Wheat Market Outlook and Price Report: November 12, 2019

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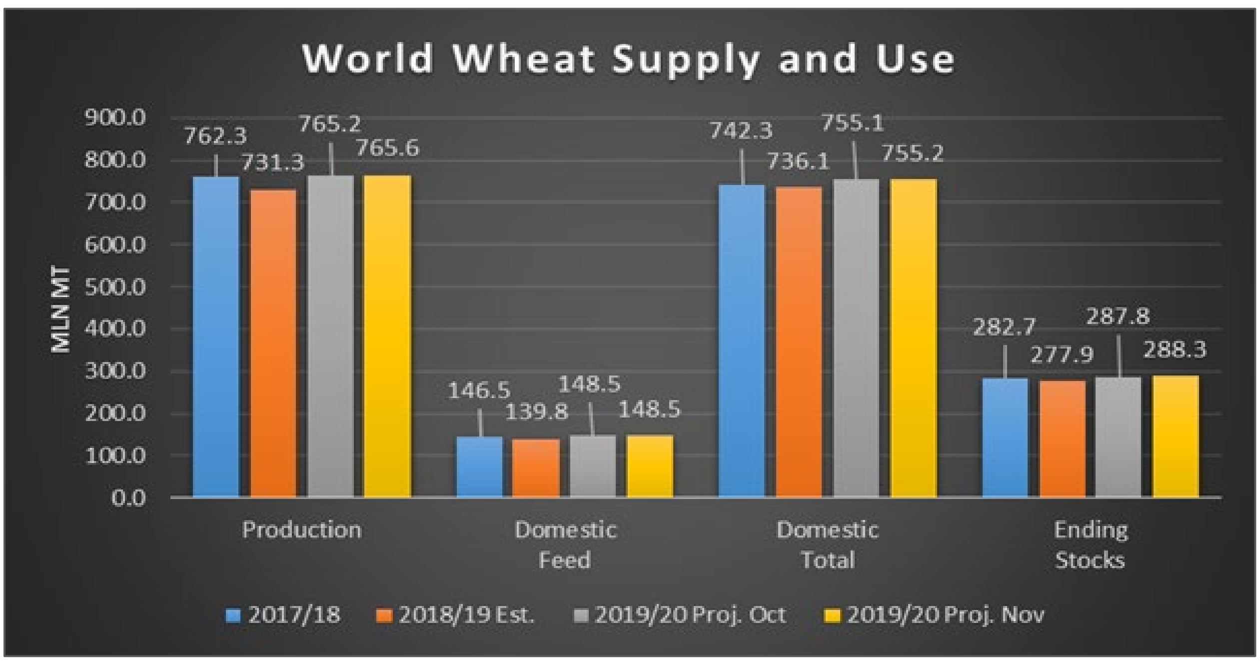
i) Background and Rationale for the Report

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 Nov 8th, 2019

USDA/WASDE World Wheat Supply and Disposition



- The USDA report was overall neutral for wheat as largely offsetting revisions to global wheat production were made and use was largely unchanged.
- World production was seen 400k mt higher than last month at 765.6k mt. Production in Argentina was seen down 0.5 million mt at 20 million mt, Aussie production was seen 0.8 million mt lower at 17.2 million mt, production in the EU was up 1 million mt to 153 million, Russia was up 1.5 million to at 74 million, and Ukraine was up 0.3 million mt at 29 million.
- Feed use was left unchanged at 148.47 million mt.
- With supply rising more than use, ending stocks were seen 500k mt higher than last month for an even larger record carry-out of 188.3 million mt.

