

## Wheat Market Outlook and Price Report: August 12, 2019

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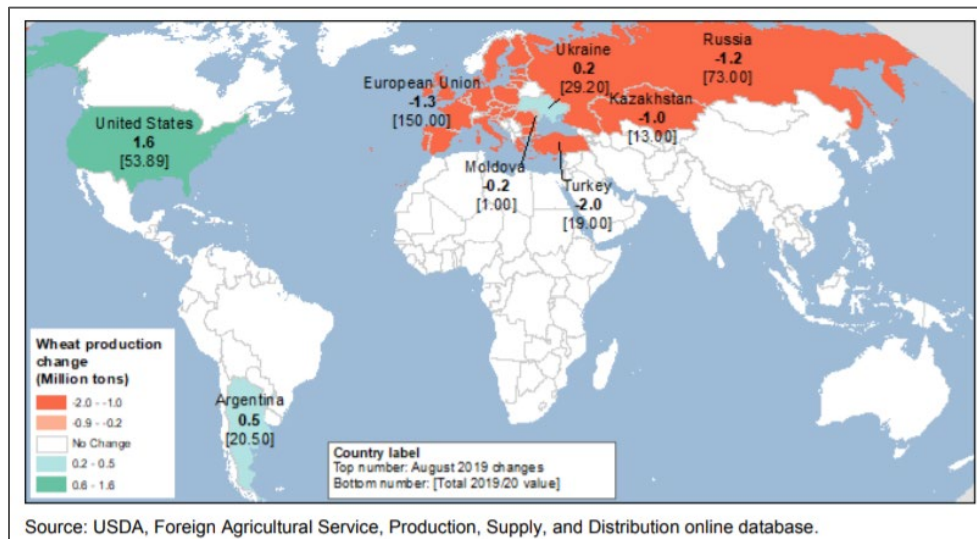
### i) Background and Rationale for the Report

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 Aug 19, 2019

#### USDA August 12/19 Changes in World Wheat Production



- The USDA lowered world wheat production 4.5 mln mt to 768.07 mln mt. The decrease was mainly because of decreases in Turkey (2.0 mln), the EU (1.3 mln), Russia (1.2 mln mt to 73 mln mt) and Kazakhstan (1.0 mln mt). The revisions were all made because of dryness causing lower yields. Production increases were seen in the US (1.6 mln), Ukraine (0.2 mln) and Argentina (0.5 mln).
- World consumption was lowered 2.0 mln mt on reduced feed and residual use as well as lower industrial use.
- Overall global ending stocks were reduced 1.1 mln mt to 285.4 mln mt which continues to be a record amount and 11 mln mt more than last year.

➤ **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 470-6, up 1-6 cents in Friday's trade, down 28-6 cents for the week.  
Sept '19 contract **Kansas** hard red winter wheat closed up 4-4 cents at 394-2, down 22-6 cents for the week.  
**Minneapolis**, Sept '19 contract hard red spring wheat closed at 506-2, up 3-4 cents in Friday's trade, down 13-4 cents for the week, while Dec '19 hard red spring wheat closed at 518-4, up 3-6 cents for the day, down 12-2 cents for the week.

**Canadian Wheat:**

- Canadian shipping week 1 data has not yet been released by the CGC. The 2018/19 marketing year ended with a total of 21.18 mln mt of wheat being delivered into the Canadian grain handling system (up 13%, 2.51 mln mt), and 18.24 mln mt worth of wheat being exported (up 12%, 2.01 mln mt).
- Widespread rain the SK has replenished soil moisture but slowed harvest progress which is <1% complete vs the 5-year average of 4%. Spring wheat conditions in AB were slightly lower again last week at 71.3% G/E. Yield estimates in AB were also lowered slightly from last week to 49.2 bpa (46.9 bpa last year).
- The 2018/19 marketing year ending with a total of 4.78 mln mt of durum being delivered in the Canadian grain handling system (up 15%, 638k mt), and 4.52 mln mt worth of durum being exported (up 13%, 532k mt).
- Durum wheat in AB lost some condition from last week to 38.3% G/E. Yield estimates are just 27.6 bpa (33.1 bpa last year).
- Harvest was slow in the Cdn. Prairies last week from widespread showers. The forecast looks dryer this week and should allow for harvest to progress. Reported yields in MB continue to be average -slightly below average.

