

Wheat Market Outlook and Price Report: July 9, 2018

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 July 9, 2018

World Wheat Overview:

- **July World Wheat Supply-Demand Outlook (AMIS¹)**

WHEAT	<i>in million tonnes</i>						
	FAO-AMIS			USDA		IGC	
	2017/18	2018/19		2017/18	2018/19	2017/18	2018/19
	est.	f'cast		est.	f'cast	est.	f'cast
	7-Jun	5-Jul		12-Jun		2-Jul	
Production	756.8	754.1	736.1	758.2	744.7	758.1	736.8
Supply	1,013.1	1,027.5	1,019.5	1,015.6	1,017.0	999.7	998.2
Utilization	738.2	743.5	741.1	743.2	750.9	738.3	742.6
Trade	173.5	175.0	175.0	182.8	187.3	176.4	176.5
Stocks	273.4	283.4	264.2	272.3	266.2	261.4	255.6

- The **wheat production** forecast for 2018 has been lowered, mostly on downward revisions in China, the EU, the Russian Federation and Ukraine.
- **Wheat utilization** for 2018/19 has been reduced slightly following downward adjustments to feed, especially in Australia, Mexico and Ukraine.

¹ Agricultural Market Information System

- **Wheat trade** in 2018/19 (July/June) has been left virtually unchanged, supported by higher sales from the EU and the US more than compensating for lower shipments from Australia, the Russian Federation and Ukraine.
- **Wheat stocks** (ending in 2019) were trimmed sharply on downward adjustments in China, the EU and the Russian Federation.

Wheat crop conditions:

EU: Conditions are mixed due to hot and dry conditions affecting northern and eastern Europe, while Spain is experiencing exceptional positive conditions.

Ukraine: Winter wheat conditions are mixed as harvest begins. Hot and dry conditions, most notably in the south and east, are placing the crop under considerable stress and pose a potential risk to final yields.

Russian Federation: Winter wheat is under mixed conditions due to recent persistent dry conditions. Spring wheat is under favourable conditions albeit with some initial sowing delays due to wet weather. July will be the critical period for crop development.

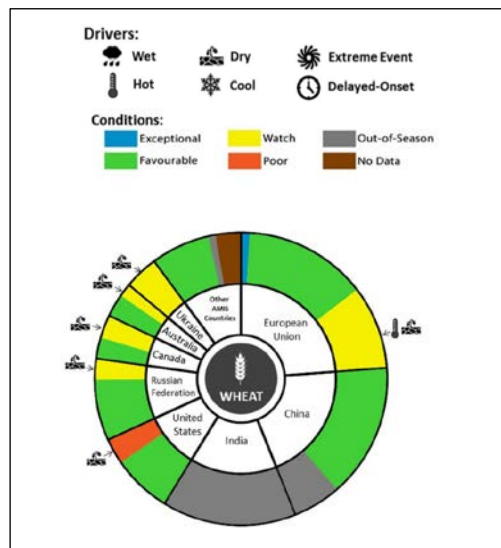
Kazakhstan: Spring wheat conditions are favourable, with July a critical month for determining potential yields.

China: Conditions are favourable for both winter and spring wheat as harvesting of winter wheat continues.

US: Drought conditions during the majority of the season in the southern Great Plains (major production region) have reduced yields significantly, with production expected to be reduced. However, conditions were favourable across the rest of the country so the overall production is down only a few percent. Spring wheat (grown farther north) conditions are favourable so far.

Canada: Spring and winter wheat conditions have improved across the prairies with the exception of parts along the southern border due to persisting drought.

Australia: Severe rainfall deficits have been observed in the east, most notably in New South Wales. Continued rainfall shortages will impact final sown area and, although early in the season, it can potentially impact final yields.



