

Wheat Market Outlook and Price Report: April 1, 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 April 1, 2019

International Grains Council (IGC) – March Report on Wheat:

WORLD ESTIMATES					
	16/17	17/18 est.	18/19 f'cast	19/20 proj.	
million tons			21.02	28.03	28.03
WHEAT					
Production	757	763	735	735	759
Trade	177	175	170	171	174
Consumption	735	741	744	742	752
Carryover stocks	248	271	262	264	270
year/year change	22	22		-7	6
Major exporters ^{b)}	79	82	66	68	68

- This week the **ICG** left global 2018/19 wheat production unchanged at 735 mln mt.
- Trade was raised 1 mln to 171 mln mt, consumption was lowered 2 mln at 742 mln mt.
- 2018/19 world wheat carryout was estimated at 264 mln mt by the IGC, up 2 mln mt from last month on a reduction to expected consumption.
- The IGC also included their first estimates for the 2019/20 year. Global wheat production is expected to be up by 24 mln y/y at 759 mln mt, trade was raised 3 mln mt and consumption was raised 10 mln mt, *for a carry-out of 270 mln mt, up 6 mln mt y/y.*

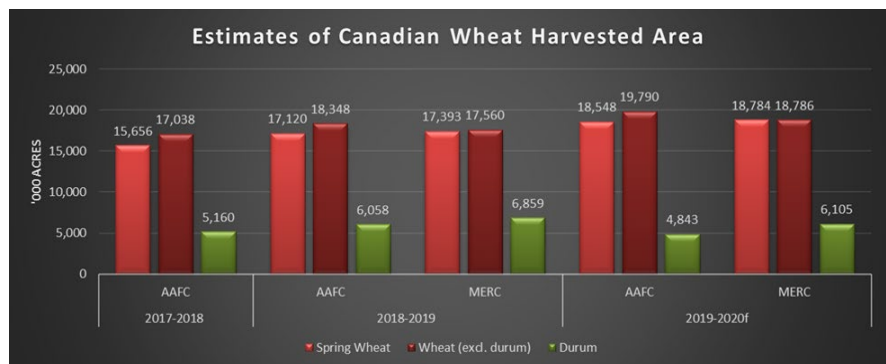
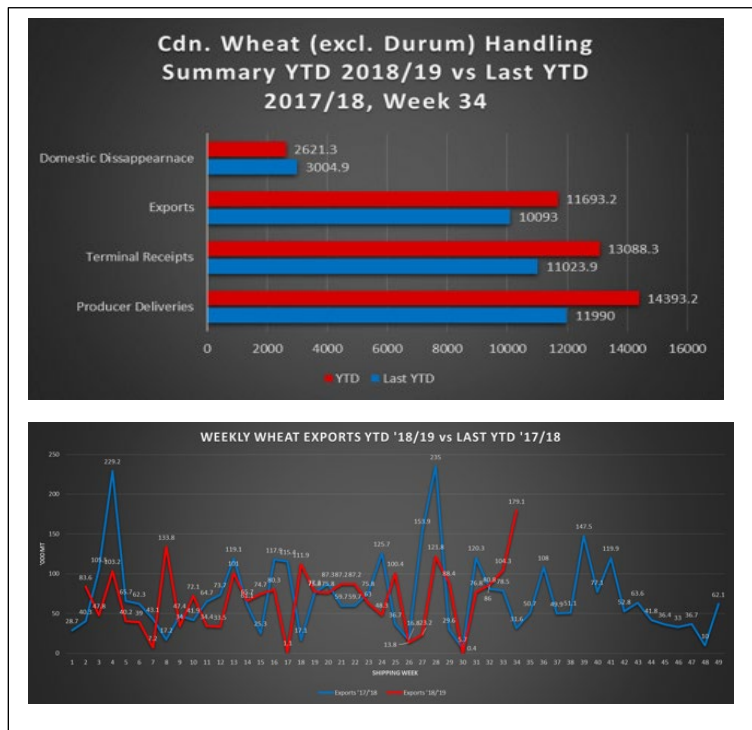
➤ **Global wheat production and trade:**

