

Wheat Market Outlook and Price Report: September 10th, 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 Sept 10, 2018

2018/19 World wheat Overview:

WHEAT	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	
		5-Jul	6-Sep		10-Aug		23-Aug
Production	756.7	736.1	721.8	758.0	729.6	758.0	716.4
Supply	1,013.3	1,009.7	995.4	1,015.2	1,002.7	1,001.9	982.4
Utilization	737.3	741.1	740.9	742.1	743.7	735.9	734.4
Trade	176.8	175.0	173.6	182.6	183.9	176.0	174.2
Stocks	273.6	264.2	252.3	273.1	259.0	266.0	248.0

- **Agriculture Market Information System (AMIS)** Came out with their September '18 report which gives a good summary of the overall global wheat situation, and a comparison of the most important estimates.
- **2018 wheat production** has been revised sharply downwards from the July report. Hot and dry conditions continued to adversely impacted yields in many of the major wheat growing countries, especially the Northern countries in the EU and Russian Federation.
- **Global wheat utilization** is expected to fall slightly, despite increases in food consumption

- **2018/'19 trade** is expected to be 1.8% lower than last year's record, on lower sales from the EU, Russia and Ukraine. This decrease is expected to be partially offset from increased US sales.
- **Ending stocks** are estimated to be lower than first anticipated on strong demand and much lower production.

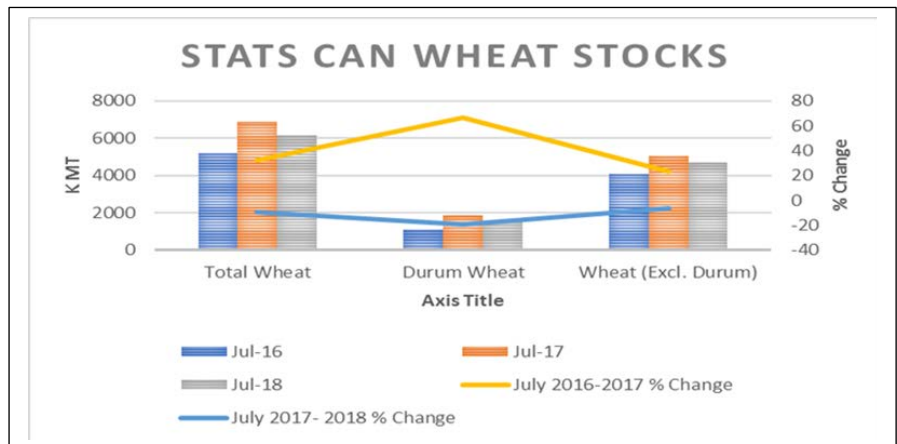
➤ **Global wheat production and trade:**

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.