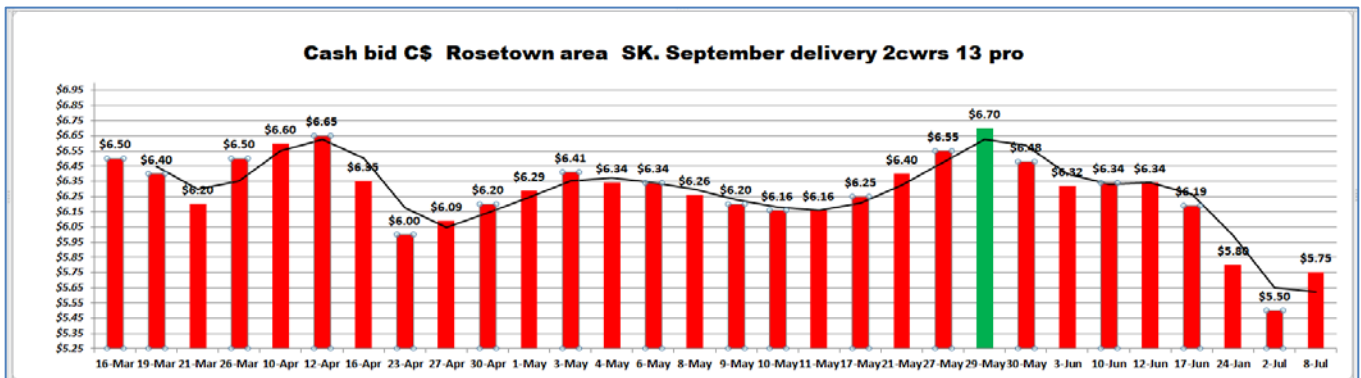
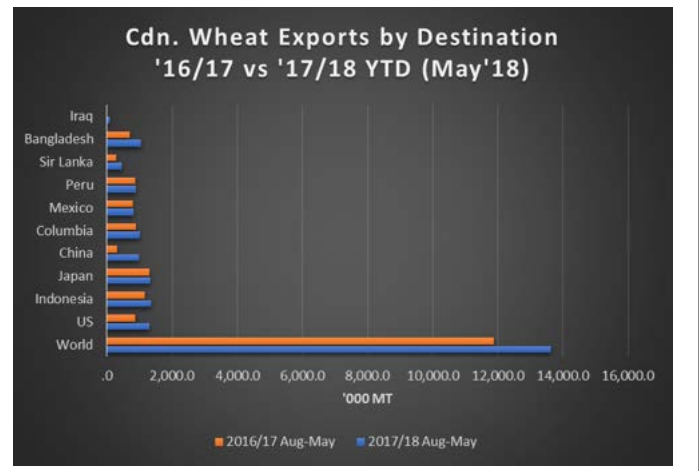
➤ Global wheat production and trade:

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.'18 contract Chicago winter wheat closed at 515-2, up 9-6 cents in Friday's trade and up 30-2 cents for the week.
Sept.'18 contract Kansas hard red winter wheat closed up 9-6 cents at 513-0, up 39-2 cents for the week.
In Minneapolis, Sep'18 contract hard red spring wheat closed at 549-0, up 10-6 in Friday's trade, and up 20-6 cents for the week. Dec'18 hard red spring wheat closed at 575-0, up 10-4 cents for the day and up 19-6 cents for the week.
- **Funds:** Index Funds did very little on the week whilst speculative elements continued to sell futures concentrating on the soy complex and corn.
- **Matif:** Matif wheat rose to 5-week highs as the German Farmers Association put the winter wheat crop down 15% relative to last year (- 4 mln mt), while storms across France added to the increasing debate over the EU crop potential.

Canadian wheat:

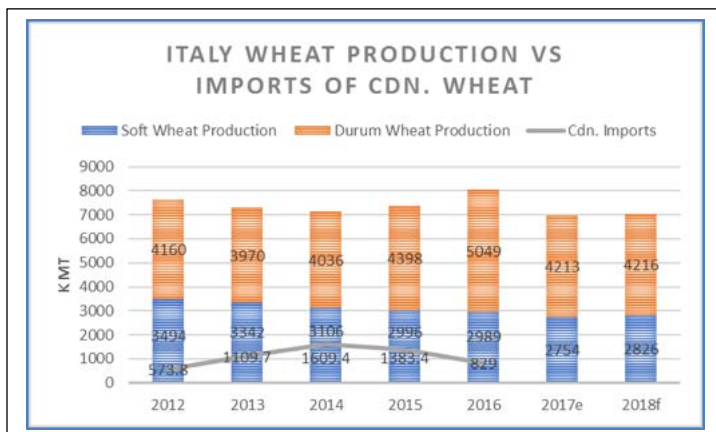
- Korea has lifted their ban on Cdn. wheat, which has been in place since the recent GMO issue. Japan's ban has not been lifted, and Canada was again excluded from Japan's tender last week.
- Most of the N American Spring wheat growing region is warm with little rain. W Central SK saw some rain last week; however, the entire SW and Central region is short on moisture (SK growing regions are 34% short/V short). SK spring cereal crops are 21% headed, well ahead of LY's 9%.
- Export update: The large Cdn. 2017/18 wheat crop has exports up from '16/17 for most of top Cdn. wheat importing countries. According to the CGC, Canada has exported 13,615.5k mt of wheat from Aug-May, a 14.6% increase from last year. Exports have increased by 50% to the US, Sri Lanka and Bangladesh. Most significantly, China has more than doubled Cdn. wheat imports since last year, importing 979.1k mt YTD (vs LY's 295.3k mt).
- *We remain amazed that Canada did not sell wheat on the Iraq tender.*
- *Canadian elevator bids improved following Mpls. futures and the exchange rate:*



