

Wheat Market Outlook and Price Report: September 4th, 2018

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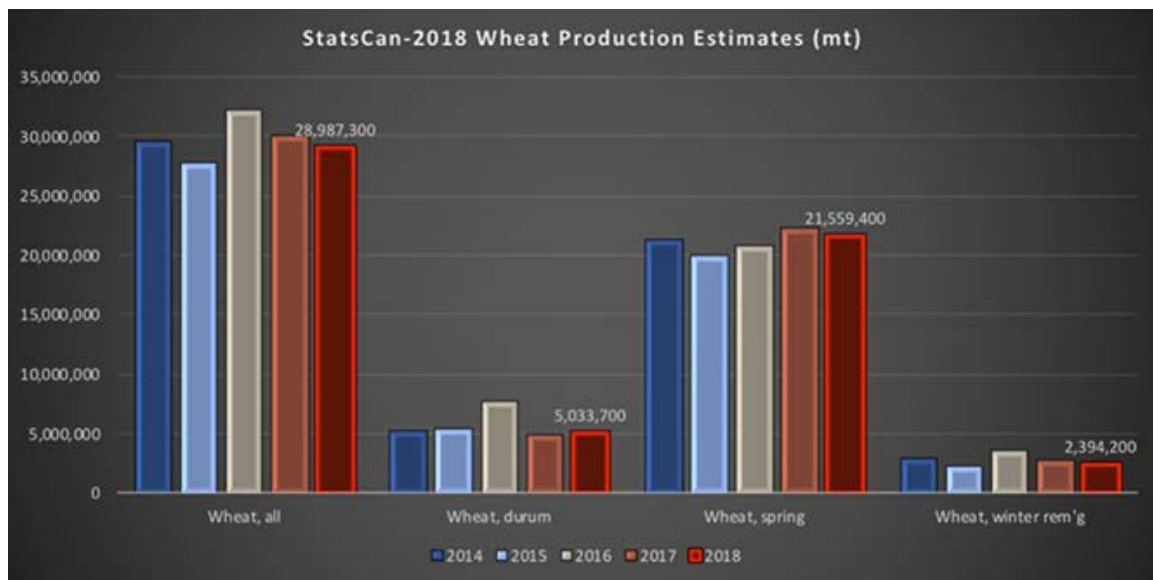
i) Background and Rationale for the Report

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 Aug. 27, 2018

Stats Canada 2018 Wheat Production Estimates:



- Statistics Canada** published their first **2018 crop production numbers**. Their total wheat production number for 2018 was disappointing to the market at 28.987 mln mt. The StatsCan estimate is lower than the trade's avg. pre-report estimate of 30.6 mln mt for all wheat (range 29.3-32.7 mln mt), meaning that most traders will consider the StatsCan number to be low. *Nevertheless, the number will be noted internationally as USDA has been using 32.5 mln mt for Canada's wheat crop, and the IGC has been using 31 mln mt for Canada's wheat crop. This is 3.5 mln mt and 2 mln mt more, respectively, than StatsCan was saying Friday. – A huge gap. This will be one of the sizeable adjustments expected from the USDA in their next WASDE report.*

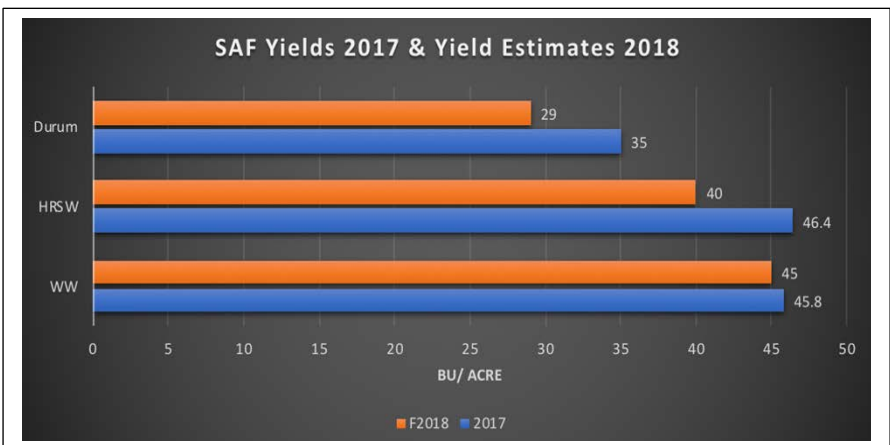
➤ **Global wheat production and trade:**

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.

