

Wheat Market Outlook and Price Report: July 15, 2019
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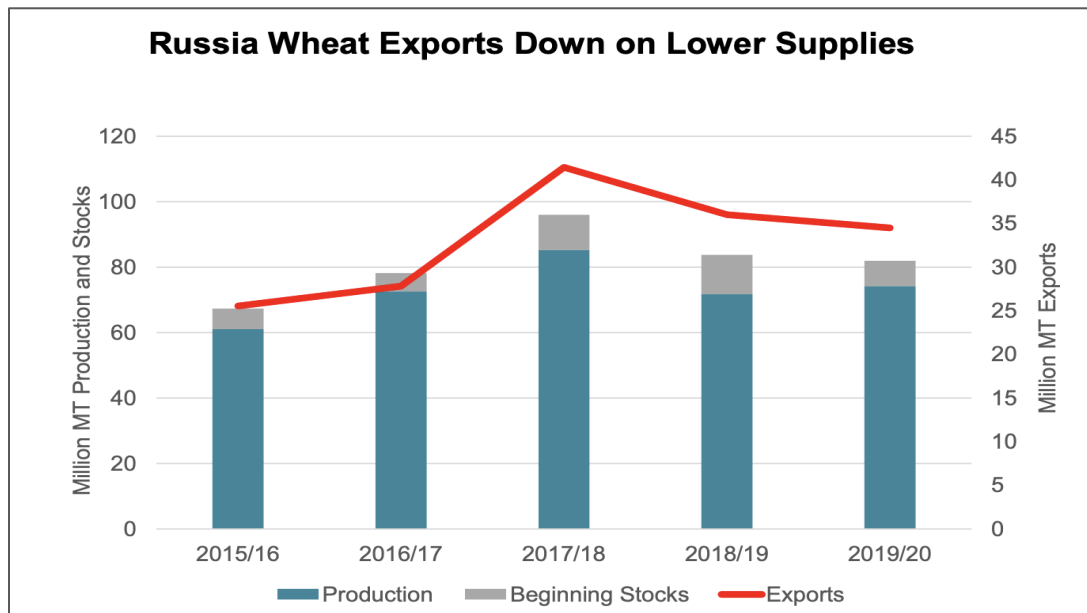
i) Background and Rationale for the Report

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 July 15, 2019

Russian Wheat Export Outlook:



- Based on drought in major winter wheat growing areas, **Russia's 2019/20 wheat production** forecast was reduced this month by 3.8 million mt, *although still up from last year and would be the second-largest on record.*
- **Russian wheat exports** are lowered by 2.5 million mt to 34.5 million. This represents a year-to-year reduction of 1.5 million mt, which is attributable to tighter overall supplies.
- **Even with its exports down slightly, Russia is still forecast to be the world's leading exporter for the third straight year.**

- The next largest supplier, the European Union, is expected to benefit from reduced Russian competition and will likely garner greater market share in North Africa, Sub-Saharan Africa, and the Middle East.
- The United States (and potentially Canada) is also expected to benefit from reduced Russian competition as U.S. wheat exports are raised by 2.0 million mt this month to 25.5 million mt.

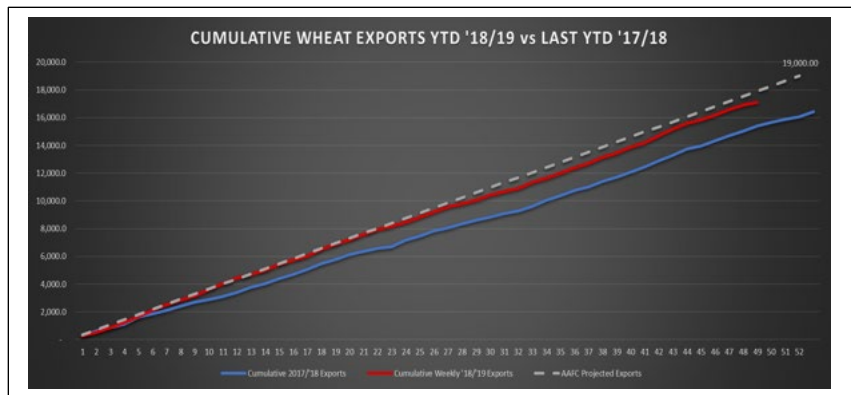
➤ **Global wheat production and trade:**

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.