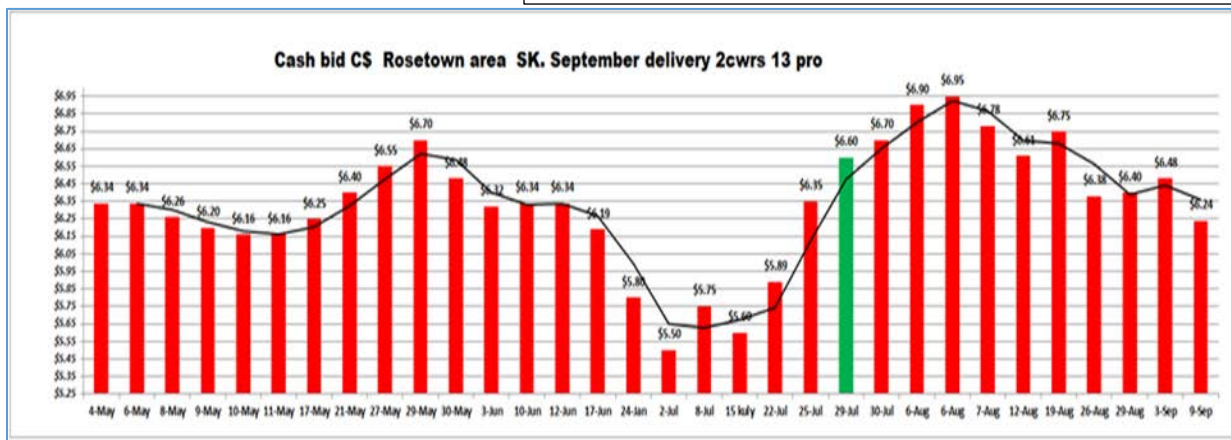
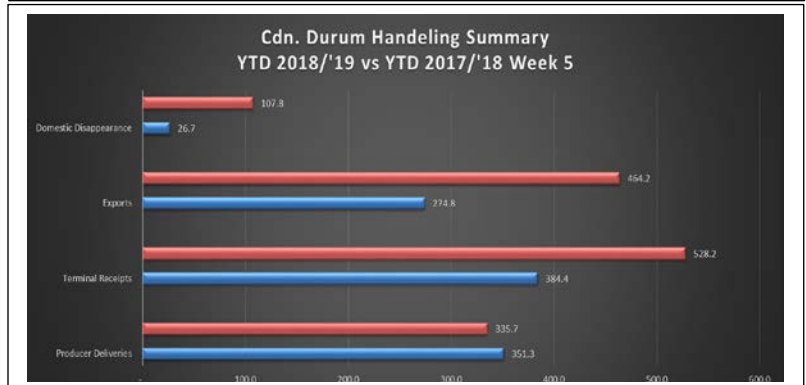
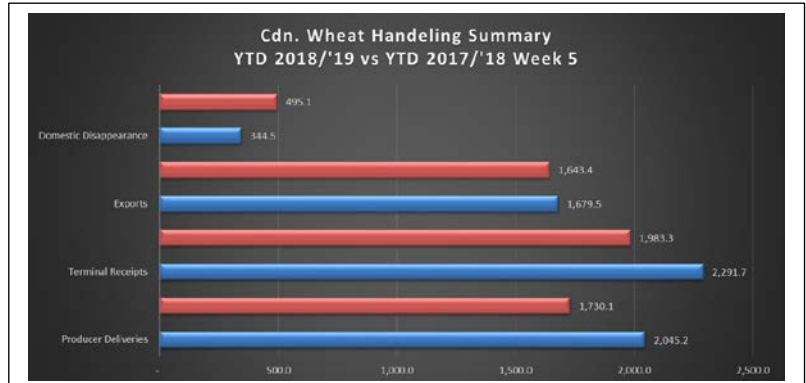
- **Futures:** Sep'18 contract Chicago winter wheat closed at 511-2, down 2-4 cents in today's trade and 20-6 cents for the week. Meanwhile, Sep'18 contract Kansas hard red winter wheat closed down a penny at 488-4, down 22-6 cents for the week. In Minneapolis, Sep'18 contract hard red spring wheat closed at 555-2, down 0-4 cents in today's trade, down 13-6 cents for the week, while Dec'18 hard red spring wheat closed at 570-0, down 1-6 cents for the day and 14-2 cents for the week.
- **Funds:** Index Funds did nothing, specs bought some corn and soya. Overall positions changed little. An estimated 100k contract fund long in wheat continues to weigh on the wheat market.
- **Matif:** Matif was down €1.50 as Russia continues to buy all wheat demand causing EU shipments to be down 50% y/y.

Canadian wheat:

- **Statistics Canada** Released their estimated **stocks of principle field crops** on Thursday. Total wheat stocks were seen to be decreasing 9.9% from last year to 6.18 mln mt which is similar to both trade's expected 6.2 mln mt and the USDA's 6 mln mt number. Of the total decrease in wheat stocks, StatsCan has durum decreasing by 19.4% to 1.473 mln mt, while wheat excl. durum is said to be down 6.4% to 4.706 mln mt.
- The **SAF crop report** has 28% of the SK spring wheat crop has been harvested while 13% is in swath, 22% is ready to straight cut, and 37% is still standing as of Sept 3rd. Durum was 49% harvested. Further estimated yields are expected in this week's SAF crop report.
- There were reports of **localized frost scattered throughout AB, SK, and Western MB**. The crops in most of the areas were mature and unaffected, however, there may have been some localized damage in Northern SK where crops are less advanced.
- **AMIS** has Canadian 2018/'19 wheat production down 1 mln mt from their previous estimate. Otherwise, imports were reduced 40k mt, Utilization was 180k mt lower, exports were 100k mt higher and finally ending stocks were lowered 900k mt.



- According to the **Week 4 CGC handling data**, Canadian wheat handling (blue) continues to be strong vs last year (red) with producer deliveries now at 2.05 mln mt, 20% ahead of last year's 1.73 mln mt for the same period. Terminal receipts of 2.29 mln mt at also 20% ahead of last year. YTD exports of 1.679 mln mt have now surpassed last year by 36.1k mt.
- **Durum** is a very different story as YTD producer deliveries are only slightly ahead of last year at 351.3k mt while Terminal receipts are down 40% at 384.4k mt, Exports are 70% lower at 274.8k mt and domestic disappearance is 4 times less this year than last at 267k mt.
- Cash wheat bids returned to their trend downwards as future prices continued to slide.