➢ **Global wheat production and trade:**

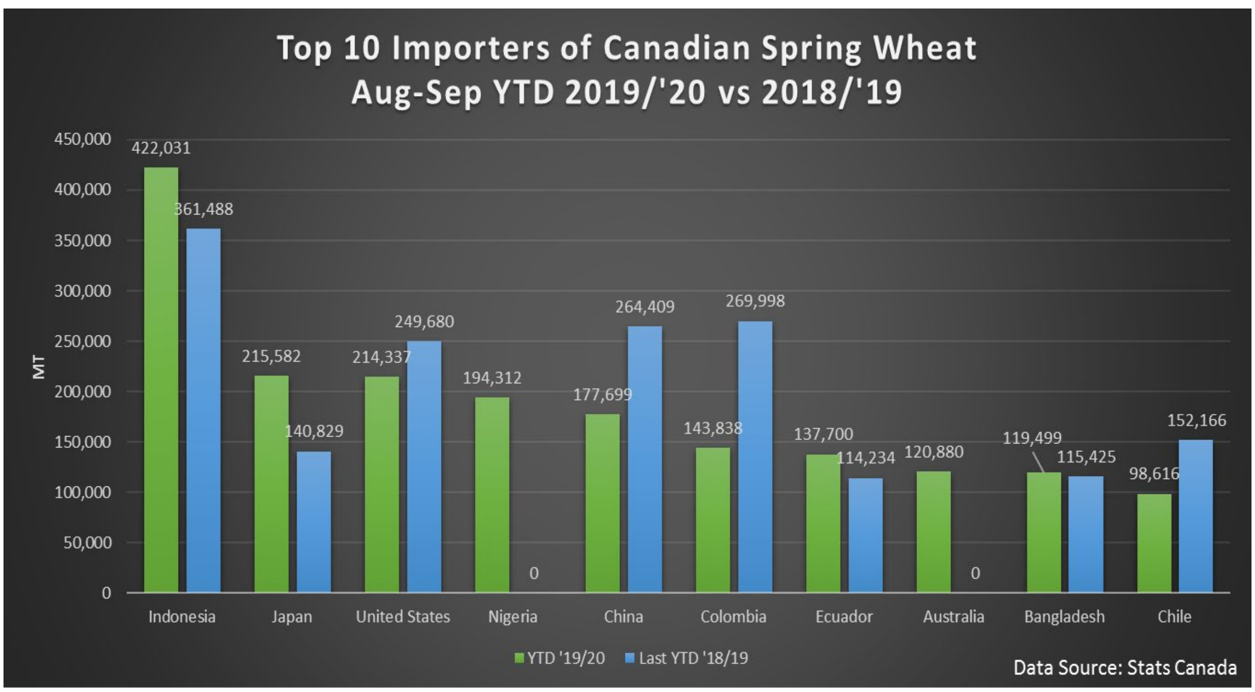
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Dec '19 contract **Chicago** winter wheat closed at 510-2, down 2-2 cents for the day, *down 5-6 cents for the week.*
- Dec '19 contract **Kansas** hard red winter wheat closed at 421-4, down 3-2 cents for the day, *down 4-4 cents for the week.*
- In **Minneapolis**, Dec '19 contract hard red spring wheat closed at 518-4, down 0-2 cents for the day, *down 12-6 cents for the week*, while March '20 hard red spring wheat closed at 535-0, down 0-2 cents for the day, *down 13-0 cents for the week.*

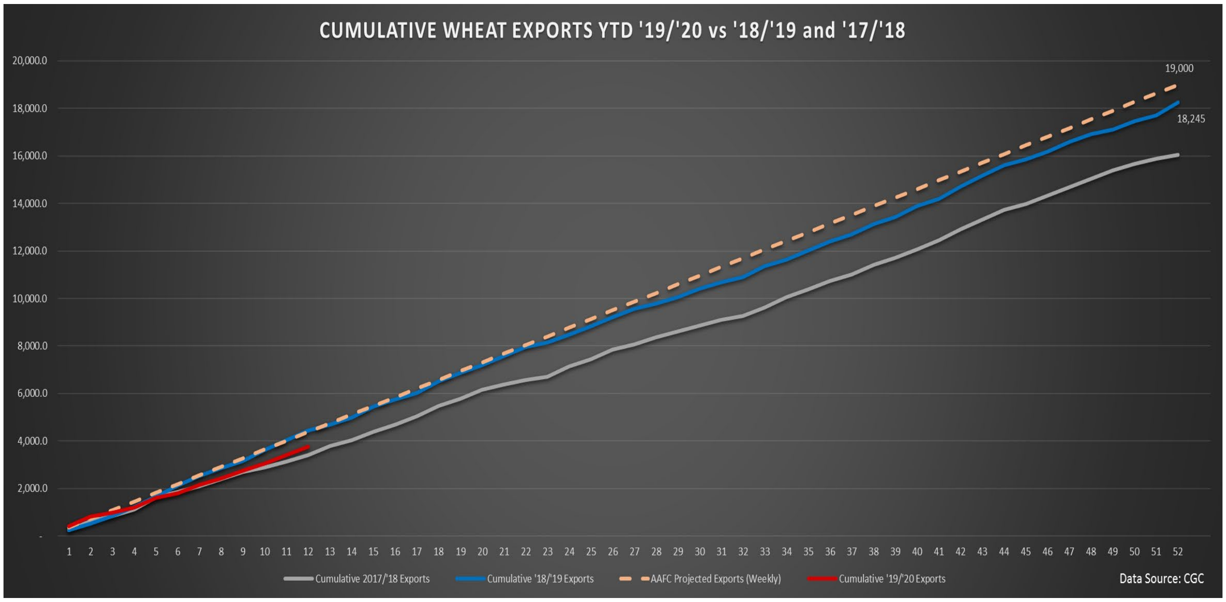
Canadian Wheat:

