

Wheat Market Outlook and Price Report: October 21, 2019

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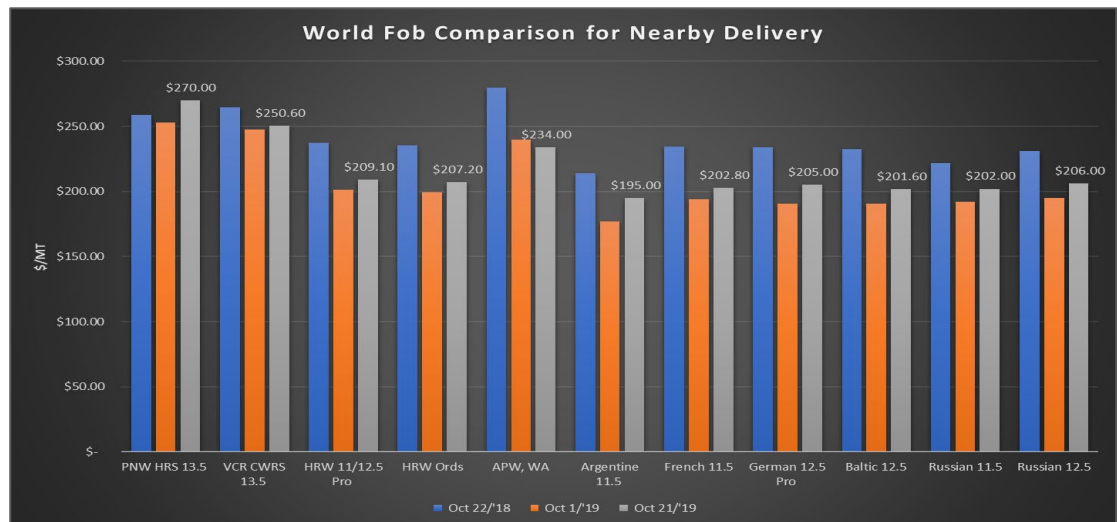
i) Background and Rationale for the Report

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 Oct 21th, 2019

Current World Cash Wheat Prices VS Oct 1/19 and Oct 22/18



- Strong demand, limited selling and production concerns in countries like Kazakhstan, Australia, Argentina, Canada and the US have caused a US\$3-\$18 increase in world Fob prices since the beginning of October. French milling wheat is trading the highest since late June. And Argentine Fob prices continued to climb higher with Dec 12.5 pro offers now at US\$195 against bids at \$188 (freight continues to make it too expensive vs EU and Black Sea origin).
- Egypt's (GASC) tender on the 16th perfectly reflects the significant rise in EU and Black Sea wheat market values. Traded CIF were up by ~US\$9/mt from the previous Oct. 8 tender (which were also \$5 higher than the tender before that).
- Support for Russian wheat values comes from short-covering, strong domestic demand, and from Kazakh buying [see Black Sea section]. It is worth noting that current Fob values are \$40/mt lower than this time last year, with the Ruble equivalent down 20%.

➤ **Global wheat production and trade:**

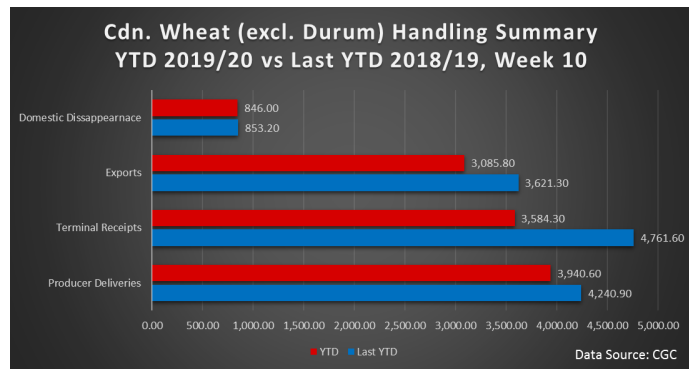
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Dec '19 contract **Chicago** winter wheat closed at 532-2, up 6-6 cents for the day, up 24-2 cents for the week.
- Dec '19 contract **Kansas** hard red winter wheat closed at 433-6, up 2-4 cents for the day, up 14-2 cents for the week.
- **Minneapolis**, Dec '19 contract hard red spring wheat closed at 544-4, down 7-4 cents for the day, down 3-4 cents for the week, while March '20 hard red spring wheat closed at 558-2, down cents for the day, down 3-6 cents for the week.