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:** May '19 contract **Chicago winter wheat** closed at 457-6, down 6-6 in Friday's trade, *down 6-6 cents for the week.*
May '19 contract **Kansas hard red winter wheat** closed down 8-6 cents at 430-0, *down 14-4 cents for the week.*
Minneapolis, May '19 contract hard red spring wheat closed at 554-6, down 5-2 cents in Friday's trade, down 17-0 cents for the week, while Jul '19 hard red spring wheat closed at 557-0, down 4-0 cents for the day, *down 13-6 cents for the week.*
- **Matif:** Matif old crop wheat futures fell by €3.75/mt on Friday, but *new crop consolidated its rally* away from the contract lows set 2 weeks ago, supported by growing concerns over low soil moisture and the lack of rain in the forecast.
- **Funds:** Following last Friday's USDA reports, money managers drastically reduced pessimistic views in Minneapolis wheat futures and options to a net short of 1,475 contracts from 7,242 a week earlier. This was one of funds' largest-ever weekly purchases of spring wheat.

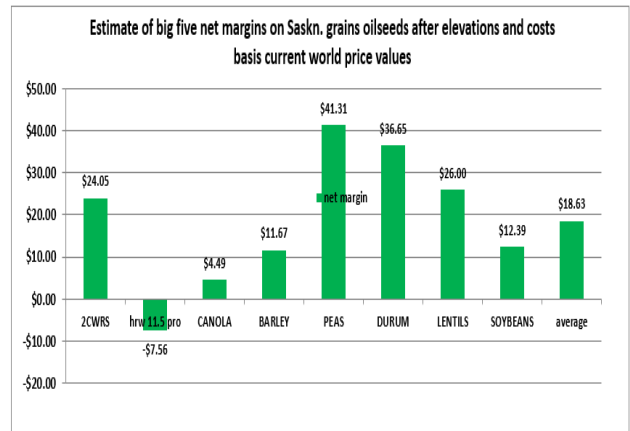
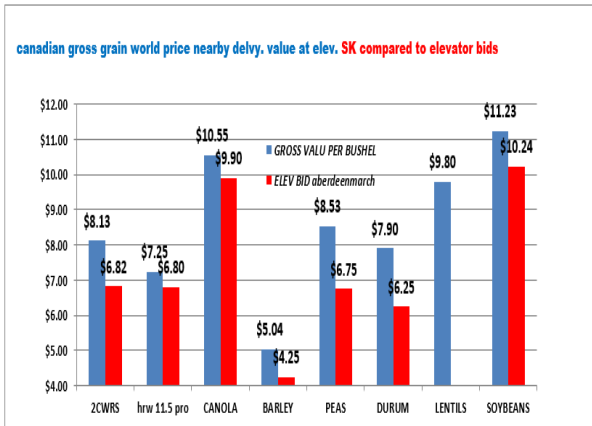
Canadian Wheat:

- Canadian Exports of 272.8k mt during the week result in total exports of 11.69 mln mt, up 16% (1.6 mln mt) y/y. The current pace continues to show that the AAFC's 18.7 mln mt estimate is likely 300-500k mt too high.
- The March AAFC Outlook had Canadian 2019/20 spring wheat harvested area at 18.548 mln acres, up 8% from their 2018/19 estimate of 17.120 mln acres. We previously thought this was abt. 2% too high, but given the canola problems with China, we lowered canola acres and increased our acreage estimate to spring wheat from a 6% to an 8% increase to 18.8 mln hrvstd acres.
- **Durum wheat:** Canadian producers delivered 98.8k mt of durum into the Canadian grain handling system during week 34. Total deliveries are up 7% from last year at 2.40 mln mt.
- **Exports through the week were 179.1k mt** for a season total of 2.387 mln mt, down just 9% (371.5k mt) from last year having gained 5% over the week. Week 34 was the single largest durum program yet this



