

Wheat Market Outlook and Price Report: August 26, 2019

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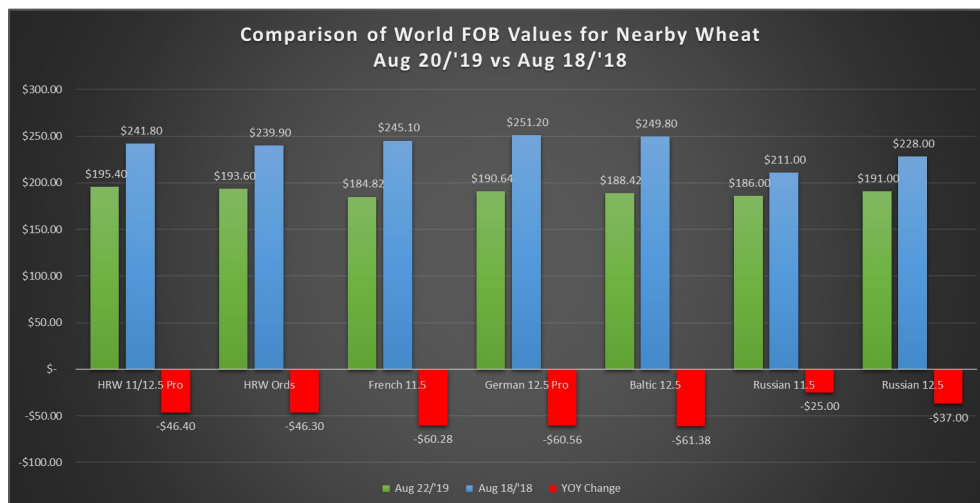
i) Background and Rationale for the Report

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 26, 2019

World Wheat Cash Prices Aug 2019 vs 2018.



- Customarily, harvest pressure causes wheat markets to bottom out late-Aug/early-Sep.
- Last year, Russian wheat was by far the cheapest in the world while European wheat (except for Aussie and N American spring wheat) was the most expensive. This year, Russian wheat has been (in many cases) too expensive and has lost out to Ukraine and other global markets, including the US. US YTD sales are currently 22% higher than last year.
- Even though world Fob values are \$25.00-\$61.38 cheaper this year than last, these prices have not been able to generate any extra demand which has been extremely sluggish YTD.
- This has prompted that USDA to lowered world consumption 2 mln mt in their last report. The estimated world wheat carry-out is a record of 285.4 mln mt, 11 mln mt higher than last year.

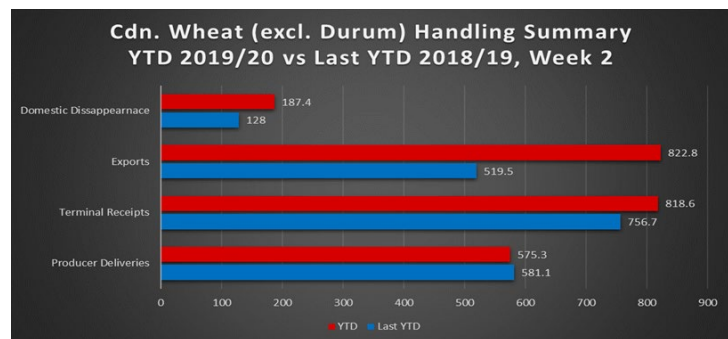
➤ **Global wheat production and trade:**

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 4705-2, up 8-0 cents in Friday's trade, up 4-4 cents for the week.
- Sept '19 contract **Kansas** hard red winter wheat closed down 1-6 cents at 391-4, down 2-6 cents for the week.
- **Minneapolis**, Sept '19 contract hard red spring wheat closed at 498-6, up 0-2 cents in Friday's trade, down 7-4 cents for the week, while Dec '19 hard red spring wheat closed at 514-4, up a penny for the day, down 4-0 cents for the week.

Canadian Wheat:

- Canadian producers delivered 575.3k mt of wheat (excl. durum) into the grain handling system during week 1 and 2 of the Canadian 2019/20 marketing year. Exports during the first 2 weeks were 822.8k mt, 58% higher than last year. AAFC's export expectation for the 2019/20 MY is for 18.9 mln mt vs their too high estimate of 19.2 mln mt from last year.



- Late crop development and wet weather have delayed harvest in many areas of the Cdn. Prairies. Spring wheat harvest is 35% complete in MB vs the 63% average. Yields have been similar- slightly lower than last year. Harvest has also just begun in the SE and SW regions of SK, where 1% of spring wheat crop has been harvested. Last year, 5% of the SK spring wheat crop was harvested by now.

