

Wheat Market Outlook and Price Report: September 2, 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 Sept 2, 2019

ICG August 29/19 World Wheat Balance Sheet

	16/17	17/18	18/19 est.	19/20 fcast	
				25.07	29.08
million tons					
WHEAT					
Production	757	761	733	763	764
Trade	177	176	170	173	172
Consumption	736	739	738	755	758
Carryover stocks	248	270	265	270	271
<i>year/year change</i>	21	22	-5		6
Major exporters ^{b)}	79	82	69	67	68

- Last week the ICG released their latest estimates for world wheat supply and demand. ICG raised wheat production 1 mln mt from last month to 764 mln mt (up 2 mln mt y/y) as harvest in the EU has been larger than expected.
- Sluggish export demand prompted a 1 mln mt decrease in trade as consumers are well supplied at present and see no reason to extend coverage.
- Consumption was raised 3 mln mt, due to expectations that wheat will replace more corn feed use.
- Carryover stocks were raised 1 mln mt to 271 mln mt which remains a record amount, up 6 mln mt from last year's 6-year low.

➤ **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 451-2, down 18-4 cents in Friday's trade, down 24-0 cents for the week.
- Sept '19 contract **Kansas** hard red winter wheat closed at 378-2, down 9-0 cents for the day, down 13-2 cents for the week.
- **Minneapolis** Sept '19 contract hard red spring wheat closed at 479-2, down 0-2 cents in Friday's trade, down 22-2 cents for the week, while Dec '19 hard red spring wheat closed at 496-6 down 4-6 for the day, down 17-6 cents for the week.

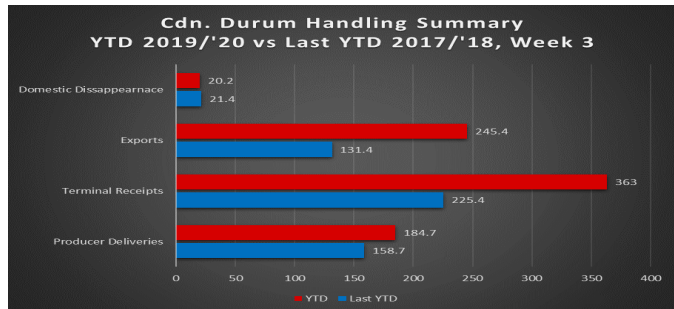
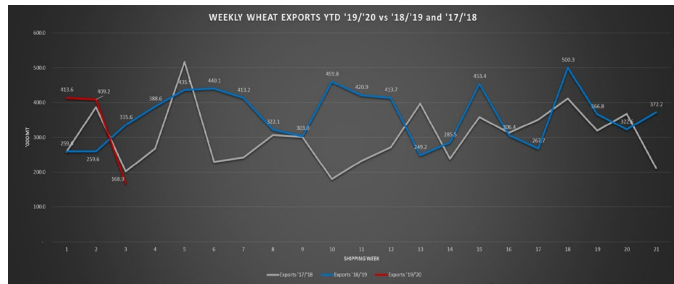
Canadian Wheat:

- The StatsCan's 2019 spring wheat production number came in at 25.108 mln mt, 4.9% bigger than the 2018 production number of 23.924 mln mt. In contrast, total wheat production is expected to fall by 2.9% to 31.251 mln mt, vs the average trade pre-report estimate of 32.3 mln mt. There were no pre-report trade estimates for spring wheat. Stats Can projects durum production to fall significantly by a big 23.1% to only 4.42 mln mt *If the StatsCan spring wheat estimate is accurate, spring wheat production would be 16% higher than the five-year average.* On the other hand, AAFC estimates Cdn. wheat (excl. durum) carry-in to the '19/20 crop year at a relatively small 3.6 mln mt, 20% smaller than the previous year (4.483 mln mt).
- Looking specifically at spring wheat, since 2015, acres have increased by 11.3%, yield by 13.1%, and production by a big 25.8%. This may be surprising given that most spring wheat will have to compete with HRW type wheat in the world markets and given the rise of Russia as the main exporter of wheat. However, rotational/agronomic problems with canola, high seed costs, and market problems with canola combine with the fact that spring wheat still seems to be the type of wheat that works best agronomically in many Prairie regions.