Canadian Wheat:

- Harvest in SK progressed another 14% from last week and is now 66% harvested as of Oct 14th. Spring wheat harvest in AB is 15% higher than last week at 63% complete. MB Ag did not change their number from last week at 95% harvested, and we doubt the remaining 5% will get thrashed.

- Much of the crop that was taken off in SK last week is facing quality issues (esp. lower falling numbers) and steep discounts at the elevators. But feed wheat in Canada continues to be undervalued vs traded world prices.

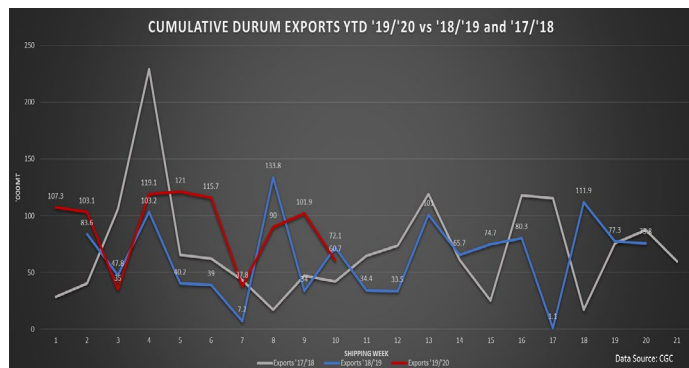


- Canadian producers delivered 457.3k mt of wheat (excl. durum) into the Canadian grain handling system during week 10 of the 2019/20 marketing year. Exports during the week were 303.1k mt, for a YTD total of 3.085 mln mt, 535.5k mt (15%) less than this time last year.

- The severe drought in Australia has caused the Australian government to take the unusual step of allowing local flour millers to import 360,000 mt of high-protein wheat from Canada this year. This is 32% more than the historic 242,327 mt of Canadian wheat Australia imported during the 2018/19 MY. Direct wheat imports and the opportunity to capture more demand that is normally serviced by Australian wheat will be beneficial for Canadian wheat prices [see Australia section].

- In their October Outlook report, the AAFC reduced Canadian wheat export expectations by 200k mt to 19.0 mln mt, down 4% from last year. Average weekly exports will need to be 379k mt/wk to reach this projection.

- Sixty-six percent of the SK durum crop has been harvested as of Oct 14th increasing progress by just 7% from the week prior. There was no update from AB.



- Canadian producers delivered 110.70k of durum into the grain handling system during week 10 of the marketing year. Exports throughout the week were 60.70k mt for a YTD total of 920.7k mt, 57% (334.7) more than this time last year. Last week, the AAFC increased their export expectations for Canadian durum 200k mt to 4.7 mln mt. This is a 4% increase from last year and in our opinion, is achievable.

- Strong YTD Canadian durum exports have largely been attributable to EU buying. According to EU customs data, the EU has imported 432,049 mt of durum YTD Oct 14th, an 116% increase over last

year. Of this, 235,373 mt was sourced from Canada, up 123% from last year. Canada is currently supplying 54.5% of all EU durum imports.

- The Artic Gateway Group announced that their third vessel of the year at the Port of Churchill, and it is being loaded with durum. According to the CGC there was 17.6k mt of visible at Churchill as of Oct 13th, but more rail cars were delivered and were being off-loaded on the 17th. YTD, the Port of Churchill has already exported 34.9k mt of durum.
- **We compared internationally traded wheat values to grower bids in SK. Traded world wheat prices for 2CWRS 12.5 pro back off to ~US\$250/mt parity Vancouver. Accounting for the exchange rate and backing off 112 car rail freight rates and actual handling expenditures, calculates to \$282/mt (\$7.67/bu) at the elevators in central SK. The current posted bid for 2CRWS 12.5 pro is ~\$6.30/bu. This scenario seems to indicate very healthy grain company returns of \$1.37/bu or \$50.34/ mt margin after costs.**

