

Wheat Market Outlook and Price Report: July 2, 2019
 By Marlene Boersch/ A.P. Temple
 Mercantile Consulting Venture Inc.

i) Background and Rationale for the Report

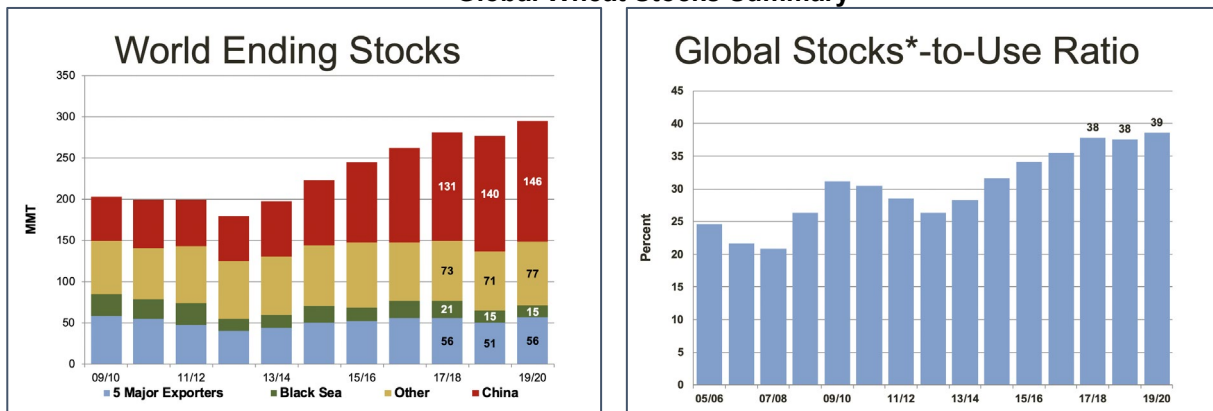
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 2, 2019

Summary of the Global Wheat Stocks Situation as seen by USDA in June:

Global Wheat Stocks Summary



- **2019/20 World beginning stocks are expected to fall by 2% year-over-year to 275 mln mt, still 13% higher than the 5-year average of 241 mln mt.**
 - China's beginning stocks expected jump 43% over the 5-year average to 140 mln mt.
 - U.S. beginning stocks estimated at 30.0 mln mt, 20% above the 5-year average of 25.0 mln mt.
- **Global ending stocks projected at 294 mln mt, 6% higher than last year and 14% higher than the 5-year average**
 - Estimated Chinese ending stocks of 146 mln mt are up 30% over the 5-year average and account for 50% of total global ending stocks
 - U.S. ending stocks expected to total 29.2 mln mt, down 3% from 2018/19 but 5% above the 5-year average of 28.0 mln mt.
- **U.S. farm gate average price is expected to fall to US\$5.10/bu (\$187/mt) in 2019/20**
 - The projected average price would fall 2% below the 2018/19 average of \$5.20/bu (\$191/mt)

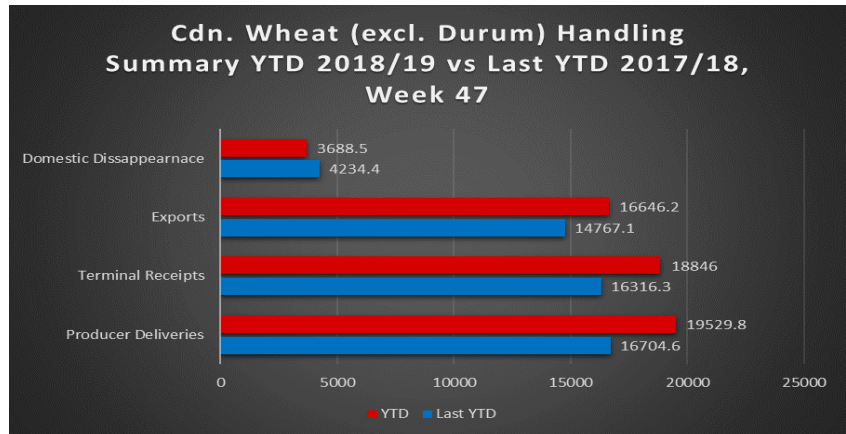
➤ **Global wheat production and trade:**