Canadian Wheat Production Estimates, StatsCan & Trade Data



- Canadian producers delivered 273.5k mt of wheat (excl. durum) into the Canadian grain handling system during week 3 of the 2019/20 marketing year. Exports during the week were 168.9k mt, for a YTD total of 991.7 k mt, just 16% (136.7k mt) more than last year. Exports were down significantly this week vs the last two as remaining old crop sitting in ports was cleared out to make room for new crop.
- Overall, spring wheat harvest in the Cdn. Prairies is lagging behind last year. In MB, just 45% of the spring wheat crop has been harvested vs 80% last year. In SK, just 1% of the crop has been harvested vs 16% last year. Meanwhile, dry conditions in AB has their spring wheat harvest at 70.8% complete vs 7.9% last year. Yield expectations for the AB spring wheat crop have risen slightly (0.6 bpa) from last week to 49.8 bpa.
- Canadian producers delivered 34.1k mt of durum into the grain handling system during week 3 of the marketing year. Exports during the week were 35k for a YTD total of 245.4k mt, up 87% (114k mt) from last year.



US wheat:

- US winter wheat harvest is 96% complete and overall quality is strong.
- Spring wheat harvest is 38% complete vs 75% last year and the 5-year avg. of 65%. Initial samples show strong protein levels (14.7%) and test weights of 60.6 lb/bu. Sixty-nine percent of the US spring wheat crop is in G/E condition, down 1% from last week.
- Durum harvest in the US remains well behind normal because of slow maturity and poor harvest conditions. Harvest in ND is just 24% complete, roughly half of last year. Harvest in MO was put at 20% complete vs the avg. of 45%. Crop conditions deteriorated in both states with ND falling 10 points over the week to 62% G/E and the MO crop falling 8 points to 71% G/E.

Australian wheat:

- Australian wheat futures closed AU\$11 higher on the week having previously fallen to a 10-year low.
- There are beneficial showers in WA which are of heightened importance as dryness persists over most of the Eastern half of the country. The Australian Bureau of Meteorology's 3-month forecast says drought conditions will continue to persist.

Argentine wheat:

- BAGE lowered crop ratings 3% to 42% G/E (46% last year) due to the lack of moisture. September is the critical month in Argentina for wheat development, and there is little rain in the forecast at present.

EU wheat:

- Acc. to French consultancy Agritel, France will need to export 20.1 mln mt of soft wheat this season after harvesting its second-largest crop in history. Agritel estimates that France harvested 39.2 mln mt of soft wheat this year, 14.9% more than last year. More than half of France's exports this year (11.3 mln mt) will need to be exported outside the EU (ttl. exports 20 mln mt). France's main export markets for soft wheat are Algeria, Morocco and Egypt.

- Exports from the EU are 6% ahead of last year's pace at 2.81 mln mt. A stronger EU crop vs last year has allowed their prices to be more competitive.

Black Sea wheat:

- The Russian Ag Ministry reported the country's grain harvest is 52% complete with 76.6 mln mt worth of grain harvested. Of this, 57 mln mt was wheat.
- The Ukrainian Ag Ministry suggested their '19/20 wheat export volume will increase to 19 mln mt vs. 16 mln mt in '18/19.
- Acc. to Agritel Kazakhstan harvested its lowest soft wheat crop in five years at 13.3 mln mt.

➤ **Significant purchases/ trades:**

- GASC bought 230,000 mt of Russian wheat this week (from Posco and Garant Logistics), 60,000 mt of Ukrainian wheat and 60,000 mt of French wheat for shipment over Oct. 1-10. Jordan bought 60k mt hard wheat for FH Nov shipment at \$227.75/mt Thursday, and will tender again Sept. 3 for 120k mt of hard wheat. Thailand bought 70k mt feed wheat for Dec-Jan at \$222 Liner Out. Turkey (TMO) will tender Sept. 3 for 250k mt soft wheat, and Sept. 10 for 88k mt durum wheat. Morocco will close its tender for 576k mt of US common wheat and 345k mt of US durum wheat on Sept. 5th.

➤ **Wheat Market Outlook:**

Significant events:

- Last week was a volatile one. Wheat prices fell double digits Friday on a big round of technical selling. Corn prices also hit new lows, making it more attractive for feed buyers to put corn back into livestock rations and the strong US Dollar is also affecting wheat prices.
- Pres. Trump promised an ethanol related "giant package" but with no detail as to what this might entail. We do not expect the announcement will do anything to change the overall balance sheet.
- There is no frost in the forecast through mid-September. So even though most of the US corn crop is 1-2 weeks behind there is no real concern about frost yet.
- The market mostly ignored StatsCan's relatively low total Canadian wheat crop of 31.3 mln mt (USDA is using 33.3 mln mt), given StatsCan's almost unbroken record of understating the crop in the August. The market did pay some attention to the 25.1 mln mt Cdn. spring wheat crop, which would be up 5% from last year, 7.2 mln mt above the 5-year average spring wheat production, and the biggest in 16 years.