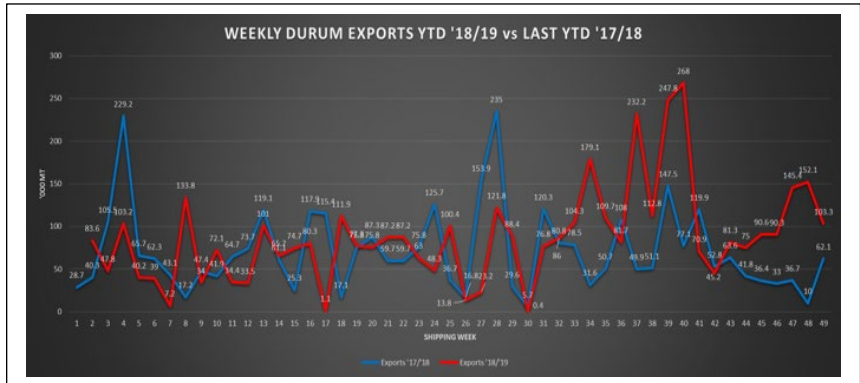
- **Futures:** Sept '19 contract **Chicago winter wheat** closed at 523-0, up 1-4 cents in Friday's trade, up 8-0 cents for the week.
- Sept '19 contract **Kansas hard red winter wheat** closed up 5-6 cents at 467-2, up 22-0 cents for the week.
- **Minneapolis**, Sept '19 contract **hard red spring wheat** closed at 542-6, up 1-4 cents in today's trade, up 9-4 cents for the week, while Dec '19 hard red spring wheat closed at 556-2, up 1-6 cents for the day, up 8-0 cents for the week.

Canadian Wheat:

- Canadian producers delivered 281.1k mt of wheat (excl. durum) into the grain handling system during week 49, ending July 7th. YTD deliveries are now 20.15 mln mt, up 16% from last year. Exports through the week were 190.5k mt. With just 3 weeks remaining in the MY total exports are just 17.17 mln mt, vs the AAFC's 19 mln mt estimate.



- Canadian producers delivered 87.7k mt of durum into the Canadian grain handling system during week 49. Total deliveries are up 17% from last year at 4.38 mln mt. Exports throughout the week were 103.3k mt for a season total of 4.3 mln mt, up 19% (695.7k mt) from last year. Now, durum exports need to average just 33k mt per week to reach the AAFC's 4.4 mln mt projection which will be met and surpassed.



