

Wheat Market Outlook and Price Report: September 23, 2019

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

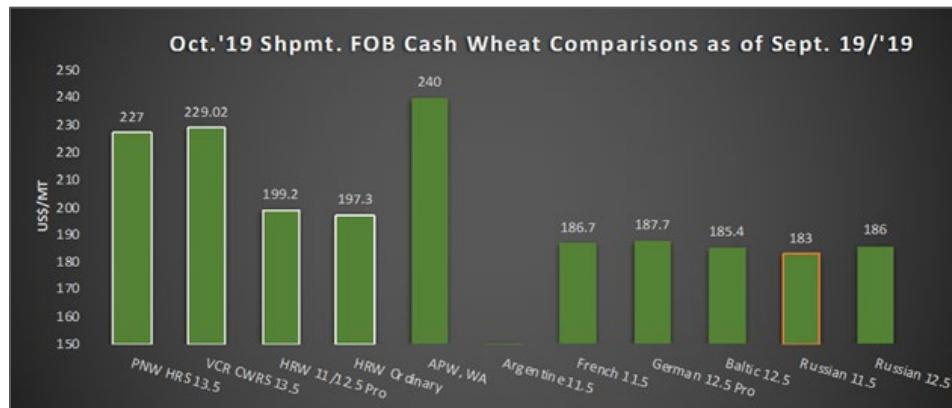
i) Background and Rationale for the Report

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 16, 2019

World Fob Cash Wheat Comparison



- The graph above is an update of the FOB price comparison for Oct. '19 shipment. The graph highlights the degree of competition for business out of European and Black Sea origins. Russian 11.5% protein wheat remains the cheapest origin with Baltic, French and German wheat not far behind. HRW is still too expensive.
- The last two weeks were big ones for consumer business, but cash prices have barely moved (except for higher protein wheat to Turkey) as there is a surplus of nearby wheat looking for homes. There were many private tenders for ordinary wheat being concluded at discounted prices.
- Turkey (TMO) purchased 240k mt 13.5 pro wheat for Sept. 10-27 at \$194.50-205.25/mt (dep. on port), and 240k mt 13.5 pro wheat for Oct 15-Nov 6 at \$202.00-207.75/mt (dep. on port). These prices were markedly higher than what TMO paid two weeks ago as 13.5 pro wheat is getting harder to find!

➤ **Global wheat production and trade:**

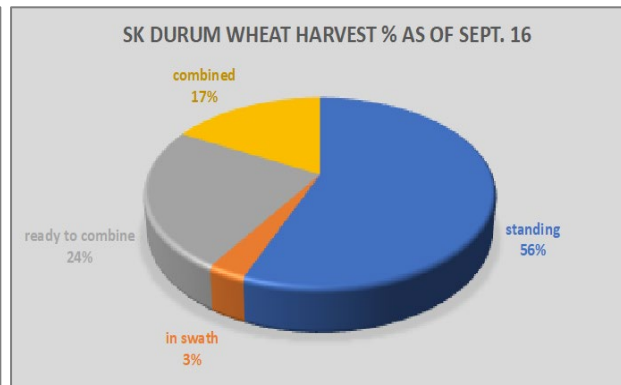
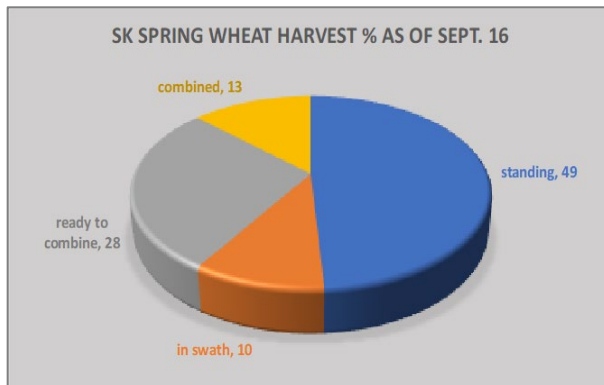
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Dec '19 contract **Chicago** winter wheat closed at 484-2, down 3-6 cents on Friday, up 0-6 cents for the week.
Dec '19 contract **Kansas** hard red winter wheat closed at 407-4, down 2-0 cents in Friday's trade, up 7-6 cents for the week.
Minneapolis, Dec '19 contract hard red spring wheat closed at 524-2, up 4-0 cents for the day, up 18-6 cents for the week. March '20 hard red spring wheat closed at 537-4, up 3-6 cents for the day, up 17-0 cents for the week.