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:** July '19 contract **Chicago winter wheat** closed at 528-0, down 19-4 cents in today's trade, up 2-0 cents for the week.
July '19 contract **Kansas hard red winter wheat** closed down 16-4 cents at 451-4, down a penny for the week.
Minneapolis, July '19 contract **hard red spring wheat** closed at 554-2, up 2-2 cents in today's trade, up 18-2 cents for the week, while Sept '19 hard red spring wheat closed at 554-2, down 7-2 cents for the day, up 10-2 cents for the week.
- **Matif:** Matif wheat in Europe ended the week slightly lower following Friday's drop of €2/mt on the back of the US sell-off.

Canadian Wheat:

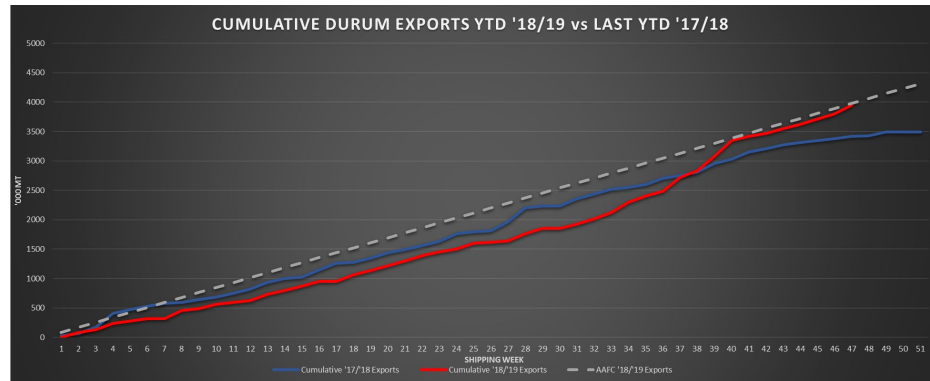
- Canadian producers delivered 366.4k mt of wheat (excl. durum) into the grain handling system during week 47, ending June 23rd. YTD deliveries are now 19.53 mln mt, up 17% from last year.



- **Exports** of 394.2k mt during the week create a total of 16.65 mln mt, up 13% (1.88 mln mt) from last year. Although exports were strong over the week, they were still below the needed 470k mt worth of weekly exports needed to reach the AAFC's (too high) export estimate of 19 mln mt.

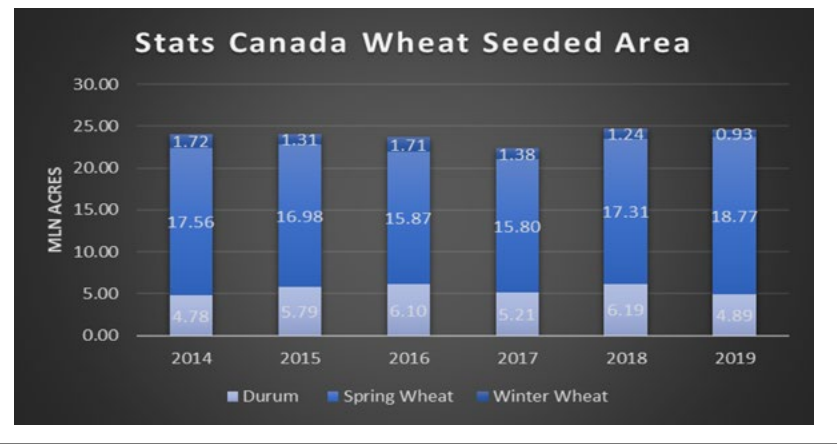
- Canadian producers delivered 97.1k mt of durum into the Canadian grain handling system during week 47. Total deliveries are up 19% from last year at 4.20 mln mt.