US wheat:

- The NASS crop report put US spring wheat harvest up 3% from last week to 94% complete. Most of the remaining wheat in the US is in MT and ND which are now 88% (up 2% from last week) and 93% complete (up 3% from last week). We estimate there is still a combined 960k mt worth of spring wheat remaining to be harvested in these states. As both states received snow last weekend, we do not expect much harvest progress was made last week.
- US winter wheat planting is 65% complete with 41% emerged, similar to last year and average pace.
- US export sales were expected at 300-600k mt, vs 395k mt actual sales, at the low end of expectations and down 24% from the prev. week. US wheat exports add to 9.4 mln mt for the MY, are 27% ahead of last year's pace and at 39% of the 2018/19 MY total.

Australian wheat:

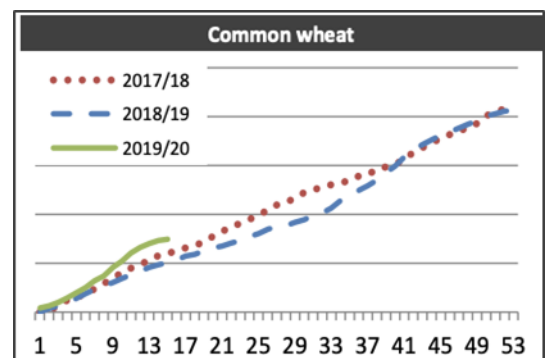
- Crop estimates in Australia are slipping lower as NAB dropped their estimate to 15.5 mln mt this wk vs. 18 mln mt used by USDA. Exports are estimated at 8 mln mt (vs USDA's 9.5 mln for 2019/20 and 9 mln for last year).
- NAB expects that grain imports will rise 50% from last year, and the federal government has already announced an allowance for flour millers to import 360,000 mt of high-protein wheat from Canada. According to data from the CIMT, Australia imported a historic 242,327 mt of Canadian wheat during the 2018/19 MY.
- Current AWP WA is bid at \$234/mt, down \$6 from the start of the month as they have seen some showers in the East. Else where, soil moisture levels remain low and continue to fall. Regardless, the country will have 8-9 mln mt of exportable surplus which will not sell at current levels.

Argentine wheat:

- BAGE advised that crop potential had stabilized in the east, but yield losses could reach 40% in southern Cordoba, eastern La Pampa and western BA, with potential further losses if dryness continues.
Argentine Fob prices continue to climb higher with Dec 12.5 pro offers now at US\$195 against bids at \$188.

EU wheat:

- Matif finished last week at a 3-month high following another big week of sales and the Saudi tender. There is 120k mt worth of wheat shipments to China is the French line-up.
- At 11.6 mln mt shipped, EU grain exports are running at a significantly higher pace (+46%) than last years. Wheat exports exceed last years by 48% and have reached 7.8 mln mt in week 15. The biggest EU wheat export shippers are France and Romania, with more



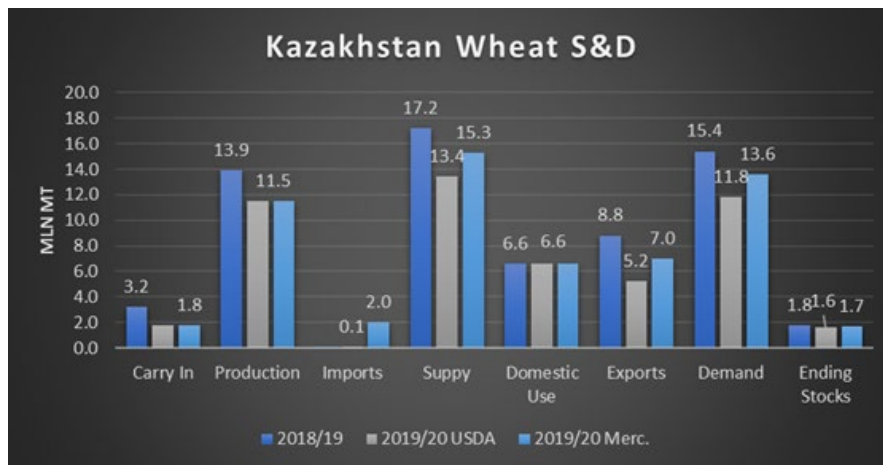
than 2 mln mt of combined exports to date. Bulgaria shipped another 770k mt, and Latvia shipped 660k mt. Germany has shipped ~450k mt to third countries (the chart and graph is provided by the EU TAXUD surveillance system).

