

Wheat Market Outlook and Price Report: July 30, 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 30, 2018

World Grains and Wheat Estimates, International Grains Council (IGC), July 26/18:

WORLD ESTIMATES					
	15/16	16/17	17/18 est.	18/19 f'cast	
million tons				02.07	26.07
TOTAL GRAINS ^{a)}					
Production	2016	2138	2091	2077	2059
Trade	346	353	368	369	370
Consumption	1986	2080	2109	2131	2128
Carryover stocks	561	619	601	544	532
<i>year/year change</i>	30	58	-18		-69
Major exporters ^{b)}	151	183	173	139	131
WHEAT					
Production	737	752	758	737	721
Trade	166	177	177	177	176
Consumption	718	736	736	743	739
Carryover stocks	227	243	265	256	247
<i>year/year change</i>	19	16	22		-18
Major exporters ^{b)}	68	79	82	70	63

- In their latest report, the IGC highlighted *significant downgrades for wheat and barley* in the EU and in the FSU. These countries represent an almost 18 mln mt cut from last month's report in the forecast for world total grains production (wheat and coarse grains) in 2018/19, to a three-year low of 2,059 mln mt. And, with disappointing results being reported from ongoing harvesting, there is the potential for further output cuts in future Grain Market Reports.
- **Global wheat production** was lowered to 721 mln mt. This represents a 16 mln mt cut from last month's forecast, and is 37 mln mt lower (9-5%) than the 2017/18 global wheat production. **Wheat consumption** was lowered by 4 mln mt due to price rationing, but **ending stocks** should fall by 18 mln mt (-7%).

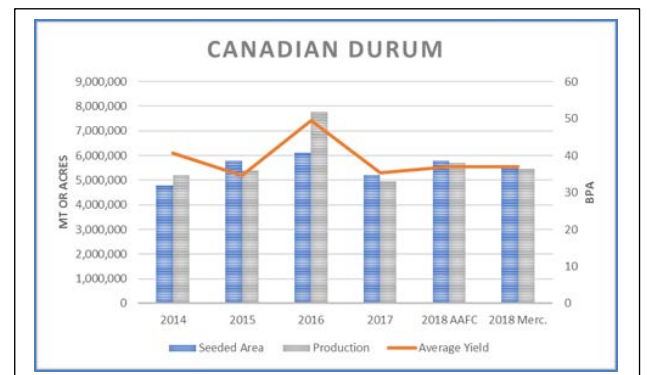
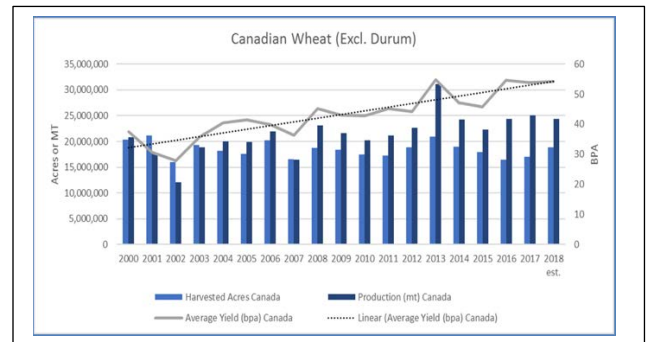
➤ **Global wheat production and trade:**

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:** The wheat market reacted to the deteriorating state of the world wheat supply. It lost some momentum late last week due to profit taking, but is strongly higher again this Monday morning.
Sep'18 contract Chicago winter wheat closed at 530-4, down 6-0 cents in Friday's trade and *up 14-0 cents for the week*.
Sep'18 contract Kansas hard red winter wheat closed down 1-4 cents at 532-4, *up 23-6 cents for the week*.
In Minneapolis, Sep'18 contract hard red spring wheat closed at 592-4, up 4-6 cents in Friday's trade, and *up 37-4 cents for the week*. Dec'18 hard red spring wheat closed at 606-2, up 4-4 cents for the day and *up 35-0 cents for the week*.
- **Funds:** Index Funds maintained their long position; they have added about 4 mln mt to their overall long in recent weeks. Spec funds were good buyers of corn and wheat, as they did not like what they saw in the global weather forecasts.
- **Matif:** Matif wheat increased by €14/mt (Cdn\$21.30/mt) midweek to new contract highs, before giving back half. N European demand pulled interior French wheat to levels well above the Rouen export parity.