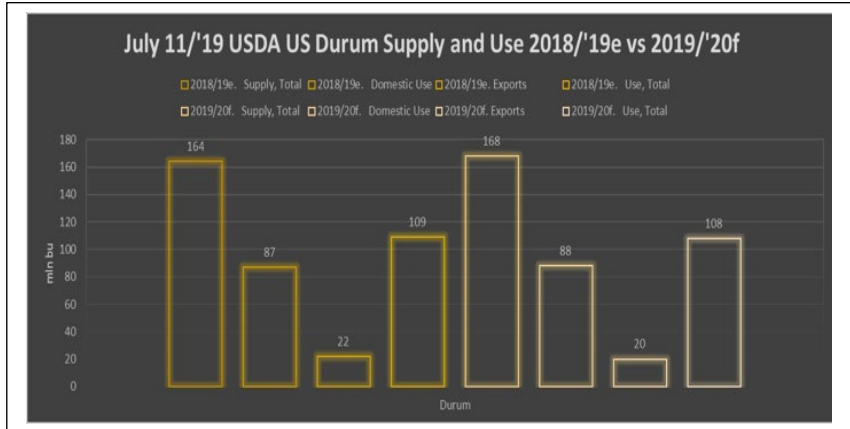
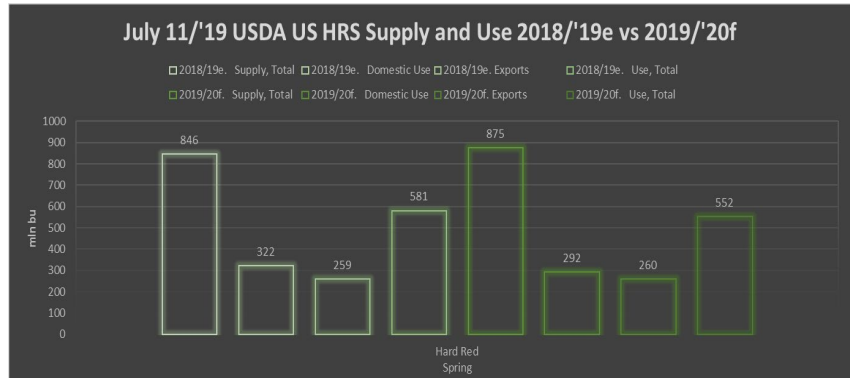
- *The USDA put the larger 2018/19 US carry-out that we were expecting to a grand 20 mln bu. Meanwhile the Cdn. Carry-out is going to be much smaller than originally expected. Durum crops in the prairies and N Plains look strong and we don't think that acreage number will change much on Aug 12th.*

US wheat:

- The NASS crop report last Mondays lowed winter wheat harvest is 47% complete (61% last year) having progressed 17% over the week on a crop that is rated 64% G/E (63% last week).
- US winter wheat harvest has been progressing rapidly. *Yields are “exceptional” and the average grade of the crop from the now 180 tested samples (500 expected) has risen from a #2 HRW to a #1 HRW. Average protein content was steady at 11.3%. Meanwhile, average grade of the 186 tested SRW samples (300 expected) are #3 SRW, same as last year, although with lower (-0.8%) at 9.3%.*
- USDA report – spring wheat:** HRS harvested area in the US was unchanged for the June 28 release, but 6% lower than 2018 at 12.1 mln acres. Yield is estimated to be 47.2 bpa, -1.1% from last year for a total production of 542 mln bu, -8% y/y). Beginning stocks are 74 mln bu higher at 265 mln bu, for a total supply of 875 mln bu, +29 mln bu from last year. Domestic use of 292 is 30 mln bu lower y/y, exports are just 1 mln bu higher for a 323 mln bu carry-out, +58 mln bu from last year.

So, there will be more HRS wheat available in the US, but not as much as trade was expecting before the July 11/'19 USDA report.

- USDA numbers durum wheat:** Production is set to reach 58.1 mln bu, a full 25% less than in 2018. The current yield forecast is at 42.9 bpa, up 3.6 from last year on a harvested area of 1.36 mln acres, down 31% from last year. The forecasted decline in production almost exactly offsets the 20 mln bu y/y increase in beginning stocks leaving supply up just 4 mln bu from last year. Exports and use are both expected to be slightly lower for a 5 mln bu increase in ending stocks y/y.



Australian wheat:

- Australian new crop futures fell to their lowest weekly close since mid-May, and Fob values started lower on good rains the previous week in WA and the south-east.

Argentine wheat:

- BAGE put wheat plantings up 19% over the week at 86% complete, just 1% behind last year, with crop ratings at 63% GD/EX against just 40% last year.
- New crop Dec. Fob values for 12.5% protein wheat were unchanged this week at \$201.00/mt. *The protein discount is -\$4.00/mt per ½ percent protein.*

EU wheat:

- Matif wheat futures bounced from 8-week lows following the USDA/CBOT rally, but ending the week unchanged.