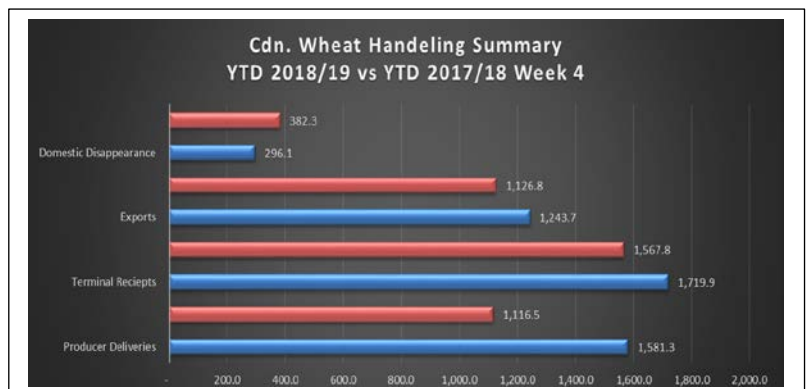
- **Futures:** Sep'18 contract Chicago winter wheat closed at 518-4 up 10-4 cent in Friday's trade. Sep'18 contract Kansas hard red winter wheat closed up 10-6 cents at 523-0. In Minneapolis, Sep'18 contract hard red spring wheat closed at 583-6, up 21-4 cents in Friday's trade, while Dec'18 hard red spring wheat closed at 598-6, up 15-0 cents for the day. Wheat markets were lower at the beginning of the week as the funds continued to liquidate their record long in wheat, before turning higher Midweek as Russia announced a 25 mln mt export cap on wheat (vs USDA's 35 mln mt Russian wheat export). Wheat markets then received an additional push as Stats Canada put Canadian wheat production down to 29 mln mt (vs USDA's 32.5 mln mt).
- **Funds:** The Funds continued to liquidate their record long position in the CBOT and in KC, as there is no sign of demand switching from Black Sea to wheat US/ N American wheat.
- **Matif:** Matif fell to 5-week lows early in the week but closed up €4 on Russian export tariff talks. There was no update on EU shipments which are down about 40% from last year.

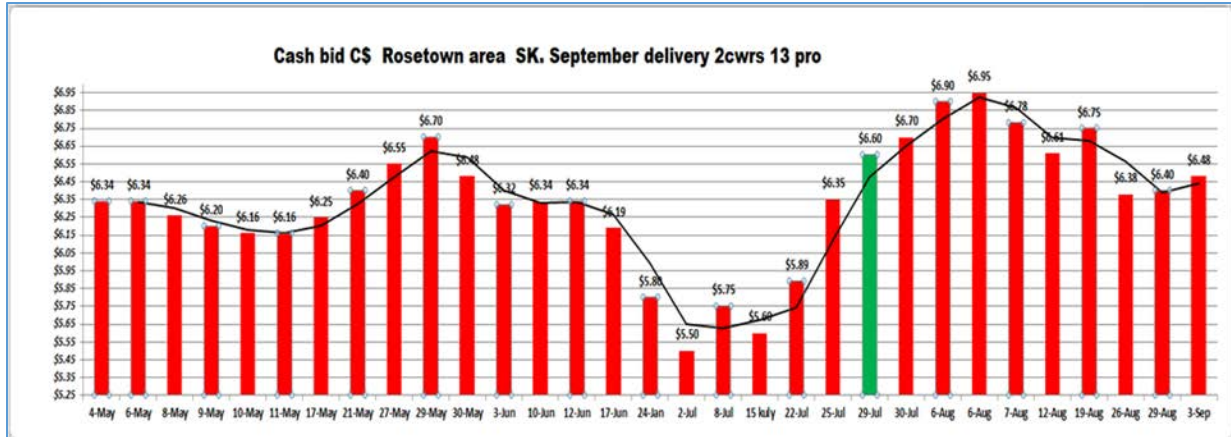
Canadian wheat:

- The **SAF crop report** has 78% of SK winter wheat, 16% of SK spring wheat, and 32% of SK durum harvested as of Aug. 27th. The report also included the first set of yield estimates, which should give some pause. The assessed SK yields were 45 bu/ac for winter wheat, 40 bu/ac for HRSW, and only 29 bu/ac for durum wheat. Last year's yields for these crops were 45.8 bu/ac for WW, 46.4 bu/ac for HRSW, and 35.0 bu/ac for durum wheat, with all wheat at 42.2 bu/ac.