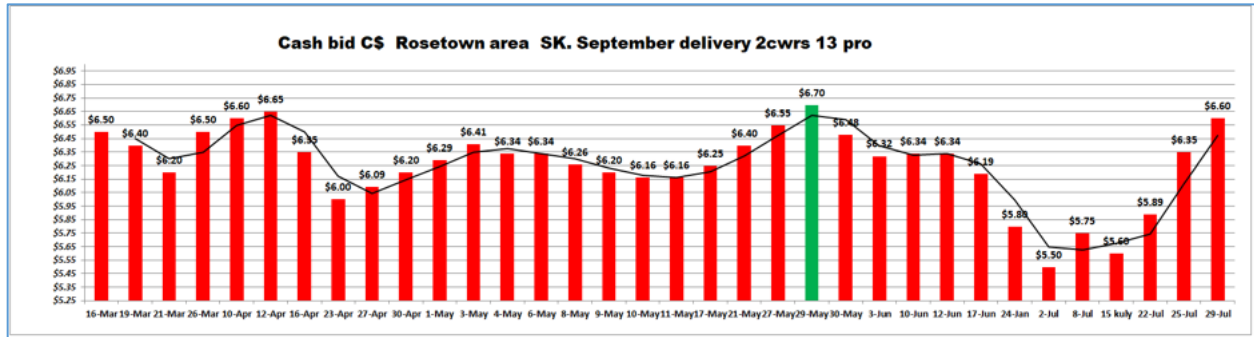
○ **Canadian wheat:**

- According to the inaugural Grain World crop tour across the Cdn. Prairies, estimated Canadian *wheat yields (excl. durum)* will be slightly above trend at 54.4 bu/ac. (This is higher than last year's 53.8 bu/ac and the 5-year avg. of 51.1 bu/ac). Localized dryness across the Prairies caused significant variability, but very strong yields in parts of MB and N SK were sighted to make up for the parched areas of SW SK and S AB (soil moisture has improved drastically from last week, but the SW corner of SK and S AB remain dry).
- The SAF wheat crop assessment was still quite good: It assessed July 23 spring wheat crop conditions at 76% Gd/ Exc., 20% Fair condition, and 4% in Poor condition.
- The Grain World crop tour estimated Canadian *durum* yields to be 4.8% higher than last year at 37.0 bu/ac, but still below the 5-year average of 41.7 bu/ac. Given this yield, we would expect



Canadian durum production to be 10% higher than last year at 5.44 mln mt.

- The SAF durum wheat crop assessment as of July 23 was at only 41% Gd/ Exc., 49% Fair condition, and 10% in Poor condition.
- *Wheat fundamentals remain very strong. The global supply of wheat is shrinking to uncomfortable levels. The decrease in supply will cause demand to spill over towards the US and Canada.*
- Canadian elevators bids have improved, but will go higher. - Do not deliver any unpriced grain to elevators.



(CGC) Grain Handling Summary Wheat				
{'000 mt)	Week 51 (to July 22/'18)			
	Prod. Dhvrs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	376.7	442.0	174.2	63.2
Week ago	357.2	239.2	218.0	49.5
YTD	18,103.2	17,763.9	15,854.1	4,260.5
Last YTD	18,245.7	17,507.3	14,326.6	2,896.4
YTD less Last YTD (k mt)	-142.5	256.6	1,527.5	1,364.1
YTD over Last YTD (%)	99%	101%	111%	147%

Mercantile based on weekly CGC Handling Data

(CGC) Grain Handling Summary Durum				
{'000 mt)	Week 51 (to July 22/'18)			
	Prod. Dhvrs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Current week	123.5	189.9	92.9	1.1
Week ago	142.3	81.4	152.4	45.9
YTD	3,996.9	4,399.7	3,850.2	459.0
Last YTD	5,063.5	5,709.0	4,262.9	323.0
YTD less Last YTD (k mt)	-1,066.6	-1,309.3	-412.7	136.0
YTD over Last YTD (%)	79%	77%	90%	142%