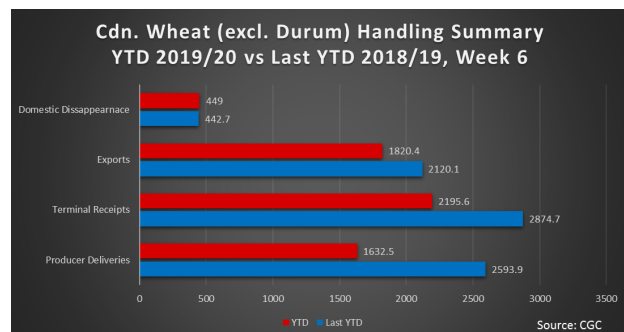
Canadian Wheat:

- Spring wheat harvest continues to be sluggish as showers and heavy dew hampers progress across the prairies. SK spring wheat harvest advanced by 6% over the past week to 13% combined (this is 41% behind the 54% 5-year average), with another 28% ready to be combined, 10% in swath and 49% of the crop still standing. MB spring wheat is 71% done as of Sept. 17th (vs. 91% avg). AB spring wheat progressed 5% over the week to 15% combined, about ½ of normal. Durum wheat harvest progress fared slightly better than spring wheat. SK was able to progress 7% over the week to 17% combined (a full 50% behind the 67% 5-year average). Twenty-four percent of the crop is ready to be combined, 3% is in swath, but 56% of the crop still standing.
- Reports are indicating that much of the Canadian crop remaining is still holding onto a #2 or #3 CW, there is some sprouting being reported, but it is unlikely that much of the crop remaining to be harvested in the Northern Plains and Cdn. Prairies is going to be good quality. We think there is lots of room for improvement in the price of good-quality spring wheat and durum, however there is going to be a flood of feed grade wheat hit the market once combines roll.

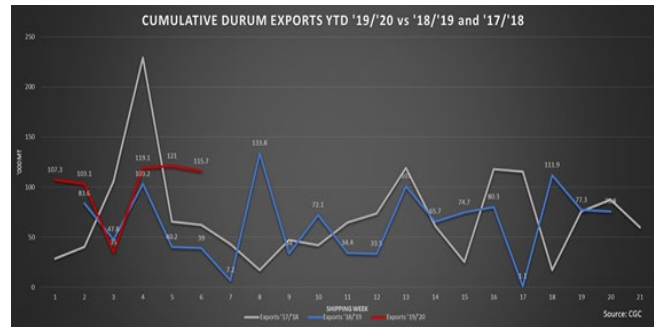
Saskatchewan Wheat Harvest Progress



- Canadian producers delivered 313.0k mt of wheat (excl. durum) into the Canadian grain handling system during week 6 of the 2019/20 marketing year. Exports during the week were 191.8k mt, for a YTD total of 1.820 mln mt, 299.7k mt less than this time last year. Weekly exports will need to average 378k mt to reach the AAFC's 19.2 mln mt projection.



- Sixty-two thousand tonnes of durum was delivered into the grain handling system during week 6 of the marketing year. Exports during the week were 115.7k mt for a YTD total of 611k mt, up 95% (297k mt) from last year.