- Importantly, French wheat was again not even offered at the GASC tender because it would have been \$15/mt too expensive relative to E European origin wheat. Baltic wheat is providing real competition into Algeria, and at current price/protein spreads, the Black Sea will continue to take W African demand away from France!
- USDA lowered the 2019 EU crop by 2.5 mln mt, they kept 18/19 exports at 24 mln mt despite the official Brussels figures. They actually raised 19/20 exports by 500k mt to 27 mln mt, which at current prices makes little sense.
- *French 11.5% protein wheat closed last week at \$199.56/mt FOB, up \$0.80/mt on the week.*

Black Sea wheat:

- News on Russia: - SovEcon, IKAR and the USDA all **lowered Russian wheat expectations** last week. SovEcon lowered their estimate 5.6 mln mt to 76.6 mln and exports down 4.6 mln mt to 33 mln. IKAR lowered their production estimate 0.8 mln to 78.5 mln mt, while the USDA lowered production 3.8 mln mt to 74.2 mln mt and exports down 2.5 mln mt 34.5 mln mt.
- **Russia has received just 20-50% of normal rainfall** this growing season, combined with extreme heat during head filling has, Russian yields as of July 9th running 1% below last year on 33% more acres. Extrapolating these yields across the whole Russian crop gives us a 71-72 mln mt crop which is likely worse-case scenario. All eyes will be on spring wheat yields.
- **Russian exporters are getting pinched between high origination costs from the good quality crop and penalties from not using fobbing quotas.** Russian 11.5 pro is bid at \$186, but last week the Philippines reportedly bought 60k mt for \$218 C&F, ~\$180 Fob parity which is below replacement.
- **Russian policy in the farm sector over the next 5 years will focus on expanding agri-food exports with the aim of growing the amount of exports from 1.5 bln rubles in 2018 to 38.8 bln.** Some of the policies will include building transportation infrastructure, removal of trade barriers, product promotion, compensation for land/infrastructure/logistical improvement and credit availability. Specific markets expected to be targeted include China and India.
- According to the USDA, **total production in the Black Sea region countries (specifically Russia Ukraine and Kazakhstan) is supposed to reach 117.2 mln mt** (110.7 mln last year) with exports of 61 mln mt (in line with last year).
- Russian 12.5 pro replacement was quoted at around \$196/mt, up ~\$4.00/mt on the week.

➤ **Significant purchases/ trades:**

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

- **Egypt** (GASC) bought 180,000 mt Romanian wheat at \$213.44 and 60,000 mt Ukrainian wheat at \$215.44/mt.
- **Algeria's** purchase was raised to 480,000 mt.
- **Jordan** passed again.
- **Korea** passed on its feed wheat tender.
- In their weekly tender, **Japan** bought 99k mt of wheat; 35k mt from the US, 29k mt from Australia, and 35k mt Canada.
- USA inspections were 609,000 mt (season total 95 mln bushels, up 31%), sales were 284,000 mt for a season total 276 mln bushels.
- Note the ongoing rally in the Baltic Panamax index, up 77% in just 3 weeks.

➤ **Wheat Market Outlook:**

Significant events:

- **French wheat** was again not offered at the GASC tender because it would have been \$15/mt too expensive relative to E European origin wheat. Baltic wheat is providing real competition into Algeria, and at current price/protein spreads, *the Black Sea will continue to take W African demand away from France!*