Mercantile based on weekly CGC Handling Data

○ **US wheat:**

- US spring wheat crop ratings were down 1% at 79% G/E, which is better than the 2-3% downgrade that was expected. The ND spring wheat crop (which accounts for about 25% of US spring wheat) is rated 88% G/E. Despite this, *the US spring wheat crop tour estimated smaller than expected yields in the Dakotas and Montana (avg. 41.3 bu/ac vs the 5-year avg. of 44.8 bu/ac and the USDA's 44.8 bu/ac.)*
- The USA HRS crop is falling and some Canadian estimates are being trimmed by 2-4 mln mt. Heat is expected to return to the Northern Plains and Prairies in August. In their August WASDE report the USDA should reduce their wheat production by at least 10 mln mt.

○ **Australian wheat:**

- Australian wheat futures rose A\$23/mt to new contract highs, with some Australian wheat crop estimates now well below 20 mln mt.

○ **Argentine wheat:**

- In Argentina, wheat plantings advanced 3% to 96% complete, with 44% GD/EX against 38% last week and 66% last year.
- Argentine 12.5% protein wheat offers for December rose by US\$12/mt to a new high US\$225/mt (still \$15/mt below the nominal Russian price), with 12% protein wheat US\$5/mt less and 11.5% protein wheat a further US\$5/mt lower.

○ **EU wheat:**

- There are a lot of problems with the EU wheat crop. Britain is experiencing the hottest summer on record, causing wild-fires and widespread crop damage. Germany, the EU's second largest wheat producer, is the driest it has been in 8 years, causing feed wheat prices to soar to €200.00/mt (~Cdn.\$307.60/mt).

- Germany will be a buyer of wheat this year (likely from France, which is good news for France as Argentina is looking to replace them in of the Algerian market).
- The German crop will barely make 20 mln mt as will the EU exportable surplus (vs USDA's 27.5 mln mt).
- The USDA is too conservative in its estimated decrease of the EU and FSU crops and as harvest in these regions has progressed, private and govt. institutions have been revising/reducing their estimates.
- EU weekly shipments were just 100k mt for a season total of 537k mt, down 58% on last year.
 - **Black Sea wheat:**
- Ukraine Agro Consult has the Ukraine wheat crop down 9% from last year to 24.7 mln. The Russian AgMin has their crop down 24% from last year at 64.5 mln mt, and the EU all-wheat crop is looking like it will be down 7% to 140 mln mt (vs the USDA's 145 mln mt) with an exportable surplus of 20 mln mt (vs USDA's 27.5 mln mt).
- In all, the total estimated decrease in FSU and EU wheat production should be about 13% (33.7 mln mt). Russian wheat harvest has now reached 18 mln acres and yields are 56.67 bu/acres vs 67.8 bu/acre last year. [*You might we recall we talked about the importance of Russian yields to the world balance sheet last January.*] Heavy sprouting has been reported in W-Central Russia and Ukraine, and rain in the Baltic is likely causing similar problems there.
- CME Black Sea wheat futures increased by US\$7/mt.
- Cash markets were very illiquid, but offers of Russian 12.5% protein wheat ended the week at ~US\$220/mt for August'18 and US\$225/mt for Sept.'18, with nothing offered beyond that!

➤ **Significant purchases/ trades:**

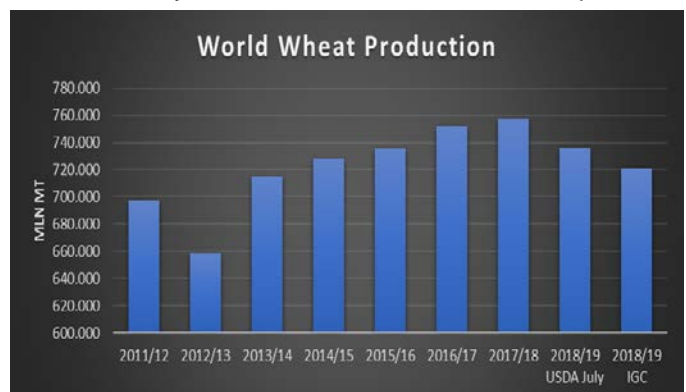
It was a very quiet week in cash trade, while buyers watched good crop conditions and wondered what new trade developments might occur.

