Wheat Market Outlook and Price Report: July 16, 2018

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i) Background and Rationale for the Report

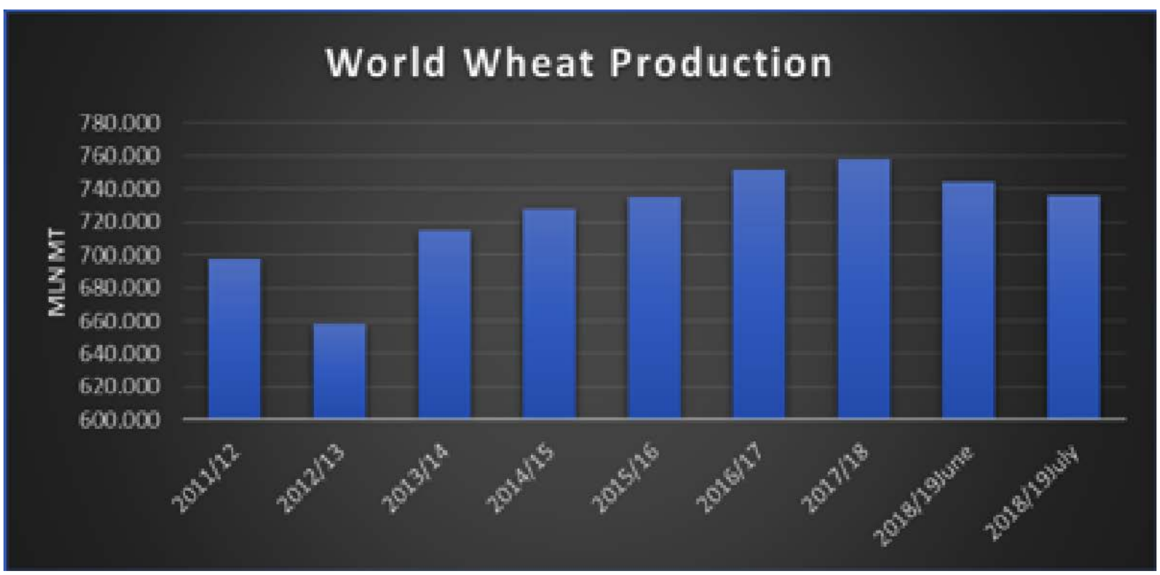
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 July 16, 2018

World Wheat Overview:

- **July 12/'18 USDA WASDE Report - Wheat**



- Last Thursday's WASDE report showed an *overall decrease in global wheat supply*.
- Despite a 9 mln bu increase in 2018/19 US wheat ending stocks, **global stocks** dropped by 5.3 mln mt to 260.9 mln mt (vs 264.5 mln mt expected).
- **US 2018/19 wheat production** surpassed expectations of 1,857 mln bu at 1,881mln bu, however, but **global wheat supply** was lowered by 8.43 mln mt from June's 744.69 mln mt to 736.36 mln mt. This is a 2.86% (21.66 mln mt) decrease from last year.

- Most of this decrease came from the **EU** where production was revised down by 4.4 mln mt since the June report to 145.0 mln mt. The remainder of the decrease in world production came from **Australia**, where production was lowered 8.33% (2 mln mt) to 22 mln mt, **China,** where production was lowered 1 mln mt to 128 mln mt (vs Chinese Govt #s 122.5 mln), and **Russia**, which lost 1.5 mln mt since June for a total of 67 mln 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:** Last Friday, the wheat markets built on Thursday's post WASDE-report gains. However, this was not enough to make up losses from the beginning of the week, when poor export performance, good US weather/HRS conditions and the US announcement of another $200 bln of Chinese tariffs caused the market to turn sharply lower.
  Sep'18 contract Chicago winter wheat closed at 497-0, up 12-4 cents in Friday's trade and down 18-2 cents for the week.
  Sep'18 contract Kansas hard red winter wheat closed up 10-4 cents at 491-6, down 21-2 cents for the week.
  Minneapolis, Sep'18 contract hard red spring wheat closed at 524-2, up 0-4 cents in Friday's trade, and down 21-4 cents for the week. Dec'18 hard red spring wheat closed at 531-6, up 1-2 cents for the day and down 26-4 cents for the week.
- **Funds:** Funds did not see anything in the WASDE report that told them to stop selling. Index funds have been the recent leaders as they have reduced their long form 100 mln tonnes.
- **Matif:** Matif had followed the US to a €7/mt decline at one point, but ended the week down just €1.75/mt.