- There was no progress made in MB or SK spring wheat harvest which remains at 97% and 92% complete respectively. SAF is discontinuing weekly crop reporting for the season but will give a final update on the 21st which will reflect any harvest that happens between now and then. Spring wheat harvest in AB is up 6% from last week and is now 90% complete.
- The Canadian International Merchandise Trade Database (CIMT) numbers for Sept Cdn. exports were released and they largely confirm what the CGC monthly data said: There have been significant y/y decreases in spring wheat exports to S American countries like Chile and Columbia and a large decrease to China. Meanwhile, wheat exports to Indonesia and Japan have been strong vs last year.
- Durum exports have been strong to all countries except to the USA whose imports are down 149k mt from last year YTD Aug-Sep. There have been multiple countries that have already purchased durum who, although customers last year, did not begin buying until the 2nd half of the MY.

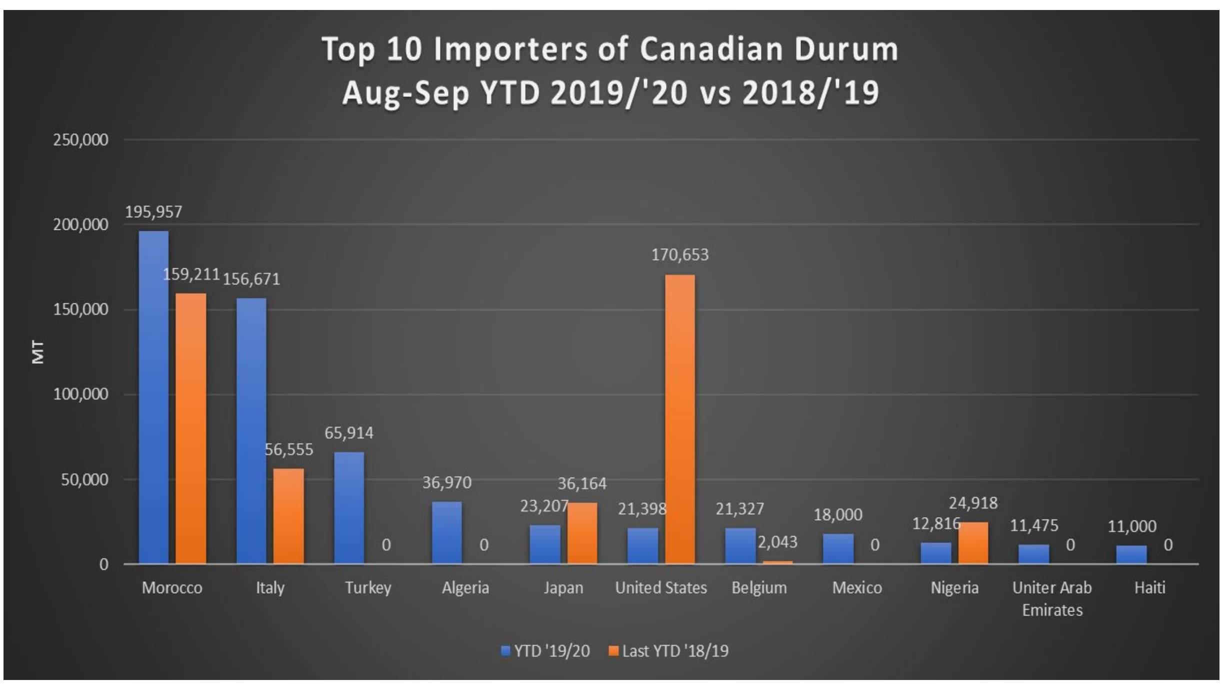
Top 10 Importers of Canadian Spring Wheat and Durum



- Canadian producers delivered 390.8k mt of wheat (excl. durum) into the Canadian grain handling system during week 13 of the 2019/20 marketing year. Exports during the week were 416.30k mt, for a YTD total of 4.211 million mt, 494k mt (10%) less than this time last year, not far from AAFC's projected 4% decline in exports. Average weekly exports need to reach 179k mt to meet the AAFC's projected 19 million mt export estimate.