- **Weather around the world:**

- EUROPE: Showers in the north increased soil moisture in advance of winter crop planting, while mostly dry weather in the southeast favored summer crop maturation and drydown. WESTERN FSU: Warm, mostly dry weather favored filling to maturing summer crops. EASTERN FSU: Showers brought some drought relief but came too late in the growing season to significantly improve spring grain prospects. MIDDLE EAST: Unseasonably heavy showers expanded across northern Turkey. SOUTH ASIA: Favorable showers continued in central India, but dryness returned to the west. India's monsoon was down 14% this week but the cumulative is still up 1%. EASTERN ASIA: Mostly dry weather in southern and eastern China reduced moisture supplies for reproductive crops. SOUTHEAST ASIA: Rainfall across Thailand improved moisture conditions for rice, but more rain would be welcome in the northeast to fully eradicate lingering deficits. AUSTRALIA: Showers favored winter crop development in the west and south, while unfavorably dry weather dominated the east. ARGENTINA: Cool, dry weather slowed rates of winter grain growth, while favoring late-season fieldwork. BRAZIL: Dry weather favored corn and cotton harvesting in most major production areas. MEXICO: Seasonal showers intensified in northwestern watersheds but pockets of dryness lingered in some eastern

summer crop areas. CANADIAN PRAIRIES: Warm, mostly dry weather favoured spring crop growth in the southwest, but cool, showery weather prevailed farther east. SOUTHEASTERN CANADA: Warm, showery weather maintained generally favorable conditions for corn and soybeans in southern Ontario.

➤ **Outlook:**

The big picture this year is that the EU has a 15 mln mt bigger crop than last year, and that Ukraine wants to export 3 mln mt more than last year as well. The drop in Russian exports will help and we are still waiting for clarification on US corn yields with its implications for feed wheat usage. We don't expect any strong rallies in the short term while the markets still don't have firm views on corn yields.

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)		Nov. '19 (bu.)	Nov. '19 (mt.)
1 CWRS 13.5	\$5.67	\$208.34	1 CWRS 13.5	\$5.71	\$209.81
1 CWAD 13.0	\$6.61	\$242.88	1 CWAD 13.0	\$6.37	\$234.06
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SW Sask			SW Sask		
1 CWRS 13.5	\$5.57	\$204.66	1 CWRS 13.5	\$5.59	\$205.40
1 CWAD 13.0	\$6.63	\$243.61	1 CWAD 13.0	\$6.44	\$236.63
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
NE Sask			NE Sask		
1 CWRS 13.5	\$5.41	\$198.79	1 CWRS 13.5	\$5.45	\$200.25
1 CWAD 13.0	\$6.68	\$245.45	1 CWAD 13.0	\$6.58	\$241.78
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$5.41	\$198.79	1 CWRS 13.5	\$5.43	\$199.52
1 CWAD 13.0	\$6.77	\$248.76	1 CWAD 13.0	\$6.66	\$244.72
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-

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)

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.”

- 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				September 2, 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	\$280.95	\$285.85		
HRS	\$275.44			
HRW 11.5	\$255.99			
SWW 12.0	\$283.40			
1 CWRS 13.5 ³	\$280.95		\$197.68	\$83.27
2 CWRS 13.0 ³	\$275.44		\$186.66	\$88.78
3 CWRS ³	\$255.99		\$160.94	\$95.05
CPS ³	\$276.55		\$162.41	\$114.14
1 CWAD ⁴		\$309.83	\$0.00	\$309.83
0.7				
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$188.00			
French 11.5 (Rouen)	\$182.00			
APW 10.5 (W Coast)	\$240.00			
Argentine 12.0	\$182.00			
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					September 2, 2018
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$7.46	\$7.31	\$6.78	\$7.53	\$7.53
Parity Track Rosetown	\$5.96	\$5.81	\$5.28	\$6.03	\$6.03
Track Bid Rosetown Area	\$5.38	\$5.08	\$4.38	\$4.42	\$4.42
Gross Margin at Elevator (\$/bu)*	\$0.58	\$0.73	\$0.90	\$1.61	\$1.61
Gross Margin at Elevator (\$/mt)*	\$21.43	\$26.94	\$33.21	\$59.15	\$59.15
* to cover elevation, elevator market risk, margin					