- French winter wheat planting continues to be slow, but showers last week brought some relief.
- At the end of last week, French Fob, was bid at \$202.8 for 11.5% pro, Baltic 12.5% pro was \$201.6, while German 12.5% pro was bid at \$205.

Black Sea wheat:

- Poor growing conditions in Kazakhstan caused the USDA to lower their production to 11.5 mln mt, down 2.4 mln mt from last year. As a function of the lower production, the USDA decreased exports, however as Kazakhstan is the 2nd largest wheat flour exporter in the world, they have obligations to fill. The shortfall in production and the poor quality of the Kazakh crop is causing millers to look to Russia to fulfill export commitments. Conservative estimates are for 2 mln mt worth of Kazakh wheat imports, while some are saying there could be as much as 3.4 mln mt, most of which will come from Russia.

Supply and Disposition Estimates of Kazakhstan Wheat



- The demand from Kazakhstan's wheat millers is creating a 3-way pull on near-by Russian wheat (short-covering, domestic demand and Kazakh buying) while farmers have been reluctant seller. All this caused Russian Fob to rise \$10 since the beginning of October.
- Black Sea Fob finished the week at new season highs as Dec 12.5 pro was bid at \$208, Ukrainian 11.5 pro was \$3-5 lower with a feed discount of another \$3-5 less.

➤ Significant purchases/ trades:

- **Egypt (GASC)** bought 405,000 mt of Russian, Ukrainian and French wheat at \$229.40- 231.25/mt for 21-30 Nov. Traded values were the highest since May and ~\$9 more than just one week prior.
- **Saudi Arabia (SAGO)** tendered on Friday, buying 605,000 mt of Feb-Mar delivery wheat for an average price of \$242.51/mt C&F, \$24.72/mt more than their last purchase at the beginning of Sept. Offers came from Germany, The Baltics, the Black Sea (Russian & Ukrainian), and from Argentina.
- **Vietnam** confirmed it has again suspended imports from Russia due to thistle seeds.
- **Japan** bought 116k mt of hard wheat from the US, Canada, and Australia in their weekly tender, with 36k mt coming from the US.
- **USA** weekly inspections were 462,000 mt for a season total 348 mln bu, up 21% on last year's 288 mln bu, sales were 395,000 mt for a season total 508 mln bu, up 15% on last year's 443 mln bu.
- **EU** wheat shipments advanced over 800,000 mt to 7.5 mln mt, up over 40% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- **US winter wheat futures ended the week higher on technical buying and the large (405k mt) Egyptian wheat purchase** on the 16th at higher prices than what they paid on the 8th. Meanwhile, **Minneapolis wheat fell week/week on Canadian harvest progress.**
- **Farmer selling in response to two weeks of strong prices pressured HRW and HRS basis levels** in the PNW and Gulf this week, but they remain higher than average.
- It has been confirmed that **China is intending to buy ag commodities**, but there is still no breakdown on how much of each commodity, and there is still no timeline for the purchases or the official agreement. China is working with US officials on the question of Ag purchases and said they will only “buy on the basis of need”. They also continue to insist that a broad deal could not be reached without guarantees that US tariffs will be removed. On the other side, the USA insisted that without something concrete, the December 15th, measures would be enacted.
- **The USDA announced that it will resurvey corn acres for the Nov 8 report.** The growing season has all but ended as widespread frost hit most of the corn growing region last weekend. As of the 13th, the US corn crop was 22% harvested, 73% mature and 96% denting. Reductions to the corn numbers could well affect the wheat balance sheet by resulting in increased feed wheat usage.
- **Weather around the world:**
 - The bulk of central **USA** temperatures will be somewhat below normal, with most precipitation confined to the Northern Plains, Lakes states and Delta/south-east. Row crop harvesting and winter wheat planting should advance normally. **Canadian** temps remain above average with precipitation mostly staying in the east. **Europe** remains warm everywhere but readings across the Balkans and FSU are up to 10°C above normal. Only France and Iberia have any rain with all other regions completely dry. **Australia** looks dry for the next two weeks with temperatures rising above normal and soil moisture again in retreat across all the crop regions. **South America:** Much needed rain will fall across central Brazil this week, and some of the driest areas of Argentina should also see some showers. South Africa looks warm and dry this week.