(CGC) Grain Handling Summary Wheat (excl. Durum)				Week 52 (to July 21/19)	
('000 mt)	Producer Deliveries	Terminal Receipts	Exports	Domestic Dissappearance	
<b>Current Week</b>	<b>450.8</b>	<b>635</b>	<b>480.9</b>	<b>127.3</b>	
Week Ago	256.3	336.3	228.1	111.9	
<b>YTD</b>	<b>21175.7</b>	<b>20963.3</b>	<b>18244.6</b>	<b>4182.9</b>	
Last YTD	18664.7	18298.6	16232.6	4480.4	
YTD less Last YTD (k mt)	↑ 2,511.0	↑ 2,664.7	↑ 2,012.0	↓ -297.5	
YTD over Last YTD (%)	↑ 13%	↑ 15%	↑ 12%	↓ -7%	

Based on weekly CGC Handling Data

(CGC) Grain Handling Summary Amber Durum				Week 52 (to July 21/19)	
('000 mt)	Producer Deliveries	Terminal Receipts	Exports	Domestic Dissappearance	
<b>Current Week</b>	<b>193.5</b>	<b>132.3</b>	<b>67.3</b>	<b>17.6</b>	
Week Ago	78	68.7	91.3	5.2	
<b>YTD</b>	<b>4777.7</b>	<b>5167.6</b>	<b>4518.8</b>	<b>383.5</b>	
Last YTD	4139.5	4492.9	3986.5	482.6	
YTD less Last YTD (k mt)	↑ 638.2	↑ 674.7	↑ 532.3	↓ -99.1	
YTD over Last YTD (%)	↑ 15%	↑ 15%	↑ 13%	↓ -21%	

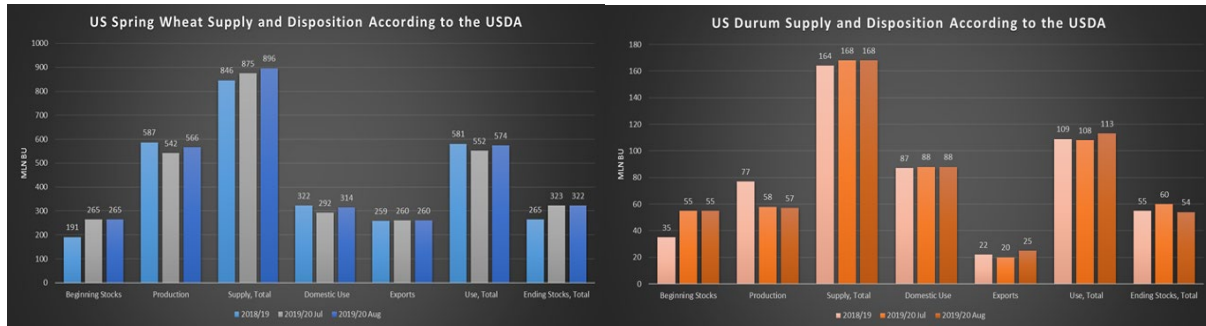
Based on weekly CGC Handling Data

**US wheat:**

- As of Aug 12<sup>th</sup>, winter wheat harvest was 89% complete vs 93% last year. Harvest in Idaho and Washington where most of the country's soft wheat is grown is significantly behind normal. Overall, the HRW crop continues to meet a #1 HRW grade while the SRW crop continues to be #3 SRW. US spring wheat harvest is 8% complete vs 32% last year.
- Harvest progress in the US spring wheat regions have been slow, just 8% complete vs the average of 30%. Crop ratings fell 4% from last week to 69% G/E.
- Durum harvest in the US has begun (1% in ND and 3% in MO) and strong yields are being reported. Crop ratings improved to 75% in ND and deteriorated to 71% G/E in MO.
- Contributing to the 59 mln bu increase in US all wheat production was a 24 mln bu increase in US spring wheat production to 566 mln bu, (still down 4% from 2018). Total HRS supply was raised 21 mln bu to 896 mln bu, implying a 3 mln bu decrease in HRS imports to 65 mln bu. Domestic use was raised 22 mln bu to 314 mln bu and exports were unchanged at 260 mln bu. Overall there was a 1 mln bu decrease in ending stocks (from July) at 322 mln bu, up 57 mln bu from last year.
- The USDA lowered US durum production 1 mln bu to 57 mln bu, 20 mln bu lower than 2018. US beginning stocks were unchanged and total supply was unchanged implying a 1 mln bu increase

in imports from last month to 56 mln bu, up 4 mln bu from last year. This would essentially bring US durum imports up to levels slightly below 2017/18. US domestic use was unchanged, exports were seen 5 mln bu higher, for a 6 mln bu decrease in ending stocks at 54 mln bu.