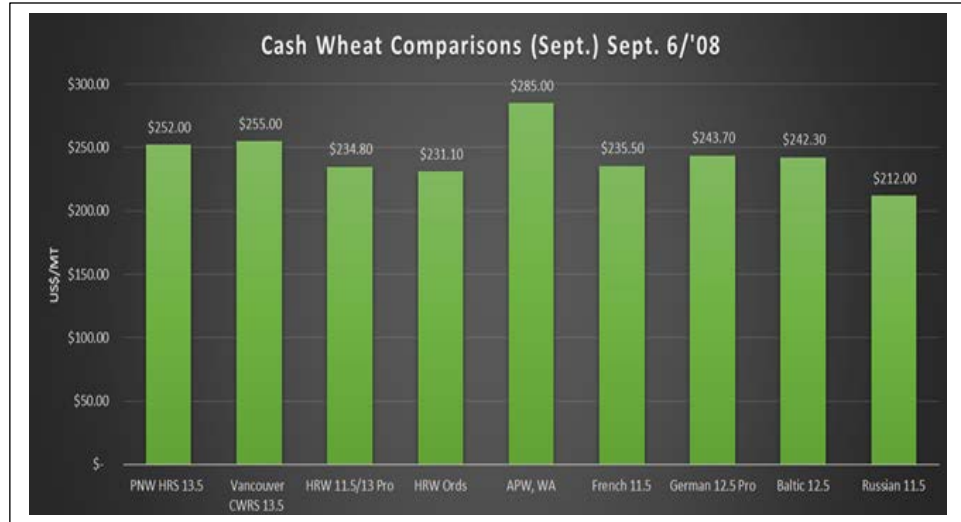


US wheat:

- **US harvest progress:** Winter wheat harvest is essentially complete. US spring wheat harvest is 87% complete, well ahead of the 75% avg.
- **US winter wheat seeding:** The US S Plains saw a timely rain ahead of their winter wheat planting. There is talk that wheat and corn may be buying acres from Soybeans as the China/US trade dispute continues.

- Most FOB prices declined over the week as Russia continued to buy what small demand there was over the week. HRW is around \$8.90/mt below comparable EU wheat. And basis the much larger carrying charges in the Black Sea, HRW is just \$1.8 higher than Russian wheat by December. We expect that by

December, North American wheat should be much more competitive in the cash markets. For now, Russian wheat remains the cheapest, which is aligned with their ostensible



goal to front-end load wheat exports. Australian APW wheat continues to be the most expensive wheat at \$285.00, effectively keeping them clear of any export demand. Meanwhile EU exports are running 50% behind last year.

Australian wheat:

- **Aussie futures reached fresh contract highs** as there is no end in sight to their drought and September is a critical growing month for them.
- Damages from the frost in Victoria are going to be hard to gauge but are a concern.
- **Australia's West could see a record crop** although the crop is poor quality. Vessels of wheat are currently moving from West to East for cattle feed amidst reports of **widespread culling from lack of feed**.
- **ABARES releases its crop update tomorrow**. Numbers are going to be a tough call as record high yields in the west are poor quality and are going to be early offset by severe production shortages in the East (which depends on how widespread the cattle culling is going to be).
- **The Aussie crop is currently 2-4 mln mt overstated in the USDA's 22 mln mt estimate**. We do not expect much change in Aussie numbers on Wednesday as the USDA usually adjusts their numbers in Oct, after the important Sept growing month.

Argentine wheat:

- **The Argentine market is at a stand still** as it tries to understand the newly implemented export tariff. Instead of the expected flat 10% tax, a floating rate of 4 Pesos per US\$ was implemented. Today, this is very close to 10%, but it will rise and fall (potentially everyday) with the exchange rate. The goal of the tax is to incentivize selling with a weak Peso (a weaker Peso generates a lower export tax in percentage terms) something Argentine farmers are reluctant to do.
- **The Argentine new crop wheat continues to be stressed from dry conditions** causing G/E ratings to be 46% vs avg of 70%.

EU wheat:

- **EU shipments** were just 33k mt, for a season total of 2.2 mln mt, down 49% from last year.
- **Brussels updated S&D** took their production down 6 mln mt to 137.5 (in line with USDA numbers), and exports down 5.5 mln mt to 21 mln mt (which, given their very slow start they still may have trouble accomplishing).

- Matif ended down €1.50 but French wheat is still around \$20 above comparable Black Sea wheat and \$8 above Russian 12.5 pro. On the other hand, at \$7 below German wheat plus a freight advantage. France is well positioned to take a large amount of the Saudi Tender.