➤ **Outlook:**

The strength in wheat is surprising and the volumes being purchased by consumers are making traders nervous. If this continues, we will see more covering in USA wheat futures. Basically, wheat demand is very good and we still suspect that the USDA is underestimating total wheat usage (food & feed) in their WASDE reports. S Hemisphere wheat production levels (Australia & Argentina) also need watching to see if there are further reductions.

Besides that, traders will be watching for news on a China/USA trade deal, but in our view, they will not act on it until they see full details and have confidence that it will last. - We expect a quiet weekly trade with unchanged to lower futures.

We consider \$7.00-\$7.25 for 2CWRS 12.5 pro in Central SK a strong sale and we would recommend being 30-40% sold at these levels. Meanwhile, Durum bids are strong vs. world prices and we would consider selling some tonnage as the premium to HRS needs to be watched. If it gets too wide, some int'l buyers will switch to HRS instead.

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)		Dec. '19 (bu.)	Dec. '19 (mt.)
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.27	\$267.13	1 CWAD 13.0	\$7.32	\$268.97
1 CPSR 11.5	\$5.33	\$195.85	1 CPSR 11.5	\$5.40	\$198.42
SW Sask			SW Sask		
1 CWRS 13.5	\$6.18	\$227.08	1 CWRS 13.5	\$6.27	\$230.38
1 CWAD 13.0	\$7.27	\$267.13	1 CWAD 13.0	\$7.32	\$268.97
1 CPSR 11.5	\$5.04	\$185.19	1 CPSR 11.5	\$5.34	\$196.21
NE Sask			NE Sask		
1 CWRS 13.5	\$6.00	\$220.46	1 CWRS 13.5	\$6.09	\$223.77
1 CWAD 13.0	\$7.68	\$282.19	1 CWAD 13.0	\$7.76	\$285.13
1 CPSR 11.5	\$5.07	\$186.29	1 CPSR 11.5	\$5.15	\$189.23
SE Sask			SE Sask		
1 CWRS 13.5	\$6.08	\$223.40	1 CWRS 13.5	\$6.15	\$225.98
1 CWAD 13.0	\$7.64	\$280.72	1 CWAD 13.0	\$7.74	\$284.40
1 CPSR 11.5	\$5.06	\$185.92	1 CPSR 11.5	\$5.21	\$191.44

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)

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.”

- 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				October 21, 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	\$343.81	\$325.53		
HRS	\$341.40			
HRW 11.5	\$287.55			
SWW 12.0	\$300.05			
1 CWRS 13.5 ³	\$343.81		\$219.73	\$124.08
2 CWRS 13.0 ³	\$341.40		\$199.52	\$141.88
3 CWRS ³	\$287.55		\$157.26	\$130.28
CPS ³	\$293.32		\$181.15	\$112.17
1 CWAD ⁴		\$304.38	\$0.00	\$304.38
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$207.00			
French 11.5 (Rouen)	\$202.80			
APW 10.5 (W Coast)	\$234.00			
Argentina 11.5	\$194.00			
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					October 21, 2019
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.17	\$9.11	\$7.64	\$7.98	\$7.98
Parity Track Rosetown	\$7.68	\$7.61	\$6.15	\$6.49	\$6.49
Track Bid Rosetown Area	\$5.98	\$5.43	\$4.28	\$4.93	\$4.93
Gross Margin at Elevator (\$/bu)*	\$1.70	\$2.18	\$1.87	\$1.56	\$1.56
Gross Margin at Elevator (\$/mt)*	\$62.36	\$80.17	\$68.57	\$57.18	\$57.18
* to cover elevation, elevator market risk, margin					