Canadian wheat:

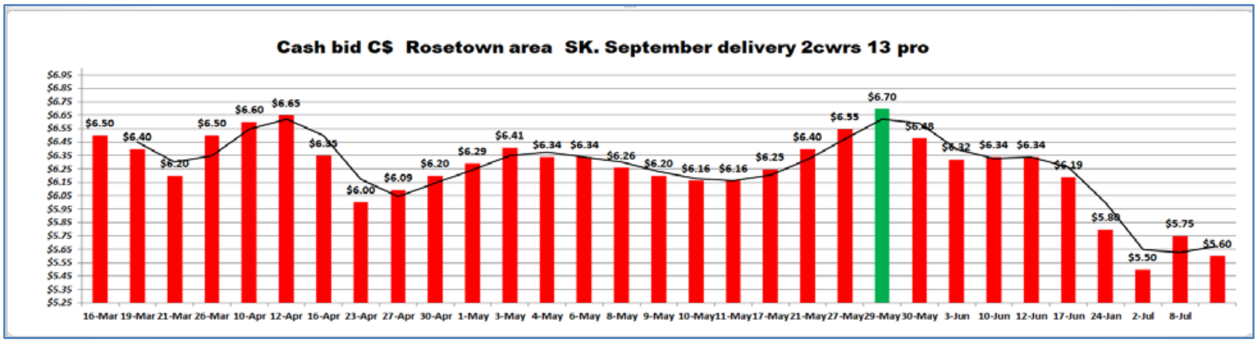
- The USDA report had US "**other spring" wheat** 14 mln bu *above expectations* at 614 mln bu (HRS to account for 584 mln bu of this); this is 47% higher than last year's 416 mln bu. Cdn. production was left unchanged, '17/18 stocks were raised 0.20 mln bu to 5.61 mln bu while '18/19 stocks were lowered 0.30 mln bu to 5.01mln bu.
- **Spring wheat** in SK is developing 10% ahead of avg pace and is rated 77% G/E. Soil moisture maps show N SK benefitted from rain, however, all the SW and Central region show short on soil moisture. This is likely to change as there are reports of very heavy rain falling in parts SW SK.
- US '18/19 **durum** is projected to *be up 36% from LY at 74.9 mln bu* (2.04 mln mt). This increase is from better durum yields (expected to be up 15 bu from LY at 40.7 bu/acre) as harvested acreage is 14% lower than LY at 1.84 mln acres. Despite a slow start, the US durum crop is progressing ahead of average. As of July 1, G/E ratings in Montana and N Dakota were 54% and 76% respectively.
- In Canada, moisture maps for SK and AB continue to look concerning, although reports of heavy rain in SE AB and SW SK will hopefully show some relief to these regions Korea has lifted their ban on Cdn. wheat, which has been in place since the recent GMO debacle. Japan's ban has not been lifted, and Canada was

(CGC) Grain Handling Summary Wheat			Week 49 (to July 8/'18)	
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Current week	271.3	317.6	349.2	39.8
Week ago	365.4	246.1	345.4	79.9
YTD	17,363.0	17,026.4	15,461.7	4,411.0
Last YTD	17,437.0	16,715.0	13,692.4	2,767.3
YTD less Last YTD (k mt)	-74.0	311.4	1,769.3	1,643.7
YTD over Last YTD (%)	100%	102%	113%	159%

(CGC) Grain Handling Summary Durum			Week 49 (to July 8/'18)	
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Current week	77.5	84.1	62.1	4.3
Week ago	107.2	93.3	10.0	0.1
YTD	3,731.1	4,107.6	3,605.2	680.0
Last YTD	4,865.7	5,502.2	4,094.8	293.0
YTD less Last YTD (k mt)	-1,134.6	-1,394.6	-489.6	387.0
YTD over Last YTD (%)	77%	75%	88%	232%

again excluded from Japan's tender last week.