- Canadian producers delivered 139.2k of durum into the grain handling system during week 13 of the marketing year. Exports throughout the week were 45.1k mt for a YTD total of 1.18 million mt, 55% (420k mt) more than this time last year.



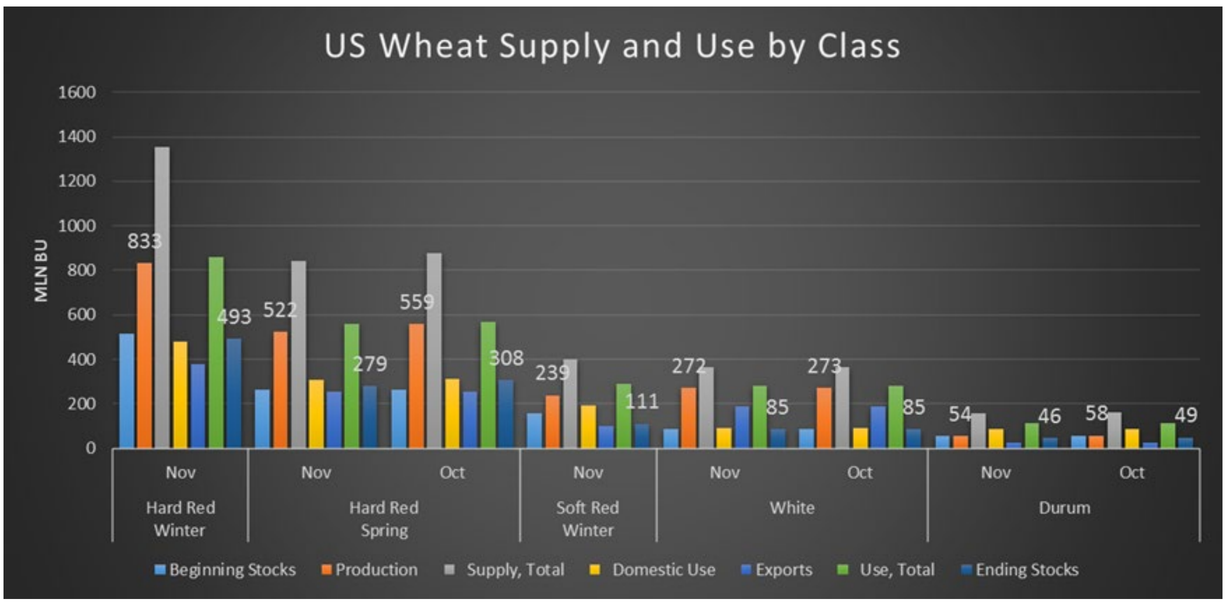
- **Given the wheat values that have traded in recent weeks, Canada should be doing more wheat business, particularly in durum and lower grade wheat.**
  - **Traded durum for values back off to ~US$285/mt parity Thunder Bay. Accounting for the exchange rate and backing off 112 car rail freight rates and actual handling**

expenditures, calculates to C$332/mt ($9.06/bu) at the elevators in central SK. The current posted bid is $8.00, giving a generous $39.06/mt margin after costs.**

- **Similarly, global feed wheat values back off to ~US$200.00/mt parity Vancouver. Using a similar method as above, this backs off to C$215.40/mt ($5.86/bu) at the elevator in central SK vs the current posted bid of $4.80. This is another healthy $339.05/mt margin.**

US wheat:

- US wheat supply was seen 42 million bu lower in Friday's USDA report based off the resurvey finding a significant amount of unharvested wheat acres in the N States. Seed use was seen 7 million bu lower reflecting the forecast 2020/21 all-time low acreage of 45 million. Food use was down 5 million bu to 955 million bu on lower flour milling as per the Nov 1, Flour Milling Products report. Overall, 2019/20 end stocks were seen 30 million bu lower at 1,014 million bu, well below trade's 1,035 million mt est. There were no changes in export numbers for any classes.
- Most of the decrease in US wheat production was in the HRS class which lost 37 million bu from last month to 559 million bu. HRS domestic use was down 8 million bu because of slow flour milling resulting in a 29 million bu decrease in ending stocks to 308 million bu.