- Durum exports through the week were very strong at 145.4k mt for a season total of 4.0 mln mt, up 15% (419.3k mt) from last year. Durum exports need to average 71k mt per week to reach the AAFC's 4.4 mln mt projection, and we think there should be no trouble accomplishing this now.



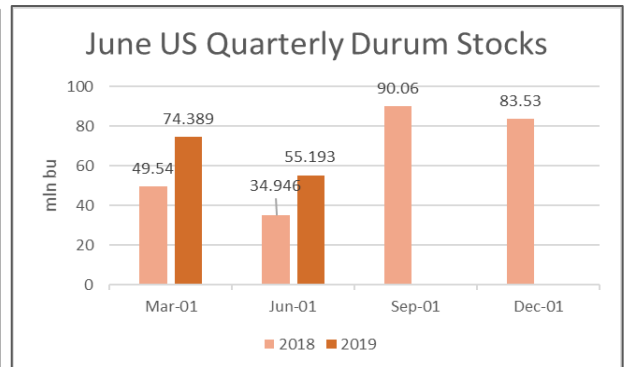
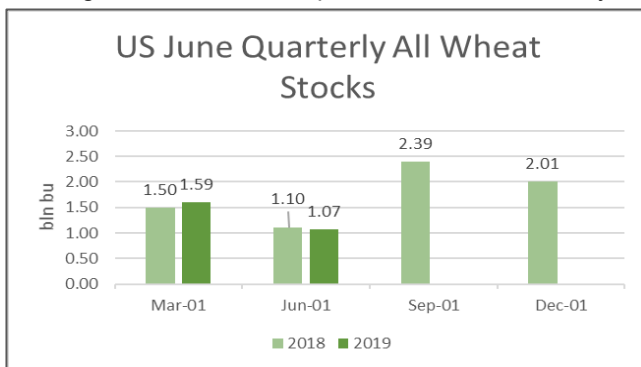
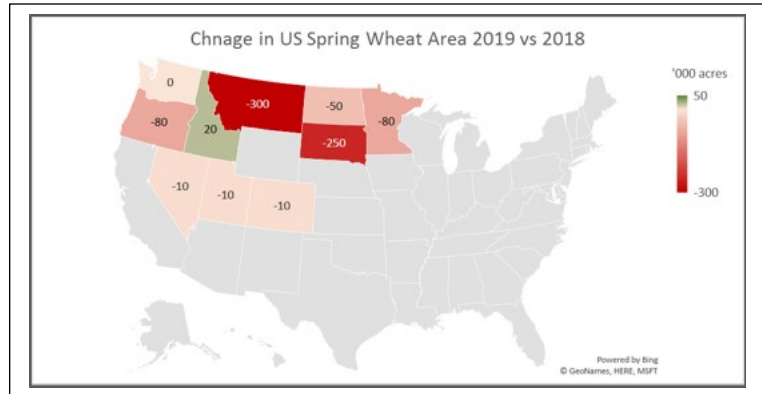
- **Stats Canada** lowered 2019/20 all wheat acreage to 24.6 mln acres (vs the expected 25.7 mln), an 11% decrease from 2018/19. The main reason for this decrease was lower durum acres, at 4.89 mln acres (vs the expected 5.1 mln) a 1.29 mln acre (-21%) decrease from last year. If true, this is bullish for durum in combination with the drop in US acres. Spring wheat area was put at 18.77 mln acres, up 8% (+1.46 mln acres) from last year.

- Stat's Canada lowered their estimate of **Canadian durum area** another 128k acres to 4.89 mln acres. This is a grand 1.3 mln acres less than last year. This is likely far too much of a decrease, but if true, it is very bullish for durum wheat.
- *The US is going to have a larger than expected carry-out, but the Canadian carry-out is going to be much smaller than originally expected. Add in a very low 2019 acreage number (we think Stats Can's number is too low) and there is beginning to be a bullish picture developing in the durum market.*



US wheat:

- USDA report: US spring wheat area was put 6% lower than last year at 12.43 mln acres, -770k acres less than last year. There were major decreases in acreage in Montana and South Dakota. HRS is supposed to account for 12 mln of these acres.
- The US Durum wheat area was put at 1.4 mln acres, down 32% from 2018. Old crop durum stocks were large at 55.2 mln bu, up 58% from June 1 last year.



