.
- In **Russia** domestic prices are high, however, the millers have had notice of tightening supplies and plenty of time to cover their domestic needs.

➤ **Outlook:**

The inverse has broken and there appears a more than adequate new crop wheat supply with the Russian/FSU crops expected to lead the markets in the first part of the crop year. There was little resistance in the markets as Funds sold aggressively.

In the short term as traders, we still feel bearish. However, as a producer, we would not make any sales of new crop at current prices. We hope growers took our advice to liquidate old crop supplies.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: March 4, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '19 (bu.)	June '19 (mt.)
1 CWRS 13.5	\$6.92	\$254.27	1 CWRS 13.5	\$6.94	\$255.00
1 CWAD 13.0	\$6.40	\$235.16	1 CWAD 13.0	\$6.47	\$237.73
1 CPSR 11.5	\$5.85	\$214.95	1 CPSR 11.5	\$5.84	\$214.58
SW Sask			SW Sask		
1 CWRS 13.5	\$6.76	\$248.39	1 CWRS 13.5	\$6.74	\$247.65
1 CWAD 13.0	\$6.41	\$235.53	1 CWAD 13.0	\$6.49	\$238.47
1 CPSR 11.5	\$5.45	\$200.25	1 CPSR 11.5	\$5.89	\$216.42
NE Sask			NE Sask		
1 CWRS 13.5	\$6.68	\$245.45	1 CWRS 13.5	\$6.77	\$248.76
1 CWAD 13.0	\$6.45	\$237.00	1 CWAD 13.0	\$6.53	\$239.94
1 CPSR 11.5	\$5.62	\$206.50	1 CPSR 11.5	\$5.74	\$210.91
SE Sask			SE Sask		
1 CWRS 13.5	\$6.61	\$242.88	1 CWRS 13.5	\$6.65	\$244.35
1 CWAD 13.0	\$6.52	\$239.57	1 CWAD 13.0	\$6.62	\$243.25
1 CPSR 11.5	\$5.55	\$203.93	1 CPSR 11.5	\$5.63	\$206.87

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn./mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.01)	(0.37)
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)

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.”

- 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 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				
March 4, 2019				
Type of Wheat	FOB Prices CDA1 (calculated)		Street Prices	Export Basis2
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$331.48	\$309.44		
HRS	\$324.13			
HRW 11.5	\$299.65			
SWW 12.0	\$305.53			
1 CWRS 13.53	\$331.48		\$250.96	\$80.52
2 CWRS 13.03	\$324.13		\$245.45	\$78.68
3 CWRS3	\$299.65		\$216.05	\$83.60
CPS3	\$298.67		\$203.93	\$94.74
1 CWAD4		\$306.02	\$221.93	\$84.08
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$229.00			
French 11.5 (Rouen)	\$216.38			
APW 10.5 (W Coast)	\$255.00			
Argentine 12.0	\$230.00			
<p>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</p>				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						March 4, 2019
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$8.83	\$8.63	\$7.97	\$8.13	\$8.13	
Parity Track Rosetown	\$7.34	\$7.14	\$6.47	\$6.63	\$6.63	
Track Bid Rosetown Area	\$6.83	\$6.68	\$5.88	\$5.55	\$5.55	
Gross Margin at Elevator (\$/bu)*	\$0.51	\$0.46	\$0.59	\$1.08	\$1.08	
Gross Margin at Elevator (\$/mt)*	\$18.68	\$16.84	\$21.76	\$39.76	\$39.76	

* to cover elevation, elevator market risk, margin