- **Russia's 2019/20 wheat production** forecast was reduced this month by 3.8 million mt, *although still up from last year and would be the second-largest on record. Even with its exports down slightly, Russia is still forecast to be the world's leading exporter for the third straight year.*
- **USDA/ WASDE report on wheat:** The report indicated lower global wheat supply and lower US ending stocks. World wheat production was lowered 10.5 mln mt to 771.46 mln mt because of lower production in Russia (-3.8), Ukraine (-1.0), the EU (-2.5), Australia (-1.50) and Canada (-1.2). Global exports were lowered 2.3 mln mt because of the decrease in supplies. Consumption was reduced 9 mln mt because of lower feed and residual use, for an overall decrease in ending stocks of 7.9 mln mt to 286.5 mln mt (still a record amount). US wheat supply was reduced as an increase in production (+18 mln bu) was not enough to off-set the 30 mln bu reduction in beginning stocks. According to the USDA, domestic wheat feed use is going to rise by 64% to 3.81 mln mt in 2019/20. Current prices support this, and with our outlook on corn, this number could be bigger yet.
- **USDA analysis:** *World wheat supply is falling and will likely continue to fall somewhat, but despite this there will still be lots of wheat available, and the US is going to struggle to compete. There is opportunity for feed wheat use to be large this year, but otherwise quality (esp. in Russia) is very strong and the US winter wheat harvest is big.*

➤ **Outlook:**

Despite the USDA report, the big picture has not really changed with plenty of wheat chasing limited demand (the combined EU/Russia/Ukraine export surplus is still around 8 mln tonnes above last year). It is just a question of finding the demand and pricing the various qualities correctly (a comment which also applies to the US). We expect Russian/FSU wheat to remain cheap until they have enough space to store grain - that will take at least 60 days.

iii) Primary Elevator Price Tables and Grade Spreads

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

		Date: 15-07-2019			
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '19 (bu.)	Oct.19 (mt)
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	6.14	\$225.61
1 CWAD 13.0	\$6.48	\$238.10	1 CWAD 13.0	6.20	\$227.81
1 CPSR 11.5	\$6.03	\$221.57	1 CPSR 11.5	5.45	\$200.25
SW Sask			SW Sask		
1 CWRS 13.5	\$6.25	\$229.65	1 CWRS 13.5	6.07	\$223.04
1 CWAD 13.0	\$6.55	\$240.67	1 CWAD 13.0	6.26	\$230.02
1 CPSR 11.5	\$5.53	\$203.19	1 CPSR 11.5	5.31	\$195.11
NE Sask			NE Sask		
1 CWRS 13.5	\$6.11	\$224.51	1 CWRS 13.5	5.87	\$215.69
1 CWAD 13.0	\$6.71	\$246.55	1 CWAD 13.0	6.33	\$232.59
1 CPSR 11.5	\$5.86	\$215.32	1 CPSR 11.5	5.18	\$190.33
SE Sask			SE Sask		
1 CWRS 13.5	\$6.12	\$224.87	1 CWRS 13.5	5.89	\$216.42
1 CWAD 13.0	\$6.79	\$249.49	1 CWAD 13.0	6.41	\$235.53
1 CPSR 11.5	\$5.70	\$209.44	1 CPSR 11.5	5.16	\$189.60

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

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.”

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.
 - 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				15-07-2019
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	\$299.76	\$319.87		
HRS	\$292.57			
HRW 11.5	\$276.29			
SWW 12.0	\$301.19			
1 CWRS 13.5 ³	\$299.76		\$225.98	\$73.78
2 CWRS 13.0 ³	\$292.57		\$215.32	\$77.25
3 CWRS ³	\$276.29		\$207.97	\$68.32
CPS ³	\$294.49		\$207.60	\$86.88
1 CWAD ⁴		\$313.16	\$225.61	\$87.56
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$196.00	Aug.		
French 11.5 (Rouen)	\$199.56	Aug.		
ASW 10.5 (W Coast)	\$232.00	Aug.		
Argentine 12.0	n/a	Aug.		

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				
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$7.78	\$7.34	\$6.15	\$6.15
Parity Track Rosetown	\$6.28	\$5.84	\$6.52	\$6.52
Track Bid Rosetown Area	\$5.86	\$5.66	\$5.65	\$5.65
Gross Margin at Elevator (\$/bu) *	\$0.42	\$0.18	\$0.87	\$0.87
Gross Margin at Elevator (\$/mt) *	\$15.56	\$6.63	\$31.90	\$31.90

* to cover elevation, elevator market risk, margin