- The EU and FSU are rapidly losing major volumes of export potential, and with dryness an ongoing concern in Australia, there is potentially scope to shift big volumes of export demand into the US in the second half of the season, and it's tough to be bearish at these levels. ***Canadian elevator bids for nearby wheat should be ignored for the present.***



US wheat:

- US weekly wheat export inspections were very disappointing at 268k mt, for a season total of 64mln bu (down 48% from LY).
- Winter wheat harvest in the US is 63% complete (61% avg.) and quality is reported to be very good. The US Plains, Canada, Australia and most of Europe is looking like it will be hot and dry, while rain in Russia is hindering winter wheat harvest. Dry conditions have wheat planting in Argentina 10% ahead of avg. at 87% complete on 7% (6.1mln ha) more area. However, the crop is only rated 40% G/E (vs LY's 65%).
- Even though USDA carryout stocks were as expected, the USDA's feed use #s are questionable as '17/18 was cut 20 mln bu to a 10-year low of 50 mln bu, but '18/19 feed was raised 10 mln to 130 mln bu. The report had exports up 25 mln bu, but this could/will be raised further as *a tight global wheat supply will increase demand for US wheat*.

Australian wheat:

- WASDE cut wheat production in Australia by 8.33% (2 mln mt) to 22 mln mt.
- Many in the trade are still below the USDA's revised Australian crop number of 22 mln mt.
- Australian futures rose A$11/mt to a contract high close.

Argentine wheat:

- Dry conditions have wheat planting in Argentina 10% ahead of avg. at 87% complete on 7% (6.1mln ha) more area. However, the crop is only rated 40% G/E (vs LY's 65%).
- USDA left the Argentine crop unchanged at 19.5 Mmt
- Argentine old crop 11.5% protein was offered at US$238/mt, new crop 11.5% protein wheat was quoted at US$195/mt, and 12% protein at US$201/mt.

China:

- WASDE lowered Chinese production by 1 mln mt to 128 mln mt (vs Chinese Govt #s 122.5 mln).

EU wheat:

- WASDE cut EU wheat production and exports by 4.4 mln and 1.5 mln mt, respectively, and there is a strong argument that production could fall significantly further.
- Poor weather in Germany and France has Strategy Grains lowering EU '18/19 production 7.5 mln mt to 132.4 mln mt (vs USDA's 145 mln mt), 7% lower than '17/18's 141.8 mln mt. This, combined with the USDA's unlikely 10.39 mln mt of EU ending stocks (which amounts to about 3 ½ weeks worth of wheat), makes it look like the USDA's 27.5 mln mt of EU exports (a 1.5 mln mt decrease from June) is still too high.

- French wheat ended the week almost US$20/mt above Russian 12.5% protein wheat and US$30/mt above Black Sea 11.5% protein wheat in the nearby.

Black Sea wheat:

- USDA cut another 2.5 mln mt from the FSU crop (now down 21 mln mt relative to last year) with Russia at 67 mln mt. Note the Russian Govt. went to 64.4 mln mt, on poor yield results and the lost spring wheat acres.
- Russian 12.5% protein wheat was unchanged for August at US$202/mt, but the September carry widened to US$8/mt with a further US$5/mt/month beyond that.

➢ **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.

- **Egypt** (GASC) bought 175k mt Russian wheat at around US$204/mt Fob.
- **Syria** reported buying 200k mt at US$195/mt C&F (which is below the Fob value).
- **Saudi Arabia** tendered Friday for 595k mt wheat for Sep-Oct.'18 shipment.