- **Egypt** (GASC) bought 420,000 mt of Russian/Romanian/Ukrainian wheat for 1-10 Sept. delivery at around US236/mt C&F. Egypt paid US\$16/mt above what they paid 2 weeks prior.
- US inspections were 398,000 mt (season total 91 mln bushels, down 41%), sales were 386,000 mt (season total 250 mln bushels, down 31% on last year).

➤ **Wheat Market Outlook:**

Significant events:

- There was too much rain in central Russia, too little in Germany and Australia. The USA HRS crop is falling and some Canadian estimates are being trimmed by 2-4 mln mt. Heat is expected to return to the Northern Plains and Prairies in August.
- The ICG showed significant downgrades in wheat production for the EU and FSU. They revised global wheat supply down 37 mln mt to a 5-year low of 721 mln mt.
- Declining crop prospects around the world and likely record low stocks/use ratios in the major exporters highlighted the need for both demand rationing and more wheat acres to be planted next year.



➤ **Outlook:**

In their August WASDE report the USDA should reduce their wheat production by at least 10 mln mt. In our view, they over-estimated exports from other origins in the July report, so they will need to either increase exports from North America or reduce export demand through price rationing. Demand will need to be rationed and acres need to be increased for next year; and that will necessitate higher prices.

Wheat is looking bullish for 2019. Canadian elevators bids have improved, but will go higher. - Do not deliver any unpriced grain to elevators.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: July 30, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '18 (bu.)	Oct. '18 (mt.)
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	\$6.34	\$232.96
1 CWAD 13.0	\$6.34	\$232.96	1 CWAD 13.0	\$6.19	\$227.45
1 CPSR 11.5	\$5.89	\$216.42	1 CPSR 11.5	\$5.88	\$216.05
SW Sask			SW Sask		
1 CWRS 13.5	\$6.72	\$246.92	1 CWRS 13.5	\$6.75	\$248.02
1 CWAD 13.0	\$6.89	\$253.17	1 CWAD 13.0	\$6.77	\$248.76
1 CPSR 11.5	\$5.80	\$213.12	1 CPSR 11.5	\$5.82	\$213.85
NE Sask			NE Sask		
1 CWRS 13.5	\$6.67	\$245.08	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$6.71	\$246.55	1 CWAD 13.0	\$6.75	\$248.02
1 CPSR 11.5	\$5.61	\$206.13	1 CPSR 11.5	\$5.65	\$207.60
SE Sask			SE Sask		
1 CWRS 13.5	\$6.70	\$246.18	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$6.86	\$252.06	1 CWAD 13.0	\$6.89	\$253.17
1 CPSR 11.5	\$5.61	\$206.13	1 CPSR 11.5	\$5.66	\$207.97

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn./mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.20)	(7.35)
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 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				July 30, 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	\$342.20	\$325.95		
HRS	\$335.04			
HRW 11.5	\$326.91			
SWW 12.0	\$293.45			
1 CWRS 13.5 ³	\$342.20		\$257.21	\$85.00
2 CWRS 13.0 ³	\$335.04		\$233.32	\$101.71
3 CWRS ³	\$326.91		\$229.65	\$97.26
CPS ³	\$286.76		\$211.28	\$75.49
1 CWAD ⁴		\$347.94	\$244.72	\$103.23
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$220.00			
French 11.5 (Rouen)	\$239.30			
APW 10.5 (W Coast)	\$256.00			
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 30, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.13	\$8.94	\$8.71	\$7.80	\$7.80
Parity Track Rosetown	\$7.63	\$7.44	\$7.22	\$6.31	\$6.31
Track Bid Rosetown Area	\$7.00	\$6.35	\$6.25	\$5.75	\$5.75
Gross Margin at Elevator (\$/bu)*	\$0.63	\$1.09	\$0.97	\$0.56	\$0.56
Gross Margin at Elevator (\$/mt)*	\$23.32	\$40.04	\$35.58	\$20.50	\$20.50

* to cover elevation, elevator market risk, margin