- **StatsCan** estimated spring wheat at 21.6 mln mt, down 2.7% from last year *in spite of the significantly higher seeded acreage (+9.5%, +1.5 mln ac.)*. We think the spring wheat tonnage is too low! All wheat yield was stated at 43.9 bu/ac vs. 49.6 bu ac last year and 53.2 bu/ac in 2016
- According to the **Week 4 CGC handling data**, Canadian wheat handling continues to be strong vs last year with producer deliveries now surpassing 1.58mln mt vs 1.12 mln last year. Terminal receipts are also ahead by 9% (+152k mt). YTD exports are about the same at 1,244k mt, and domestic disappearance is slightly trailing last year by 86.2k mt at 296.1k mt.
- Cash wheat bids rose slightly from last week due to the end-of-week rally in futures.

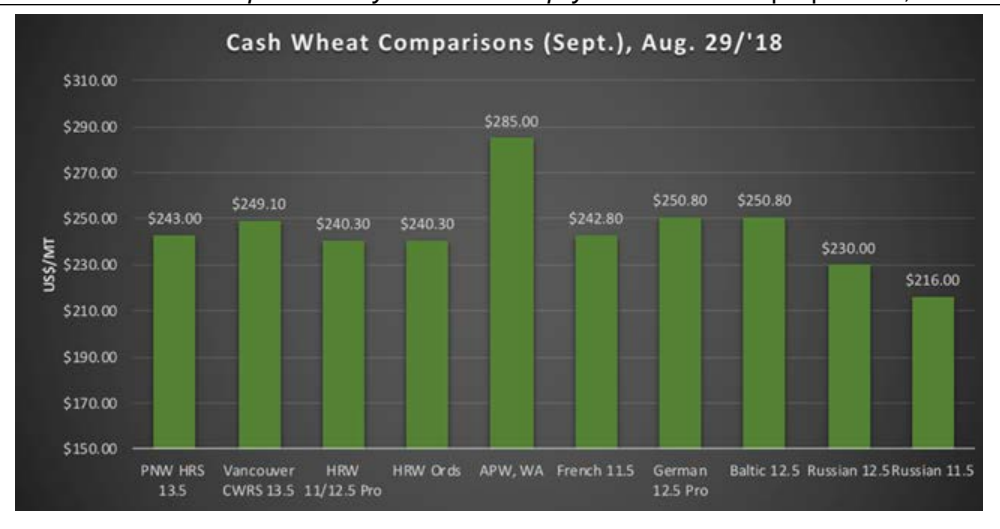




US wheat:

- US harvest progress:** The 2018 US HRW wheat harvest is now complete in all states except Montana where rain slowed harvest earlier in the week. Scattered rainfall and cooler temperatures early in the week slowed harvest progress in the HRS growing region, but a dry and warm pattern in the forecast should get producers back in the field shortly. NASS showed 77% of spring wheat harvested as of Aug. 26th; this is well ahead of the 61% average for that date. Weather remains favorable as Pacific Northwest SW wheat harvest is winding down. Durum harvest is underway in the Northern Plains though recent rains throughout the region have slowed is down.
- Sonny Perdue announced details of actions the USDA will take to assist farmers adversely affected by ongoing trade disputes.** Under the Market Facilitation Program (MFP), payment rates to wheat producers are 14 c/bu on 50% of 2018 proven production, with applications available starting September 4. MFP payments are capped per person or legal entity at a combined \$125,000 for corn, cotton, sorghum, soybeans and wheat.
- US export sales** were expected at 2-500kt and came in at 415k mt (up 73% from last week) for '18/19, the higher end of expectations. Russian exporters keep fighting for sales, and it is unlikely they will slow their efforts fearing they may lose out on the 25-30 mln mt window for exports.
- Cash wheat market:** -Most FOB prices were adjusted back up late last week, after concerns about the tightness of global wheat balance sheet received renewed attention. HRW is around \$10.50/mt below comparable EU wheat. And basis the much larger carrying charges in the Black Sea, HRW is even money with Russian wheat by December. *December onward, North American wheat should feature in the cash markets much more prominently than last crop year.* For the Sept. position,

Russian wheat still remains the cheapest, which is aligned with their ostensible goal to front-end load wheat exports this year before looking at export tariffs. Australian APW wheat at \$285/mt remains the world's most pricey wheat in order to stay out



of international wheat markets.

Australian wheat:

- Australia received more rain last week, but September forecasts are again very dry and damaging frost caused Aussie futures to rise A\$5.
- The Aussie crop is currently 2-4 mln mt overstated by the USDA's 22 mln mt estimate, However the USDA usually adjusts Aussie numbers in Oct, not Sept.

Argentine wheat:

- Argentina became the latest crop to see warning flags raised as wheat in the north is flowering amidst very low soil moisture levels and no rain in the forecast.
- BAGE lowered GD/EX to 47% from 50% last week and 70% last year.
- The collapse in the Peso and 60% interest rates kept farmers initially reluctant sellers but **increasing rumours of returning (this week) export taxes** brought out a flurry of offers late week.
- Much of the N Hemisphere seems too dry for planting at this time The Buenos Aires Grain Exchange (BAGE) put crop ratings at 50% Gd/Exc. versus 51% last week and 78% last year.
- Dec-Jan shipment where Argentina is easily the world's cheapest wheat Fob.