Black Sea wheat:

- Trade spend most of the week adjusting the **apparent reversal of intentions of Russia to implement future export tariffs**. Interpretations of the report from Govt/Exporter meetings depend on whether you read the Russian or English version, the former stating “no measures but ongoing monitoring” the latter saying “no export restrictions” for the season. These have very different implications. The latter is what the news wires reported and thus, what trade believed, as both the Matif and US markets fell sharply. Despite this, exporters are behaving as if their export surplus is 50 mln mt and that they need to ship 25 mln mt by Dec before the plug gets pulled shortly thereafter. **We see no change to the Russian situation, the Govt will continue to monitor exports and act if deemed necessary.**
- Given Jul-Aug shipments, and the current Russian vessel line-up, close to 14 mln mt of wheat will have been exported by Russia come the end of Sept! Russian export policy is creating a distortion in the wheat market that will only increase the severity of rationing once the Russian Gov’t does pull the plug.

➤ Significant purchases/ trades:

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

- **GASC** bought 60k mt of Russian wheat for Oct 21-30 in their tender today.
- **Japan** bought 107.965 k mt of Aussie/Cdn/US wheat (54.412 k mt was sourced from the US).
- **Jordan** bought 60k mt FH Nov at \$257.
- **US export sales** were 380k mt for a season total of 344 mln bu, down 25% from last year.

➤ Wheat Market Outlook:

Significant events:

- The wheat market spent most of the week adjusting to the **news wire’s errant report of a definitive “no export restriction” decision from the Russian government**. Our sources say that this is wrong and that Russian exporters will continue to report their plans to the government who will continue to closely monitor the situation. Thus, no change to the Russian situation.
- **The Argentine market is essentially at a standstill** as the market digests the implications of the newly implemented export tariffs.
- **Aussie futures hit fresh contract highs** on the dry long-term forecast in the east and reports that the earlier frosts in Victoria were worse than initially thought.

➤ Outlook:

Russia remains in the center of the radar screen. Dry conditions are affecting the planting of winter grains. With no export taxes on Russian grains, the market wants to get early exports achieved in case the Russians decide to include taxes later. We continue to believe Russian exports will be front end loaded and demand for North American grains will not start until 2019. **Argentine export taxes** were applied making farmers reluctant sellers. **ABARES releases its crop update** tomorrow and the **USDA report** is scheduled for Wednesday.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: September 10, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '18 (bu.)	Nov. '18 (mt.)
1 CWRS 13.5	\$6.21	\$228.18	1 CWRS 13.5	\$6.22	\$228.55
1 CWAD 13.0	\$6.06	\$222.67	1 CWAD 13.0	\$6.11	\$224.51
1 CPSR 11.5	\$5.54	\$203.56	1 CPSR 11.5	\$5.57	\$204.66
SW Sask			SW Sask		
1 CWRS 13.5	\$6.56	\$241.04	1 CWRS 13.5	\$6.59	\$242.14
1 CWAD 13.0	\$6.65	\$244.35	1 CWAD 13.0	\$6.70	\$246.18
1 CPSR 11.5	\$5.40	\$198.42	1 CPSR 11.5	\$5.52	\$202.83
NE Sask			NE Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$6.43	\$236.26	1 CWAD 13.0	\$6.50	\$238.84
1 CPSR 11.5	\$5.34	\$196.21	1 CPSR 11.5	\$5.38	\$197.68
SE Sask			SE Sask		
1 CWRS 13.5	\$6.41	\$235.53	1 CWRS 13.5	\$6.43	\$236.26
1 CWAD 13.0	\$6.56	\$241.04	1 CWAD 13.0	\$6.64	\$243.98
1 CPSR 11.5	\$5.33	\$195.85	1 CPSR 11.5	\$5.38	\$197.68

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
 - 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				September 10, 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	\$327.93	\$6.76		
HRS	\$324.07			
HRW 11.5	\$312.96			
SWW 12.0	\$291.71			
1 CWRS 13.5 ³	\$327.93		\$242.14	\$85.79
2 CWRS 13.0 ³	\$324.07		\$227.45	\$96.62
3 CWRS ³	\$312.96		\$212.75	\$100.21
CPS ³	\$284.95		\$188.13	\$96.82
1 CWAD ⁴		\$0.00	\$0.00	\$0.00
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$225.00			
French 11.5 (Rouen)	\$235.50			
APW 10.5 (W Coast)	\$285.00			
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					September 10, 2018	
Canadian Funds						
PNW value/Vancouver	1CWRS13.5	2CWRS	Grade	3CWRS	Winter wht.	CPS
May/June delivery	\$8.74	\$8.64		\$8.33	\$7.75	\$7.75
Parity Track Rosetown	\$7.24	\$7.14		\$6.84	\$6.26	\$6.26
Track Bid Rosetown Area	\$6.59	\$6.19		\$5.79	\$5.12	\$5.12
Gross Margin at Elevator (\$/bu)*	\$0.65	\$0.95		\$1.05	\$1.14	\$1.14
Gross Margin at Elevator (\$/mt)*	\$24.04	\$34.88		\$38.47	\$41.84	\$41.84
* to cover elevation, elevator market risk, margin						