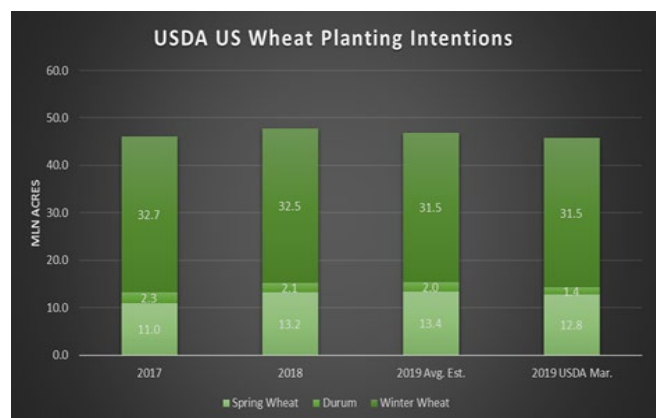
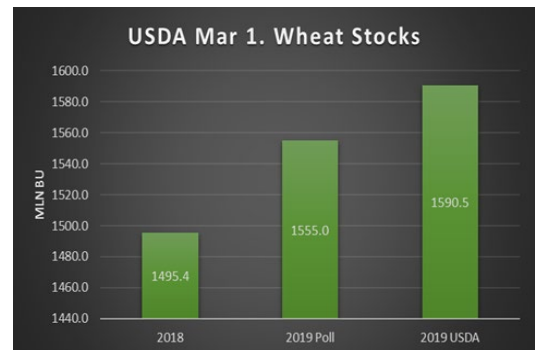
year. To reach the AAFC's 4.1 mln mt, durum exports will have to average 95k mt per week. The current weekly avg. is 25k mt less than that.

- The AAFC has Canadian durum harvested area down 20% from last year at 4.843 mln acres. We think that 20% is too drastic a decrease and have durum acres down just 11% at 6.105 mln acres, which should still generate ~6.3 mln mt of durum.
- *Canada has hurt itself in that it cannot ship canola to China, or barley to Saudi, and if it wants to maintain its export volume in wheat, it will need more wheat sales to new destinations. To get wheat prices higher, the world is back to needing a weather problem or a big increase in Chinese imports.*
- Canadian elevator margins have narrowed, but still remain quite good for wheat.



US wheat:

- **USDA March 1 stocks** at 1,591 myn bushels were above expectations and almost 100 myn bushels above last year, but this was partially offset by the planting numbers.
- **USDA acreage numbers for wheat** at 45.8 mln acres were 2 myn acres below last year and the smallest total ever. Winter wheat was down 1 mln acres (which was known), but weather (and price) clearly had an impact **with spring wheat down 370,000 acres and durum off 650,000 acres**. Basis normal abandonment and trend yield, total supplies for the 19/20 campaign would be only slightly lower than this year, and that will keep USA 19/20 ending stocks close to 1 bln bushels without a weather issue somewhere.
- **US weekly sales** were strong at 475,700 mt vs the expected 200-450k mt. The US also made a 120k mt SRW sale to GASC for \$248.25 and a 150k mt sale to Iraq, which will be reflected in next week's sales data.



Australian wheat:

- Australian Fob and futures wheat values were lower as nearby weather continued to produce beneficial rains. Australia saw showers both in the west and east. However, although much more rain is needed and the long-term prospects remain dry with El Nino building.
- Australian Fob wheat values fell another \$6/mt to \$250/mt on improved rains.

Argentine wheat:

- Several cargoes of 11.5 pro Argentine wheat traded to both to Algeria and to Indonesia.
- Argentine old crop Fob values for 12% protein wheat fell by \$2/mt this past week to \$218.00/mt, while 11.5% protein wheat is valued at \$214-215/mt.

EU wheat:

- Temperatures were mostly near normal and it remained dry everywhere except on the Iberian Peninsula. The Vegetation Health maps continued to show significant declines from a year ago across France, the Balkans and the southern half of Europe.
- French wheat was not in the running at the GASC tender and weekly EU shipments were again unexciting.
- Old crop wheat Matif futures values fell by €3.75/mt on Friday, but *new crop consolidated its rally* away from the contract lows set 2 weeks ago, supported by growing concerns over low soil moisture and the lack of rain in the forecast.

Middle East:

- N Africa, Turkey and much of the Middle East got more good rains along with cool temperatures.

Black Sea wheat:

- The Black Sea was again quiet with sellers of April 12.5 protein wheat still holding out for \$230/mt against bids at \$226/mt. However, Syrian shorts reportedly paid as much as \$225/mt for 11.5 protein wheat.
- New crop wheat offers were higher from last week for 12.5 protein wheat at \$200/mt.

➤ Significant purchases/ trades:

There was some business done last week:

- **Egypt** (GASC) bought 120,000 mt of SRW wheat for shipment 25 Apr-5 May at \$248.25 (180-day Letter of Credit).
- **Korea** bought 65,000 mt of feed wheat for Sept. arrival at \$213/mt.
- **Ethiopia** will tender for a total 1 mln mt wheat during April 19th and 30th.
- **US inspections** were 340,000 mt (season total 674 mln bushels down 6%), sales were 476,000 mt for a season total 868 mln bushels up 3% against the USDA's projected 7% increase.