- Canadian producers delivered 149.4k mt of durum into the grain handling system during the first two weeks of the marketing year. Exports during those weeks were 210.4k mt a strong start to the marketing year. The AAFC left their forecast for Cdn. durum exports unchanged at 4.7 mln mt. 200k mt higher than last year. For now, we see no reason to disagree.

('000 mt)	Week 2			(to Aug 18/19)
	Producer Deliveries	Terminal Receipts	Exports	Domestic Disappearance
Current Week	39.9	126.9	103.1	3
Week Ago	109.6	164.1	107.3	13.8
YTD	149.4	290.8	210.4	16.8
Last YTD	95.4	172.7	82.5	12.6
YTD less Last YTD (k mt)	↑ 54	↑ 118.1	↑ 127.9	↑ 4.2
YTD over Last YTD (%)	↑ 57%	↑ 68%	↑ 155%	↑ 33%

Based on weekly CGC Handling Data

- Wet weather has also hampered drum harvest which is just 7% harvested in ND and 13% in MO. Crop ratings fell slightly from last week to 72% G/E.

US wheat:

- As of Aug 18th, winter wheat harvest was 93% complete, a full week behind last year. Idaho, Washington and Montana continue to be the further behind. Overall, quality is not a concern.
- Harvest progress of the US spring wheat regions doubled from last week to 16% complete, which is still well behind the average pace of 56%. Protein levels in in ND are ranging from 13-15% and yields are reported as being inline or slightly lower than last year.
- G/E ratings for the US spring wheat crop rose 1% over the week to 70%, just 4% behind last year.

Australian wheat:

- Aussie wheat futures fell \$5 to 5-week lows. The market is conflicted over present moisture and a very dry long-term forecast.
- Most forecasts remain around 20-21 mln mt. September is the critical month where rain will be needed.

Argentine wheat:

- There continues to be an overall lack of moisture in Argentina, causing BAGE to lower crop ratings 3% from last week to 46% G/E (50% last year).

EU wheat:

- Stratégie Grains says the S European soft wheat harvest is nearly complete.
- The French harvest is expected to be 39.1 mln mt, 16% higher than last year (despite the July heat wave).
- German soft wheat production is also expected to be 16% higher than last year at 23.3 mln mt.
- Overall, the EU's wheat production is expected to reach 143 mln mt, 13% more than last year.

Black Sea wheat:

- Russia's wheat harvest is 45% complete. Their Ag Ministry is estimating that 53.7 mln mt has been harvested vs the USDA's total production estimate of 73 mln mt.
- As of Aug 22nd, Ukraine's wheat harvest is 99% complete at 28.2 mln mt. up 14% from last year. The Ukrainian Grain Trader's Union believes that exports will amount to 21 mln mt vs 15.3 mln mt last year.

➤ Significant purchases/ trades:

- Tunisia bought 92,000 tonnes Sep-Oct milling wheat at \$210.50-213.40; the Philippines bought 60,000 tonnes Nov feed wheat at \$222.
- US inspections were 489,000 tonnes (season total 200 myn bushels, up 25%), sales were 595,000 tonnes (season total 382 myn bushels, up 22%).

➤ **Wheat Market Outlook:**

Significant events:

- There is little wheat-specific news that will support a rally as there is an abundance of wheat in the world. It will likely be another year of consumers buying hand-to-mouth and farmers selling rallies. Any support/weakness in wheat will be originated in corn (mainly) and soybean markets.
- Post-Friday's close, **the ProFarmer crop tour concluded with an average corn yield of 163.3 bpa** and a final production number of 13.358 bln bu. The estimated yields for all the states are below the USDA's numbers [see chart]. Importantly, the county level y/y departures in yield estimates for the 2018 Pro Farm Tour to 2019 are very similar to the departures of the USDA's 2018 vs 2019 estimates. That is, for every county except for South Dakota, where the USDA is expecting a 2% decline in yield from their 2018 estimate, the Pro Farm Tour is estimating a 13% decline in yield from their 2018 estimate.