- The US quarterly stock report was very close to expectations at 1.07 bln bu, 2% lower than the same time last year.
- The NASS crop report lowered winter wheat ratings 3% to 61% G/E. Spring wheat ratings were also 2% lower at 75% G/E, vs 77% last year. Rain has returned to the US Midwest, hampering the winter wheat harvest, which is now just 15% complete vs 34% avg. There are concerns about vomitoxin in the SRW crop, but no samples have confirmed this yet.

Australian wheat:

- Australian wheat futures rose \$9/mt on the week, although the Fob market remained ill-defined, and although Australia continues to lose Asian export demand to Black Sea wheat.
- Old crop FOB APW values are at about \$240/mt for July, with \$8/mt less for ASW wheat.

Argentine wheat:

- High prices and good soil moisture have caused Buenos Aires Grains Exchanged to raise their forecasts for **Argentine** 2019/20 wheat planted area from 6.4 mln ha to 6.6 mln ha.
- Wheat plantings are still running 6% behind last years at 61% complete.
- New crop Dec. Fob values for 12.5% protein wheat this week rose by \$4mt to \$206.00/mt. *The protein discount is -\$4.00/mt per ½ percent protein.*

EU wheat:

- Temperatures in the **EU** and **Black Sea** have reached record levels, causing harvest to start early. There are reports of poorer-than-expected yields.
- *French 11.5% protein wheat closed last week at \$202/mt FOB, down about 60c on the week.*

Black Sea wheat:

- There are varying reports on wheat quality in **Russia**. We have heard some analysts say test weights are very poor while other analysts say that quality is good with excellent protein cont. Interior prices in Russia are rising, and a strengthening Ruble is pushing Russian wheat up from its lows.
- Agritel, a European agriculture consultancy, expects Russian 2019/20 winter wheat yields to jump 11% over last year to 4.03 MT/hectare (60.0 bushels/acre). Spring wheat yields are expected to fall slightly below 2018/19 levels to 1.67 MT/hectare (24.8 bushels/acre).
- Russia continues to downplay the crop risks from the recent heat, and although early harvest reports showed good quality, yields were mixed.
- Farmers in **Ukraine** have already harvested 496k mt of the expected 70 mln mt crop.
- In Russia, the lack of farmer selling plus strength in the Ruble lifted replacement close to \$200/mt Fob equivalent

➤ Significant purchases/ trades:

We had **active global cash markets** last week.

- The **Philippines** bought 40,000 mt wheat for LH July 11.5 pro at \$221.50, and 55,000 mt FH Sep at \$216/mt.
- **Indonesia** reportedly bought 5 cargoes of wheat for Jul-Aug, 11.5 pro, at around \$215/mt.
- **Saudi Arabia** tendered Friday for 715,000 mt of Sep/Nov arrival. They bought 730k mt of Russian wheat at an average of \$230.50 delivered Jeddah.
- **US wheat** inspections were 406,000 mt (season total 45 mln bushels against 43 mln bushels last year), sales were above expectations at 612,000 mt (season total up 25%).

➤ Wheat Market Outlook:

Significant events:

- **US HRW** is priced \$30/mt above Russian 11.5 pro, and with questions about the corn market, there is little in way of support for the wheat market.
- **Yields and quality in Russia and the EU** will be watched closely this week.
- **StatsCan** lowered their durum acres to 4.89 mln acres (vs the expected 5.1 mln). This is a 1.29 mln acre (-21%) decrease from last year.
- The **US durum wheat** area was put at 1.4 mln acres, down 32% from 2018. Old crop **US durum stocks** were large at 55.2 mln bu, up 58% from June 1 last year.