US wheat:

- USDA-NASS showed US spring wheat 76% harvested as of Sept. 15th (vs. a 93% 5-yr average), with Mta. 69% harvested, and N Dakota 73% harvested. In the US, average protein levels to date are 14.6% (same as last year's final number) and it is still making a #1 NS grade.
- Mta has 44% of its durum harvested (81% avg), and N Dakota 50% (vs. 79% avg).
- US winter wheat planting is 8% complete vs 12% last year and the 5-year average.
- US exports were below the pace needed to make the USDA number, but spring wheat harvest is slow, the forecast remains wet and talk grew of quality problems in both the USA and Canada, pushing MGE to a 5-week high. Durum bids were reported up \$2 per bushel on the week.

Australian wheat:

- Two weeks ago, ABARES trimmed Aussie wheat production forecasts 10% to 19.2 mln mt. Last week, export expectations were reduced 8% to 10.8 mln mt from the previous 11.7 mln mt. USDA's current export number is 10.5 mln mt, 14% higher than last year, but 33% below the 5-year average.
- Weather models lack agreement as to long-term outlook, but private production estimates are falling below 19 mln mt.

Argentine wheat:

- Argentina continues to be dry, but their local market continues to show little concern.
- Much of Argentina's prime crop regions have received 50% of normal rainfall in the past two months. Most of the country's wheat crop is now in the critical pollinating stage.
- Crop ratings fell 3% over the week to 38% Gd/Ex vs last year's 43%, and most of the crop is well behind average development at just 11% headed vs the average for this time of 20%.

EU wheat:

- In their monthly report, Stratégie Grains put '19/20 soft wheat production in the EU-28 at 144.5 mln mt, up from 142.9 mln mt in Aug. and ~14% above last year's drought-hit crop. Stratégie Grains pegged EU soft wheat exports this season at 25.7 mln mt, up from 24.8 mln mt a month ago, and well above ~21 mln mt exported in '18/19.

Black Sea wheat:

- As of Sept 16th, Russia's total grain harvest is 74% complete at 97.5 mln mt vs 87.6 mln mt this time last year. Of this, 67.6 mln mt has been wheat.
- Winter wheat planting has been slow due to dryness.
- Ukraine's Ag Min reported that the country has exported 1.1 mln mt worth of grain this YTD, a 52% increase over last year. Roughly 6.75 mln mt of this has been wheat. The USDA is estimating that Ukrainian wheat exports will be 21% higher than last year at 19 mln mt.

➤ **Significant purchases/ trades:**

- Egypt (GASC) bought 180,000 tonnes Russian wheat for 21-31 Oct at around \$211 C&F, \$5 less than their previous purchase. They passed on the 1-10 Nov position. Algeria bought 600,000 tonnes wheat for Nov at \$211, Turkey bought 250,000 tonnes for Sep-Oct at \$202-207.50. Tunisia bought 25,000 tonnes for Oct-Nov at \$210.68 and 17,000 tonnes at \$212.50. Morocco will retender Oct 1st for 576,000 tonnes milling wheat **and 345,000 tonnes durum under the USA quota (this will require Canadian imports)** and returns Oct 2nd for 576,000 tonnes milling and 45,000 tonnes durum under the EU quota. Ukrainian exporters asked for a 20 myn tonne export quota against the Governments 19 myn tonnes, with no feed or milling divisions.

➤ **Wheat Market Outlook:**

Significant events:

- The Chinese buying of volume of USA soybeans was confirmed; China bought at least 750,000 tonnes. It seems to us that the Chinese sense that the Trump organization is worried about adverse consequences to the US economy and is now considering a better deal for the Chinese in the upcoming trade talks. The Chinese are buying the beans as a sign of good will.
- We had a good trade in milling wheat, as consumers stepped up to increase coverage. It was mostly to Eastern destinations, where freight rates favoured origins other than North American. The depth of the offers at the GASC and TMO tenders last week show that there continues to be a large amount of nearby wheat available. However, the prices traded for 13.5 pro indicate that there is a lack of high-quality wheat available.
- Weather remains problematic and suggests to us the USDA crop estimates were overstated in the September WASDE report. There are increasing reports of quality issues which supported Minneapolis futures.
- Markets closed a little better in futures but estimates of increased EU production at the end of the week stalled prices.
- **Weather around the world:**
 - The **USA** will see widespread rains across much of the Midwest, but most of the Plains will remain on the dry side. Temperatures will stay well above normal with still no frost/freeze threat through the first week of October. **Argentina and Brazil** have had much of the rain pulled from the forecast. Both will remain almost entirely dry into the end of September, and the forecast for the first week of October has only limited amounts in Southern Brazil and North East Argentina. Conditions are getting increasingly concerning. **South Africa** also looks almost completely dry this week. **Australia** again has a few very light showers in the South East corner, but elsewhere it is dry. Temperatures are above normal in the west, below in the east. Temperatures in the **EU** remain generally above normal with this week's forecast bringing widespread rains into the UK, France and Germany. The Black Sea remains mostly dry but also with warm temperatures, Dryness in the Southern Hemisphere is being watched, and Europe/the Black Sea also need rain. Weather remains a problem to quality supplies.