Pro Farmer US Corn Yield (bpa)			
	USDA/NASS Aug 12/'19	Pro Farmer Aug 23/'19	Δ From USDA
Illinois	181	170	-11
Indiana	166	160	-6
Iowa	191	181	-10
Minnesota	173	167	-6
Nebraska	186	183	-3
Ohio	160	150	-10
South Dakota	157	140	-17
National Yield	169.5	163.3	-6.2
Harvested Acres (mln acres)	82.017	81.800	-0.217
National Production (bln bu)	13.901	13.358	-0.543

- There has not been another instance in recent history where the trade vs the USDA's estimates have been so different which is causing a lot of uncertainty in the market. In our view, the ProFarmer corn yield estimate is closer to reality than the USDAS's August estimate, which suggests more wheat feeding. However, the markets still don't have firm views on the yields, so we don't expect any strong rallies in the short term.
- **Japan and the US have come to a trade deal "in principle."** Japan imports \$14 bln worth of US ag goods and the agreement is expected to open up markets to over \$7 bln worth of products such as beef, port, **wheat**, dairy products, wine and ethanol.
- **Weather around the world:**
 - The **US** forecast is little changed and maintains a generally wet pattern across most of the Plains and Midwest, with temperatures turning progressively colder and below seasonal norms, but with no actual frost/freeze. **Canada** continues to see precipitation, particularly in the Eastern Prairies, while **Europe** is mostly dry except for Italy. The Balkans and Black Sea in particular have no rain and temperatures across the east remain much above normal. **South America** remains almost completely dry but still with the prospect of rain in Argentina in the 10-15 day time frame, and **Australia** still has showers particularly in the west.

➤ **Outlook:**

We don't expect any significant rally in the short term. Consumers are well supplied with offers as they cover nearby needs and avoid taking any long-term coverage. The market needs to understand what the real corn crop is and whether we need to use more wheat for feed. In our view, the "ProFarmer" corn yield estimate is closer to reality than the USDAS's August estimate, which suggests more wheat feeding. However, the markets still don't have firm views on the yields, so we don't expect any strong rallies in the short term.

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	\$5.90	\$216.79	1 CWRS 13.5	\$5.86	\$215.32
1 CWAD 13.0	\$6.32	\$232.22	1 CWAD 13.0	\$6.31	\$231.85
1 CPSR 11.5	\$4.80	\$176.37	1 CPSR 11.5	\$4.84	\$177.84
SW Sask			SW Sask		
1 CWRS 13.5	\$5.76	\$211.65	1 CWRS 13.5	\$7.76	\$285.13
1 CWAD 13.0	\$6.32	\$232.22	1 CWAD 13.0	\$6.38	\$234.43
1 CPSR 11.5	\$4.65	\$170.86	1 CPSR 11.5	\$4.73	\$173.80
NE Sask			NE Sask		
1 CWRS 13.5	\$5.65	\$207.60	1 CWRS 13.5	\$5.61	\$206.13
1 CWAD 13.0	\$6.31	\$231.85	1 CWAD 13.0	\$6.58	\$241.78
1 CPSR 11.5	\$4.57	\$167.92	1 CPSR 11.5	\$4.60	\$169.02
SE Sask			SE Sask		
1 CWRS 13.5	\$5.67	\$208.34	1 CWRS 13.5	\$5.62	\$206.50
1 CWAD 13.0	\$6.44	\$236.63	1 CWAD 13.0	\$6.64	\$243.98
1 CPSR 11.5	\$4.57	\$167.92	1 CPSR 11.5	\$4.60	\$169.02

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 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)
 - 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.

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.”

- 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 26, 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	\$383.83	\$284.46		
HRS	\$378.32			
HRW 11.5	\$262.54			
SWW 12.0	\$286.90			
1 CWRS 13.5 ³	\$383.83		\$206.13	\$177.70
2 CWRS 13.0 ³	\$378.32		\$195.11	\$183.21
3 CWRS ³	\$262.54		\$176.74	\$85.81
CPS ³	\$280.08		\$162.78	\$117.30
1 CWAD ⁴		\$308.33	\$0.00	\$308.33
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$191.00			
French 11.5 (Rouen)	\$184.82			
APW 10.5 (W Coast)	\$240.00			
Argentine 12.0	n/a			
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					August 26, 2018
Canadian Funds				Grade	
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$10.26	\$10.11	\$6.96	\$7.62	\$7.62
Parity Track Rosetown	\$8.76	\$8.61	\$5.46	\$6.13	\$6.13
Track Bid Rosetown Area	\$5.61	\$5.31	\$4.81	\$4.43	\$4.43
Gross Margin at Elevator (\$/bu)*	\$3.15	\$3.30	\$0.65	\$1.70	\$1.70
Gross Margin at Elevator (\$/mt)*	\$115.89	\$121.40	\$24.00	\$62.32	\$62.32
* to cover elevation, elevator market risk, margin					