➤ Wheat Market Outlook:

Significant events:

- **USDA stocks report:** USDA March 1 stocks at 1,591 mln bushels were above expectations and almost 100 mln bushels above last year, but this was partially offset by the planting numbers.
- **USDA Prospective Acreage Report:** USDA acreage numbers for wheat at 45.8 mln acres were 2 mln acres below last year and the smallest total ever. Winter wheat was down 1 mln acres (which was known), but weather (and price) clearly had an impact **with spring wheat down 370,000 acres and durum off 650,000 acres**. Basis normal abandonment and trend yield, total supplies for the 19/20 campaign would be only slightly lower than this year, and that will keep USA 19/20 end stocks close to 1 bln bushels without a weather issue somewhere.
- The forecasts continue to show warm/hot dry conditions across Eastern Europe and the Black Sea, with rainfall through mid-April expected at just 45-60% of normal.

➤ **Outlook:**

The US spring crops are not yet planted and while spring wheat and durum planted acres are expected to be lower, Australia is still a question mark, and the outlook for quality wheat remains tight. Canada has hurt itself and can ship neither canola to China, nor barley to Saudi Arabia, and if it wants to maintain its export volume, it will need more wheat sales to new destinations. To get prices higher, the world is back to needing a weather problem or a big increase in Chinese imports.

While the interpretation of the stocks and planting intentions reports was considered to be bearish, we don't suggest new sales at current levels. For those that took our earlier advice to sell, maintain short hedges.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: April 1, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '19 (bu.)	July '19 (mt.)
1 CWRS 13.5	\$6.86	\$252.06	1 CWRS 13.5	\$6.87	\$252.43
1 CWAD 13.0	\$6.42	\$235.90	1 CWAD 13.0	\$6.44	\$236.63
1 CPSR 11.5	\$5.90	\$216.79	1 CPSR 11.5	\$5.68	\$208.71
SW Sask			SW Sask		
1 CWRS 13.5	\$6.75	\$248.02	1 CWRS 13.5	\$6.74	\$247.65
1 CWAD 13.0	\$6.44	\$236.63	1 CWAD 13.0	\$6.46	\$237.37
1 CPSR 11.5	\$5.80	\$213.12	1 CPSR 11.5	\$5.58	\$205.03
NE Sask			NE Sask		
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	\$6.59	\$242.14
1 CWAD 13.0	\$6.45	\$237.00	1 CWAD 13.0	\$6.45	\$237.00
1 CPSR 11.5	\$5.68	\$208.71	1 CPSR 11.5	\$5.58	\$205.03
SE Sask			SE Sask		
1 CWRS 13.5	\$6.54	\$240.31	1 CWRS 13.5	\$6.58	\$241.78
1 CWAD 13.0	\$6.51	\$239.20	1 CWAD 13.0	\$6.56	\$241.04
1 CPSR 11.5	\$5.58	\$205.03	1 CPSR 11.5	\$5.58	\$205.03

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				
April 1, 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	\$333.99	\$305.14		
HRS	\$326.66			
HRW 11.5	\$307.59			
SWW 12.0	\$297.81			
1 CWRS 13.53	\$333.99		\$248.02	\$85.97
2 CWRS 13.03	\$326.66		\$237.00	\$89.66
3 CWRS3	\$307.59		\$218.63	\$88.96
CPS3	\$290.96		\$216.79	\$74.17
1 CWAD4		\$349.15	\$221.93	\$127.22
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$228.00			
French 11.5 (Rouen)	\$214.85			
APW 10.5 (W Coast)	\$250.00			
Argentine 12.0	\$218.00			

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					
	April 1, 2019				
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.90	\$8.70	\$8.18	\$7.92	\$7.92
Parity Track Rosetown	\$7.41	\$7.21	\$6.69	\$6.42	\$6.42
Track Bid Rosetown Area	\$6.75	\$6.45	\$5.95	\$5.90	\$5.90
Gross Margin at Elevator (\$/bu)*	\$0.66	\$0.76	\$0.74	\$0.52	\$0.52
Gross Margin at Elevator (\$/mt)*	\$24.14	\$27.83	\$27.13	\$19.18	\$19.18

* to cover elevation, elevator market risk, margin