EU wheat:

- There was no update on EU shipments, however, at current prices wheat exports will be very small (there was a \$20 premium of Romanian wheat over Russian in GASC's last tender). We estimate that they are down more than 40% from last year.
- Matif wheat gained €4/mt last week. French premiums eased with Algeria still the only export demand, German 12.5 pro premiums rose €1.

Black Sea wheat:

- Russian exporters keep fighting for sales. With a 25-30 mln mt export cap being rumored, it is unlikely that sales will slow in fear of missing out on this window.
- Boosted by higher prices and weak local currencies, Russia and Ukraine have already exported 6.4 mln mt and 2.6 mln mt of wheat, respectively. Russia has said that it is not going to implement export controls (yet), however, there is additional concerns about dryness while seeding the next winter crop.

➤ **Significant purchases/ trades:**

There has not been much trade and there is sufficient Russian/FSU wheat to take care of the demand.

- **GASC** bought 350kt Russian/Ukraine wheat for 11-20 Oct at \$239.75-\$242.50 (\$8 below their previous purchase).
- **Jordan** bought 60kt FH Nov at \$258.90.
- **US export sales** were 415k mt (up 73% from last week) for a season total of 330 mln bu (down 26% from last year).

➤ **Wheat Market Outlook:**

Significant events:

- Russia has said that it is not going to implement export controls (for now). This means there is sufficient wheat available to take care of nearby buying interests and tight money supplies are making buyers cautious.
- Argentina launched a floating export tax on grains and oilseeds over the long weekend. This did not enlist a reaction from the market but will be something to watch moving forward.
- Poor export performance for US wheat continues to weigh on US futures values.

➤ **Outlook:**

The USDA has their work cut out for them in the September WASDE report. In our view, wheat numbers remain tight and the export numbers the USDA predicts for exporting countries are not possible, which will require some price rationing, will not happen until we get into 2019. Unfortunately, patience remains the key.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: September 4, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '18 (bu.)	Nov. '18 (mt.)
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	\$6.36	\$233.69
1 CWAD 13.0	\$6.06	\$222.67	1 CWAD 13.0	\$6.12	\$224.87
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SW Sask			SW Sask		
1 CWRS 13.5	\$6.83	\$250.96	1 CWRS 13.5	\$6.83	\$250.96
1 CWAD 13.0	\$6.68	\$245.45	1 CWAD 13.0	\$6.75	\$248.02
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
NE Sask			NE Sask		
1 CWRS 13.5	\$6.69	\$245.82	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$6.55	\$240.67	1 CWAD 13.0	\$6.69	\$245.82
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SE Sask			SE Sask		
1 CWRS 13.5	\$6.70	\$246.18	1 CWRS 13.5	\$6.71	\$246.55
1 CWAD 13.0	\$6.69	\$245.82	1 CWAD 13.0	\$6.83	\$250.96
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00

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 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

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.”

- 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.
 - 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 4, 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	\$331.57	\$313.63		
HRS	\$327.69			
HRW 11.5	\$315.09			
SWW 12.0	\$297.64			
1 CWRS 13.5 ³	\$331.57		\$248.02	\$83.55
2 CWRS 13.0 ³	\$327.69		\$231.49	\$96.20
3 CWRS ³	\$315.09		\$220.83	\$94.26
CPS ³	\$290.85		\$203.93	\$86.92
1 CWAD ⁴		\$334.48	\$248.02	\$86.46
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$230.00			
French 11.5 (Rouen)	\$241.60			
APW 10.5 (W Coast)	\$285.00			
Argentine 12.0				
<p>¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency</p> <p>² Export Basis = FOB Prices CDA minus Cdn. Street Price</p> <p>³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS</p> <p>⁴ Values derived to Lakehead FOB</p>				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					September 4, 2018
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.84	\$8.73	\$8.39	\$7.92	\$7.92
Parity Track Rosetown	\$7.34	\$7.24	\$6.89	\$6.42	\$6.42
Track Bid Rosetown Area	\$6.75	\$6.30	\$6.01	\$5.55	\$5.55
Gross Margin at Elevator (\$/bu)*	\$0.59	\$0.94	\$0.88	\$0.87	\$0.87
Gross Margin at Elevator (\$/mt)*	\$21.78	\$34.43	\$32.48	\$31.94	\$31.94

* to cover elevation, elevator market risk, margin