### US Spring Wheat and Durum Supply and Disposition According to the USDA's August 12/19 Report



#### Australian wheat:

- Aussie wheat futures hit 3-week lows because of ongoing showers and overall market weakness. The USDA made no changes to Aussie wheat production or exports, but private estimates are sliding as the long-term forecast is dry though the critical growing period.

#### Argentine wheat:

- BAGE left production estimates unchanged but mentioned that soil moisture was low as the crop heads into the critical flowering stage. Dryness has lowered wheat ratings from 54% G/E to 49% and forecasts indicate that dryness will persist.

#### EU wheat:

- According to Germany's Association of Farmer Cooperatives, wheat production in 2019/20 is expected to reach 23.8 mln mt, 18% higher than last year.
- Strong harvest expectations in France and Britain caused Strategie Grains to sharply increase forecasts for EU wheat production and exports. Their current estimate for wheat production is 142.9 mln mt (up 2.3 mln mt), 12% higher than last year's drought-stricken crop.

#### Black Sea wheat:

- IKAR lowered Russian wheat production estimates 5.5 mln mt 70.0 mln mt vs the USDA's most recent 73.0 mln mt (-1.2 mln mt from their July est.). Harvest in Russia is 38% complete as 49.8 mln mt has been harvested.
- Wheat harvest in Ukraine is 98% complete as 27.9 mln mt worth of wheat has been harvested. The USDA is estimating that 29.2 mln mt worth of grain will be produced, up 200k mt from their July est.

#### ➤ Significant purchases/ trades:

- The only trade we saw reported was Egypt (GASC) bought 175,000 tonnes of Russian and 120,000 tonnes of Ukraine wheat at an average \$218 C&F for the 15-30 Sep position. Cash prices ignored the drop in USA futures.
- USA export sales were 462,000 tonnes for a season total 362 myn bushels, up 18% on last year, but this is quite a sharp decline on last week's 25% advance.

➤ **Wheat Market Outlook:**

**Significant events:**

- **The USDA’s WASDE report** gave estimates that were much different from what the Trade was expecting. It was their corn estimate, which we show below, that was very contrary to what the trade expected. It resulted in corn futures closing limit down of Monday with weakness spilling into all other grain markets. Spec funds were huge sellers as they liquidated their long in a market which was confused with no buyers.

<b>USA corn</b>				
<b>2019/20</b>	<b>acres planted</b>	<b>harvest acres</b>	<b>yield</b>	<b>production</b>
average trade estimate	88.0	80.0	164.9	13.1930
high trade estimate	89.8	81.9	167.3	13.5500
low trade estimate	83.5	76.1	161.0	12.7230
USDA july estimate	91.7	83.6	166.0	13.8750
usda august WASDE	90.0	82.0	169.5	13.9010

- It was expected that the USDA’s August estimate would get us close to the planted acres taking into account the acres lost to “prevent planting” claims but it does not seem to us that this is the case. Even more confusing was the USDSA’s yield estimate which went up instead of down which was the markets expectation. Before delayed planting became an issue, the USDA projected the acres to be planted to corn as 92.8 myn acres in the May report and 89.8 myn the June report. Expectations from the trade are that around 3/5 myn of the original acres were not planted. The USDA is telling us more corn acres than their June estimate were actually planted. There is also a huge variation between the high/low of what estimates are for corn yield. With the USDA the highest estimate. This leaves us and others in the markets confused and we won’t get a better understanding of what’s really out there until harvest.
- **POTUS has been encouraging the Japanese PM to purchase US agriculture goods** in a bid to mitigate the negative effects of the trade dispute with China, this is ahead of plans for the US and Japan to work towards a large bilateral trade deal in September.
- **Weather around the world:**
  - **USA** Weather analysts are agreeing on the nearby forecast for the Midwest as bringing a hefty amount of rain to Iowa/Illinois, but after the 1-5 day period, it gets far more unsteady and no conclusive opinions are given. It looks like the precipitation will make it all the way to the eastern corn/soy belt, where they too need it, but not nearly the volume as the west, and they look to be considerably warmer in the east. **Canada** remains dry with temperatures starting to cool, whilst **Europe** continues to trend drier except for Scandinavia and the UK. **South America** is still almost totally dry and temperatures in Argentina are starting to warm up following the recent frosts, **Australia** still has some showers in the South East and South West corners, but they remain very light. The outlook for **India’s** monsoon remains favorable.