- The durum class saw the second largest decrease in estimated production, loosing 4 million bu from last month and is now expected to be 54 million bu. There were no changes to any other aspects of the durum balance sheet for a 3 million (not 4 because of rounding) decrease in ending stocks at 46 million bu.

Australian wheat:

- USDA lowered Aussie production 800k mt to 17.2 million mt, still well above ABARES' and FC Stone's 15.5 million mt estimate.
- Harvest has restarted in Australia after rain last week. There have not yet been any reported yields.
- Australia's Government is offering farmers A$1 billion in cheap loans payable over 10 years and will sell them 100 billion L of water for discounted prices. Severe bush fires are ravaging the country's NSW.
- Aussie Fob remains flat ahead of their harvest. APW is bid at $234/mt.

Argentine wheat:

- Argentina's wheat production was seen 500k mt lower by the USDA at 20 million mt vs BAGE's 18.8 million mt.
- Harvest in the country is 7% complete, 4% behind last year as rains hampered progress. Ratings fell for the 4th straight week and are now 16% Gd., but none of the crop rated as excellent. The crop is 87% headed, and 19% mature.
- There has not yet been any confirmation on last week's rumors that Brazil will not take any Argentine wheat due to political issues. Brazil's 750k mt tariff free wheat quota is in effect, but as HRW in the Gulf is bid at $210, and Russian is $203, from an economic perspective, Brazil needs 7-8 million mt of imports and both price and proximity favor Argentine origin. Argentine 12 pro is bid $188-$195/mt Fob.

EU wheat:

- The USDA raised the EU crop another 1 million mt to 153 million and the entirety of this went into exports (now 29 million mt), leaving ending stocks unchanged at 12 million mt, an unrealistic 4 weeks worth of supply.
- EU all-wheat shipments advanced to 9.3 million mt, up 41% on last year. The French line-up shows another vessel for China, which would bring China's imports from France to 420k mt, the second largest destination after Algeria.

Black Sea wheat:

- Wheat harvest in Russia is complete, and now the speculation is weather the Agriculture Ministry's harvest number is clean weight, or bunker weight.
- The USDA raised Russian production 1.5 million mt to 74 million mt, increasing exports 500k mt to 34.5 million mt. Ukrainian production was seen 300k mt higher at 29 million mt, also raising their exports to 500k mt to 20 million mt.
- *Black Sea values fell $3-4 over the wee*k and are now bid at $208 for 12.5 pro and $202.0 for 11.5 pro. Much of the tender business last week was again won by France. Traders are increasingly becoming concerned about the slow Russian export pace as Argentine new crop offers are starting to hit the market.

- **Significant purchases/ trades:**
  - **Egypt (GASC)** bought 120,000 mt of French wheat at $232.44 and 55,000 mt Russian wheat at $234.60/mt.
  - **The Philippines** bought 35,000 mt FH Dec feed wheat (Australian) at $255.50/mt.
  - There were no results on **Syria**'s 150,000 mt Russian wheat tender.
  - **Ethiopia** tenders this week for 600,000 mt of wheat.
  - **Brazil**'s 750,000 mt tariff-free import quota is now operational (open to all countries with no end date).
  - **USA** inspections were 293,000 mt (season total 402 million bushels up 22%), sales were 361kt (season total 549 million bu, up 9% on last year).
  - **EU** all-wheat shipments advanced to 9.3 million mt, up 41% on last year.

- **Wheat Market Outlook:**

Significant events:

- Higher freight rates and low farmer selling **supported HRW and HRS export basis in the Gulf and PNW**.
- **All wheat futures ended below last week's close following pressure in the corn and soybean markets following USDA's November supply and demand report** that held corn and soybean acreage steady month-over-month. USDA's report noting larger global wheat supplies added pressure.