(CGC) Grain Handling Summary Wheat		Week 48 (to July 1/'18)		
('000 mt)	Prod. Dlvs.	Terminal Rqpts.	Bulk exports	Dom. Disappearance
Current week	365.4	246.1	345.4	79.9
Week ago	428.8	325.4	371.6	76.2
YTD	17,076.9	16,605.1	15,112.5	4,369.1
Last YTD	17,017.9	16,223.4	13,326.9	2,701.7
YTD less Last YTD (k mt)	59.0	381.7	1,785.6	1,667.4
YTD over Last YTD (%)	100%	102%	113%	162%

(CGC) Grain Handling Summary Durum		Week 48 (to July 1/'18)		
('000 mt)	Prod. Dlvs.	Terminal Rqpts.	Bulk exports	Dom. Disappearance
Current week	107.2	93.3	10.0	0.1
Week ago	132.2	36.3	36.7	31.3
YTD	3,653.7	3,995.1	3,543.2	674.6
Last YTD	4,792.2	5,381.0	4,075.8	288.7
YTD less Last YTD (k mt)	-1,138.5	-1,385.9	-532.6	385.9
YTD over Last YTD (%)	76%	74%	87%	234%

- Durum: According to the CGC, Italy imports an average of 1,1 mln mt of wheat (mostly durum) from Canada every year. Over the past year, Italy has been importing less durum citing glyphosate concerns after Canadian wheat tested positive for traces of glyphosate in 2017. Italian farmers have used this issue to discourage foreign wheat imports. As of May '18, Italy imported only 94.4k mt of wheat YTD, down slightly from LY's 97.1k mt. With much of the EU experiencing production concerns, the European Commission (EC) does not seem concerned with the Italian wheat crop. The EC has total 2018/19 wheat production in Italy at 7 mln mt, essentially unchanged from last year. Of this, 4,2 mln mt (67%) is expected to be durum.



US wheat:

- Temperatures in the US remained above normal with more significant heat in the SW Plains, while rain was mostly confined to the north-east and south-east.
- US HRS ratings remain unchanged at 77% and the crop has advanced well ahead of the 48% avg. at 58% headed.
- The weekly USDA Export Sales Report included net wheat sales of 440,100 mt for marketing year 2018/19. Total known outstanding sales and accumulated exports of all classes of wheat for the 2018/19 marketing year were 5.99 mln mt, 29% behind last year's year-to-date total of 8.39 mln mt. USDA expects 2018/19 U.S. wheat exports to reach 25.9 mln mt.

Australian wheat:

- Australia had mixed weather with WA getting some good rain, while the drought in NSW and QLD deepened with soil moisture showing major deficits.
- Grain is increasingly being transported from WA and SA into QLD to supply the old crop domestic feed market where stocks are approaching zero,
- Australian futures rose US2/mt for the week. However, Fob markets were nominally unchanged but there was no volume.

Argentine wheat:

- In Argentina, wheat seeding advanced 7% to 79% complete with 66% of the crop rated Good/Excellent and soil moisture reserves reported as poor in only 7% of the total area.
- Fob values were little changed, the domestic market was very quiet. (12% protein wheat at around US\$203/mt and the bid-offer on 11.5% protein wheat at US \$193-198/mt).

China:

- In China the market ended lower despite a 10-month in the Yuan.

EU wheat:

- On June 28th the European Commission lowered their production estimates for 2018/19 wheat. Total wheat production was estimated down at 146.39k mt, a 3.2% decrease from 151.09k mt in 2017/18. Common wheat is estimated to be down 3% from last year at 137.6k mt vs the 141.80k previously. Meanwhile durum wheat is down 5.8% from last year's 9.30k mt at 8.79k mt in '18/19.
- *The German Farmers Association lowered the German winter wheat crop estimate by 15% relative to last year.*

- It was essentially downgrades to European production prospects which led the market higher late last week.

Black Sea wheat:

- S Russia got some rain, which was negative for the wheat harvest. Temperatures remained warm everywhere except in the Russian spring wheat regions, where ongoing cool conditions persisted along with more unwanted rain.
- The latest 2017/18 export number for Russia has total wheat exports at 40.2 mln mt, *49.9% more than the previous year*. A combination of a weak rouble, a massive harvest and state logistic support made the drastic increase possible.
- Russia shipped its first wheat cargo in eight years to Brazil.
- *Russian 12.5% protein cash wheat increased by ~US\$5/mt.*
- *CME Black Sea wheat futures were even firmer than cash wheat rising US\$10/mt on the week.*

➤ **Significant purchases/ trades:**

It was a very quiet week in cash trade, while buyers watched good crop conditions and wondered what new trade developments might occur.