- The markets took a tumble last Friday when it appeared that the **USDA** had a very different opinion on planted acres to what the trade was assuming – more corn less soybean. In fact, this report does not really give us a clue as to what is going to be really planted, as can be seen from the acres yet to be planted if we are to hit the USDA’s guesstimate. The USDA has given us intended acres, but not factored in the “pp” corn acres, so we will not get a real look at acres planted to corn until the July or August report. In the meantime, the futures markets have responded to the “intended” planted acres of the USDA, initially putting corn down and soybeans up. – This has also affected wheat markets.

➤ **Outlook:**

Friday's sell-off narrowed the gap of US wheat over EU/Black Sea wheat, but prices are still too high to buy anything other than captive demand. The jury is still out on USA quality, and the debate goes on over the impact of heat in Europe, but overall it remains difficult to paint a bull story while the market is confused on the actual corn acres that will be planted.

The cash markets continue to be determined by the early harvest supplies from Europe and we expect this to be the case for the next 45/60 days. Storage shortages will keep FSU prices trading at a discount to North American values. Weather continues to be a problem in the Northern hemisphere and it won't be clear on what we are likely to produce until the end of July. The USDA acreage number for corn will be reduced. *We would not be sellers at current levels.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 2, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '19 (bu.)	Oct.'19 (mt.)
1 CWRS 13.5	\$6.44	\$236.63	1 CWRS 13.5	\$6.27	\$230.38
1 CWAD 13.0	\$6.53	\$239.94	1 CWAD 13.0	\$6.21	\$228.18
1 CPSR 11.5	\$5.75	\$211.28	1 CPSR 11.5	\$5.31	\$195.11
SW Sask			SW Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$6.60	\$242.51	1 CWAD 13.0	\$6.27	\$230.38
1 CPSR 11.5	\$5.72	\$210.18	1 CPSR 11.5	\$5.30	\$194.74
NE Sask			NE Sask		
1 CWRS 13.5	\$6.16	\$226.34	1 CWRS 13.5	\$5.99	\$220.10
1 CWAD 13.0	\$6.79	\$249.49	1 CWAD 13.0	\$6.33	\$232.59
1 CPSR 11.5	\$5.52	\$202.83	1 CPSR 11.5	\$5.02	\$184.45
SE Sask			SE Sask		
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.01	\$220.83
1 CWAD 13.0	\$6.86	\$252.06	1 CWAD 13.0	\$6.42	\$235.90
1 CPSR 11.5	\$5.49	\$201.72	1 CPSR 11.5	\$5.00	\$183.72

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*

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.”

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) \approx 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) \approx 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific North West (PNW) \approx 3 CWRS in Vancouver
 - SW (lowest price wheat) \approx CPS red (mostly fed domestically)
 - HAD (Lakes) \approx 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				
July 2, 2019				
Type of Wheat	FOB Prices CDA1 (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	\$303.53	\$299.69		
HRS	\$296.32			
HRW 11.5	\$270.34			
SWW 12.0	\$295.36			
1 CWRS 13.53	\$303.53		\$227.45	\$76.09
2 CWRS 13.03	\$296.32		\$216.42	\$79.90
3 CWRS3	\$270.34		\$209.07	\$61.27
CPS3	\$288.62		\$198.05	\$90.57
1 CWAD4		\$301.13	\$225.61	\$75.52
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$197.00	Jly.		
French 11.5 (Rouen)	\$201.98	Jly.		
APW 10.5 (W Coast)	\$240.00	Jly.		
Argentine 12.0	n/a	Jly.		

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 2, 2019
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Ninter wht.	CPS
May/June delivery	\$8.08	\$7.88	\$7.17	\$7.85	\$7.85
Parity Track Rosetown	\$6.58	\$6.38	\$5.68	\$6.36	\$6.36
Track Bid Rosetown Area	\$6.19	\$5.89	\$5.69	\$5.39	\$5.39
Gross Margin at Elevator (\$/bu)*	\$0.39	\$0.49	-\$0.01	\$0.97	\$0.97
Gross Margin at Elevator (\$/mt)*	\$14.37	\$18.18	-\$0.45	\$35.59	\$35.59

* to cover elevation, elevator market risk, margin