- **USDA raised its forecasts for Russian, Ukrainian, and European Union (EU) wheat production and lowered its forecasts for Australian and Argentinian wheat production.** Russian wheat production is expected to total 74.0 million mt, up from the October estimate of 72.5 million mt. Ukrainian farmers are expected to produce 29.0 million mt, up from 28.7 million mt. EU wheat production is expected to reach 153 million mt, up from 152 million mt. Australian wheat production is expected to total 18.0 million mt, down from the October estimate of 20.0 million mt. Argentinian wheat production is forecast at 20.0 million mt, down from 20.5 million mt.
- **Weather around the world**:
  - Central **USA** will be cold and mostly dry this week allowing for further harvest progress. **Brazil** should see near normal rain this week except for the north-east which remains dry. **Argentina** should see better rains in the south and west this week, whilst the north gets some needed drier conditions. **Australia** remains completely dry with bush fires raging across NSW and QLD and a significant threat being posed to Sydney. **Europe** remains cold in the west, very warm in the east, Balkans and **Black Sea** where it remains completely dry. Rain in the west is mostly concentrated on the Atlantic seaboard and central Mediterranean with some significant rain pushing across to **North Africa**. **South Africa** has more good rains forecast this week.

➢ ***Outlook:***

Last Friday's WASDE report left the USA carryout at 1 billion bushels and left world ending stocks unchanged. We think these numbers are overstated, but that's what we have for now, which should leave the wheat market unchanged to slightly lower. The only thing that could change this in the short term is a USA-China trade deal, but in our opinion, this is unlikely. The market still does not seem to be concerned about the availability of quality wheat and there is more than enough wheat overall. **- We would be looking for $5.25 on feed wheat, $7.00 or better for #2CWRS and $8.25 or better for durum.**

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)		Jan. '19 (bu.)	Jan. '19 (mt.)
1 CWRS 13.5	$5.99	$220.10	1 CWRS 13.5	$6.11	$224.51
1 CWAD 13.0	$7.26	$266.76	1 CWAD 13.0	$7.27	$267.13
1 CPSR 11.5	$5.16	$189.60	1 CPSR 11.5	$5.16	$189.60
SW Sask			SW Sask		
1 CWRS 13.5	$5.82	$213.85	1 CWRS 13.5	$5.95	$218.63
1 CWAD 13.0	$7.25	$266.39	1 CWAD 13.0	$7.27	$267.13
1 CPSR 11.5	$5.09	$187.03	1 CPSR 11.5	$5.09	$187.03
NE Sask			NE Sask		
1 CWRS 13.5	$5.79	$212.75	1 CWRS 13.5	$5.88	$216.05
1 CWAD 13.0	$7.65	$281.09	1 CWAD 13.0	$7.66	$281.46
1 CPSR 11.5	$4.90	$180.05	1 CPSR 11.5	$4.87	$178.94
SE Sask			SE Sask		
1 CWRS 13.5	$5.83	$214.22	1 CWRS 13.5	$5.90	$216.79
1 CWAD 13.0	$7.62	$279.99	1 CWAD 13.0	$7.65	$281.09
1 CPSR 11.5	$4.87	$178.94	1 CPSR 11.5	$4.86	$178.58

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	(0.10)	-3.67
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[1] (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)

- <u>Hard wheat price calculations:</u>
  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).

- <u>Optional origin grain sales</u>:
  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.

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[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."

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Releveant FOB Prices and Export Basis				012/11/2019
	FOB Prices CDA[1] (calculated)		Street Prices	Export Basis[2]
Type of Wheat	West Coast (Cdn./mt$)	Great Lakes (Cdn.$/mt)	Rosetown (Cdn.$/mt)	Basis: West Coast-Centr. SK (Cdn$/mt)
DNS 14.0	$340.01	$327.54		
HRS	$335.21			
HRW 11.5	$295.41			
SWW 12.0	$294.45			
1 CWRS 13.5[3]	$340.01		$221.57	$118.44
2 CWRS 13.0[3]	$335.21		$202.46	$132.75
3 CWRS[3]	$295.41		$151.75	$143.66
CPS[3]	$287.74		$189.23	$98.51
1 CWAD[4]		$368.54	$0.00	
Competing wheat:	US$/mt			
Russia 12.5 (Black Sea, 25k mt)	$208.00			
French 11.5 (Rouen)	$200.60			
APW 10.5 (W Coast)	$234.00			
Argentine 12.5	$188-195			

[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					012/11/2019
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	$9.07	$8.94	$7.86	$7.83	$7.83
Parity Track Rosetown	$7.57	$7.44	$6.36	$6.33	$6.33
Track Bid Rosetown Area	$6.03	$5.51	$4.13	$5.15	$5.15
Gross Margin at Elevator ($/bu)*	$1.54	$1.93	$2.23	$1.18	$1.18
Gross Margin at Elevator ($/mt)*	$56.74	$71.06	$81.96	$43.52	$43.52

* to cover elevation, elevator market risk, margin