➤ **Outlook:**

Quality is becoming a bigger issue as market reports that North American grades are suffering. Prices would have gone higher last week the except for even larger production estimates circulating on EU production. Demand was good and we expect this will continue as buyers increase coverage. Good quality durum is going to be in short supply – prices have risen and will move higher for quality. Hopefully the lows are in for milling wheat.

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	\$6.00	\$220.46	1 CWRS 13.5	\$6.02	\$221.20
1 CWAD 13.0	\$6.75	\$248.02	1 CWAD 13.0	\$6.75	\$248.02
1 CPSR 11.5	\$4.92	\$180.78	1 CPSR 11.5	\$4.95	\$181.88
SW Sask			SW Sask		
1 CWRS 13.5	\$5.91	\$217.16	1 CWRS 13.5	\$5.89	\$216.42
1 CWAD 13.0	\$6.76	\$248.39	1 CWAD 13.0	\$6.76	\$248.39
1 CPSR 11.5	\$4.67	\$171.59	1 CPSR 11.5	\$4.89	\$179.68
NE Sask			NE Sask		
1 CWRS 13.5	\$5.77	\$212.01	1 CWRS 13.5	\$5.78	\$212.38
1 CWAD 13.0	\$6.99	\$256.84	1 CWAD 13.0	\$6.97	\$256.11
1 CPSR 11.5	\$4.71	\$173.06	1 CPSR 11.5	\$4.74	\$174.17
SE Sask			SE Sask		
1 CWRS 13.5	\$5.77	\$212.01	1 CWRS 13.5	\$5.76	\$211.65
1 CWAD 13.0	\$6.99	\$256.84	1 CWAD 13.0	\$6.98	\$256.47
1 CPSR 11.5	\$4.66	\$171.23	1 CPSR 11.5	\$4.75	\$174.53

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)

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.”

- 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.
 - 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 23, 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	\$324.89	\$286.90		
HRS	\$317.59			
HRW 11.5	\$275.70			
SWW 12.0	\$295.18			
1 CWRS 13.5 ³	\$324.89		\$222.67	\$102.22
2 CWRS 13.0 ³	\$317.59		\$206.13	\$111.45
3 CWRS ³	\$275.70		\$171.23	\$104.47
CPS ³	\$288.36		\$172.70	\$115.66
1 CWAD ⁴		\$308.33	\$0.00	\$308.33
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$186.00			
French 11.5 (Rouen)	\$186.70			
APW 10.5 (W Coast)	\$240.00			
Argentine 12.0 (Nov)	\$177.00			
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 23, 2018
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.66	\$8.46	\$7.32	\$7.85	\$7.85
Parity Track Rosetown	\$7.16	\$6.96	\$5.82	\$6.35	\$6.35
Track Bid Rosetown Area	\$6.06	\$5.61	\$4.66	\$4.70	\$4.70
Gross Margin at Elevator (\$/bu)*	\$1.10	\$1.35	\$1.16	\$1.65	\$1.65
Gross Margin at Elevator (\$/mt)*	\$40.42	\$49.65	\$42.66	\$60.68	\$60.68

* to cover elevation, elevator market risk, margin