- **Algeria** reported to have bought 660,000 mt of September wheat at US\$234-237/mt C&F.
- **Iraq** bought 100kt Australian wheat at US\$306.75/mt.
- These were the only trades we heard reported.
- US wheat inspections were 324k mt (season total 54 mln bu, *down 47% relative to last year*), sales were 440k mt.
- ***We remain amazed Canada again did not sell Canadian wheat on the Iraq tender.***

➤ **Wheat Market Outlook:**

Significant events:

- Recent **trade tensions** between the United States and several of its trading partners, most notably China, have threatened to spill over into global commodity markets and disrupt trade flows and market prices. On June 15, the United States announced that it was imposing 25 percent tariffs on a range of technology goods covering nearly USD 50 billion of imports from China. This decision followed announcements in late May that the United States would impose tariffs on aluminium and steel imports from China, Canada, the EU, and Mexico. China reacted by threatening retaliatory tariffs aimed at a wide range of US products, including soybeans and other agricultural products. Similarly, Canada, the EU and Mexico have also announced retaliatory tariffs on a number of US agricultural products. These developments have started to impact grain flows.
- The **world wheat crop size** continues to decline and surpluses in the major exporters are diminishing.
- **Russian wheat prices** have increased, and they are no longer selling new crop wheat cheaply.
- The **next WASDE** report is due on July 12th. It is quite possible we will have some surprises in the report.

➤ **Outlook:**

The world wheat crop size continues to decline and surpluses in the major exporters are diminishing. The market now awaits additional data from the Northern Hemisphere harvest plus next week's USDA report, which could show some sizeable changes. Recent high temperatures in a number of areas may further reduce yields and could make the wheat balance sheet quite tight. Bears report the larger ending stocks,

however, these are getting disposed of at some pretty good prices and are not pressuring new crop Russian nor FSU wheat prices.

We see no reason to sell additional new crop product while weather continues to stress crops in North America and Europe.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT

Date: July 9, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '18 (bu.)	Sept. '18 (mt.)
1 CWRS 13.5	\$5.91	\$217.16	1 CWRS 13.5	\$5.74	\$210.91
1 CWAD 13.0	\$6.41	\$235.53	1 CWAD 13.0	\$6.22	\$228.55
1 CPSR 11.5	\$5.66	\$207.97	1 CPSR 11.5	\$5.45	\$200.25
SW Sask			SW Sask		
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	\$6.16	\$226.34
1 CWAD 13.0	\$6.99	\$256.84	1 CWAD 13.0	\$6.67	\$245.08
1 CPSR 11.5	\$5.54	\$203.56	1 CPSR 11.5	\$5.36	\$196.95
NE Sask			NE Sask		
1 CWRS 13.5	\$6.29	\$231.12	1 CWRS 13.5	\$6.04	\$221.93
1 CWAD 13.0	\$6.92	\$254.27	1 CWAD 13.0	\$6.76	\$248.39
1 CPSR 11.5	\$5.42	\$199.15	1 CPSR 11.5	\$5.23	\$192.17
SE Sask			SE Sask		
1 CWRS 13.5	\$6.34	\$232.96	1 CWRS 13.5	\$6.15	\$225.98
1 CWAD 13.0	\$7.01	\$257.58	1 CWAD 13.0	\$6.86	\$252.06
1 CPSR 11.5	\$5.41	\$198.79	1 CPSR 11.5	\$5.19	\$190.70

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	0.11	4.15
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.18)	(6.61)
1 CWRS 12.5	(0.37)	(13.60)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.03	1.10
2 CWAD 13.0	(0.79)	(29.03)
2 CWAD 12.5	(0.97)	(35.64)

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 Basis² (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)

² 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				July 9, 2018
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	\$334.12	\$312.94		
HRS	\$322.09			
HRW 11.5	\$317.75			
SWW 12.0	\$298.02			
1 CWRS 13.5 ³	\$334.12		\$231.12	\$103.00
2 CWRS 13.0 ³	\$322.09		\$210.91	\$111.18
3 CWRS ³	\$317.75		\$207.24	\$110.52
CPS ³	\$291.28		\$193.27	\$98.00
1 CWAD ⁴		\$350.49	\$257.21	\$93.29
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$202.00			
French 11.5 (Rouen)	\$223.63			
APW 10.5 (W Coast)	\$250.00			
Argentine 12.0				
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					July 9, 2018
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.91	\$8.58	\$8.46	\$7.93	\$7.93
Parity Track Rosetown	\$7.41	\$7.09	\$6.97	\$6.43	\$6.43
Track Bid Rosetown Area	\$6.29	\$5.74	\$5.64	\$5.26	\$5.26
Gross Margin at Elevator (\$/bu)*	\$1.12	\$1.35	\$1.33	\$1.17	\$1.17
Gross Margin at Elevator (\$/mt)*	\$41.28	\$49.45	\$48.79	\$43.02	\$43.02

* to cover elevation, elevator market risk, margin