➤ **Outlook:**

Trade was not expecting a bullish report and they didn’t get one. The market’s attention will now shift to forecasted dryness in Argentina and Australia. With harvest in the N hemisphere wrapping up, wheat generally bottoms-out around this time. There is little in the outlook that promotes a sustained rally unless the S Hemisphere has major issues. Higher world stocks, lower demand and lower exports will create another year of hand-to-mouth buying and farmers selling rallies.

### 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)		Oct. '19 (bu.)	Oct. '19 (mt.)
1 CWRS 13.5	\$5.83	\$214.22	1 CWRS 13.5	\$5.86	\$215.32
1 CWAD 13.0	\$6.33	\$232.59	1 CWAD 13.0	\$6.28	\$230.75
1 CPSR 11.5	\$4.76	\$174.90	1 CPSR 11.5	\$4.79	\$176.00
SW Sask			SW Sask		
1 CWRS 13.5	\$5.73	\$210.54	1 CWRS 13.5	\$5.77	\$212.01
1 CWAD 13.0	\$6.33	\$232.59	1 CWAD 13.0	\$6.34	\$232.96
1 CPSR 11.5	\$4.50	\$165.35	1 CPSR 11.5	\$4.60	\$169.02
NE Sask			NE Sask		
1 CWRS 13.5	\$5.61	\$206.13	1 CWRS 13.5	\$5.61	\$206.13
1 CWAD 13.0	\$6.31	\$231.85	1 CWAD 13.0	\$6.49	\$238.47
1 CPSR 11.5	\$4.50	\$165.35	1 CPSR 11.5	\$4.53	\$166.45
SE Sask			SE Sask		
1 CWRS 13.5	\$5.61	\$206.13	1 CWRS 13.5	\$5.61	\$206.13
1 CWAD 13.0	\$6.44	\$236.63	1 CWAD 13.0	\$6.56	\$241.04
1 CPSR 11.5	\$4.48	\$164.61	1 CPSR 11.5	\$4.51	\$165.72

**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	0.05	1.89
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.05)	-1.84
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 Basis<sup>1</sup> (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.

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<sup>1</sup> 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				August 19, 2019
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$292.10	\$284.78		
HRS	\$286.59			
HRW 11.5	\$255.53			
SWW 12.0	\$292.10			
1 CWRS 13.5 <sup>3</sup>	\$292.10		\$209.81	\$82.29
2 CWRS 13.0 <sup>3</sup>	\$286.59		\$198.79	\$87.80
3 CWRS <sup>3</sup>	\$255.53		\$179.68	\$75.85
CPS <sup>3</sup>	\$285.27		\$157.26	\$128.01
1 CWAD <sup>4</sup>		\$308.68	\$0.00	\$308.68
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)	\$194.00			
French 11.5 (Rouen)	\$186.00			
APW 10.5 (W Coast)	\$240.00			
Argentine 12.0	n/a			
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price <sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS <sup>4</sup> Values derived to Lakehead FOB				

## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					August 19, 2018
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$7.76	\$7.61	\$6.77	\$7.76	\$7.76
Parity Track Rosetown	\$6.27	\$6.12	\$5.27	\$6.27	\$6.27
Track Bid Rosetown Area	\$5.71	\$5.41	\$4.89	\$4.28	\$4.28
Gross Margin at Elevator (\$/bu)*	\$0.56	\$0.71	\$0.38	\$1.99	\$1.99
Gross Margin at Elevator (\$/mt)*	\$20.48	\$25.99	\$14.04	\$73.02	\$73.02
* to cover elevation, elevator market risk, margin					