➢ **Wheat Market Outlook:**

Significant events:

- Wheat market support came mostly from the USDA world numbers, where *production was lowered by over 8 mln mt,* with notable declines in three of the world's major exporters (the EU, FSU and Australia), while world ending stocks fell by over 5 mln mt from last month and 13 mln mt on the year.
- In addition, the market considers the USDA's EU and Black Sea wheat export numbers as too high, which should eventually switch additional demand into the US S&D.
- US wheat became more competitive against the EU and Black Sea wheat with HRW 11% protein wheat ending US$3/mt below German wheat, and SRW ending Fob US$10/mt below French wheat. CBOT Sep futures over $30/mt below Matif wheat.

➢ ***Outlook:***

The EU and FSU are rapidly losing major volumes of wheat export potential, and with dryness an ongoing concern in Australia, there is potentially scope to shift big volumes of export demand into the US in the second half of the season, and it's tough to be bearish at these levels.
Canadian elevator bids for nearby wheat should be ignored for the present.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 16, 2018

NW Sask	Spot (bu.)	Spot (mt)	NW Sask	Deferred Sept. '18 (bu.)	Deferred Sept. '18 (mt.)
1 CWRS 13.5	$5.96	$218.99	1 CWRS 13.5	$6.00	$220.46
1 CWAD 13.0	$6.39	$234.79	1 CWAD 13.0	$6.25	$229.65
1 CPSR 11.5	$5.45	$200.25	1 CPSR 11.5	$5.26	$193.27
SW Sask			SW Sask		
1 CWRS 13.5	$6.09	$223.77	1 CWRS 13.5	$5.91	$217.16
1 CWAD 13.0	$6.96	$255.74	1 CWAD 13.0	$6.70	$246.18
1 CPSR 11.5	$5.34	$196.21	1 CPSR 11.5	$5.17	$189.97
NE Sask			NE Sask		
1 CWRS 13.5	$5.99	$220.10	1 CWRS 13.5	$5.77	$212.01
1 CWAD 13.0	$6.82	$250.59	1 CWAD 13.0	$6.72	$246.92
1 CPSR 11.5	$5.18	$190.33	1 CPSR 11.5	$5.04	$185.19
SE Sask			SE Sask		
1 CWRS 13.5	$6.04	$221.93	1 CWRS 13.5	$5.87	$215.69
1 CWAD 13.0	$6.95	$255.37	1 CWAD 13.0	$6.81	$250.23
1 CPSR 11.5	$5.18	$190.33	1 CPSR 11.5	$5.00	$183.72

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 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)

- 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.

[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."

- 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

Releveant FOB Prices and Export Basis				July 16, 2018
	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	$314.29	$299.35		
HRS	$307.06			
HRW 11.5	$303.21			
SWW 12.0	$291.16			
1 CWRS 13.5[3]	$314.29		$220.46	$93.83
2 CWRS 13.0[3]	$307.06		$200.25	$106.81
3 CWRS[3]	$303.21		$196.58	$106.63
CPS[3]	$284.41		$182.99	$101.42
1 CWAD[4]		$350.93	$257.21	$93.72
Competing wheat:	US$/mt			
Russia 12.5 (Black Sea, 25k mt)	$202.00			
French 11.5 (Rouen)	$220.16			
APW 10.5 (W Coast)	$248.00			
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 16, 2018
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	$8.37	$8.17	$8.07	$7.74	$7.74
Parity Track Rosetown	$6.87	$6.68	$6.57	$6.24	$6.24
Track Bid Rosetown Area	$6.00	$5.45	$5.35	$4.98	$4.98
Gross Margin at Elevator ($/bu)*	$0.87	$1.23	$1.22	$1.26	$1.26
Gross Margin at Elevator ($/mt)*	$32.10	$45.08	$44.89	$46.44	$46.44

* to cover elevation, elevator market risk, margin