

## Wheat Market Outlook and Price Report: November 5, 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 Nov. 5, 2018**

#### **AMIS<sup>1</sup> Market Monitor - Global Wheat Supply-Demand Outlook, Nov. 2018**

WHEAT	in million tonnes						
	FAO-AMIS			USDA		IGC	
	2017/18 est.	2018/19 fcast		2017/18 est.	2018/19 fcast	2017/18 est.	2018/19 fcast
		4-Oct	1-Nov		11-Oct		25-Oct
<b>Production</b>	760.4	722.4	727.9	758.7	730.9	767.1	728.8
<b>Supply</b>	1,015.5	995.5	1,004.7	1,016.0	1,005.8	1,011.5	1,002.3
<b>Utilization</b>	737.2	741.0	740.1	741.2	745.6	738.0	740.2
<b>Trade</b>	176.6	174.0	173.2	181.3	180.4	176.4	172.0
<b>Stocks</b>	276.8	255.5	264.4	274.9	260.2	273.4	262.0

- The **wheat production forecast** for 2018 was raised significantly since last month, on reported bigger harvests in China along with a number of other countries more than offsetting a further downgrading of crop prospects in Australia.

<sup>1</sup> AMIS - Agricultural Market Information System. The AMIS Market Monitor covers international markets for wheat, maize, rice and soybeans, giving a synopsis of major market developments and the policy and other market drivers behind them. The analysis is a collective assessment of the market situation and outlook by ten international organizations and entities that form the AMIS Secretariat.

- **Wheat utilization** in 2018/19 is up slightly from 2017/18, with food use being the main driver and feed use of wheat growing at a slower pace due to firmer prices this season.
- **Wheat trade** in 2018/19 (July/June) was lowered further, reflecting downward adjustments to imports by several countries, including India, Indonesia and South Africa.
- **World wheat stocks** (ending 2019) were upgraded sharply, primarily on higher projected build-ups in China.

➤ **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:** Wheat closed the week 5 – 46 cents higher.
- **Funds:** Index funds did nothing while spec funds reduced their short buying beans and corn and some wheat.
- **Matif:** Matif wheat hit 6-week lows on a wetter forecast for France (winter wheat plantings are 69% complete) and another poor week of EU wheat exports.

- **Canadian wheat:**

- Canada loaded 249k mt of wheat for export during week 13, down significantly from the strong 414k mt loaded during week 12. But the season total of 4.7 mln mt exported still is 861k mt more (+23%) than Canada had exported last year at this time.

There are another 2.7 mln mt of wheat sitting in the handling system: 1.2 mln mt are still stored in primary elevators, but 1.4 mln mt are in export position (303k mt at the West Coast, 271k mt in Thunder Bay, and 826k mt in Lakes ports and the St. Lawrence). A relatively small 141k mt are currently on rail moving to port. *We hope this does not signify a slowdown of export shipments.*

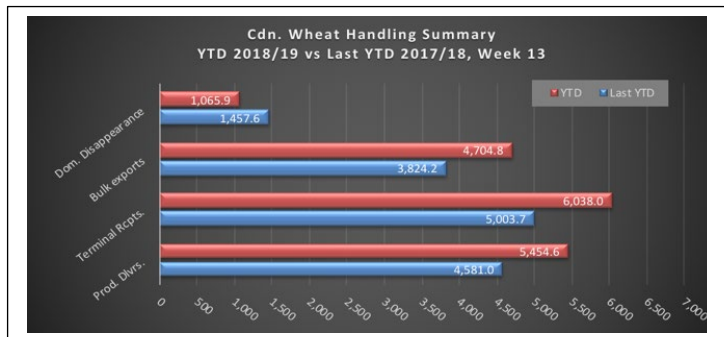
- *So far, wheat is showing by far the biggest export gains of all crops this year over last year.*

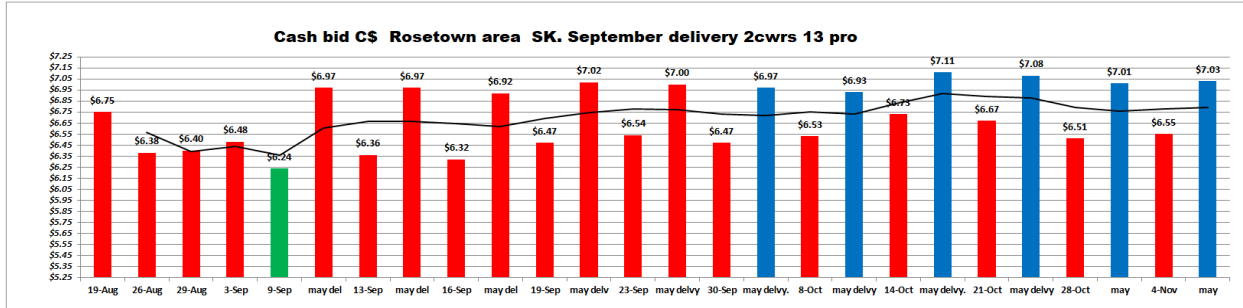
- In fact, extrapolating YTD wheat exports as of week 13 to the remainder of the crop year would yield Cdn. wheat exports of 18.8 mln mt, 800k mt more than AAFC is projecting for the '18/19 crop year. If accomplished, this would also lower wheat (excl. durum) ending stocks to 3.2 mln mt from 4.7 mln mt last crop year. – *We think the markets are there. We just hope that rail transportation will be available when needed and will not be unduly diluted by vastly increased crude oil shipments this winter.*

- In fact, the Canadian elevator system is close to being plugged, so we hardly saw any improvement in wheat bids at country locations. Rail Car loadings remain poor.

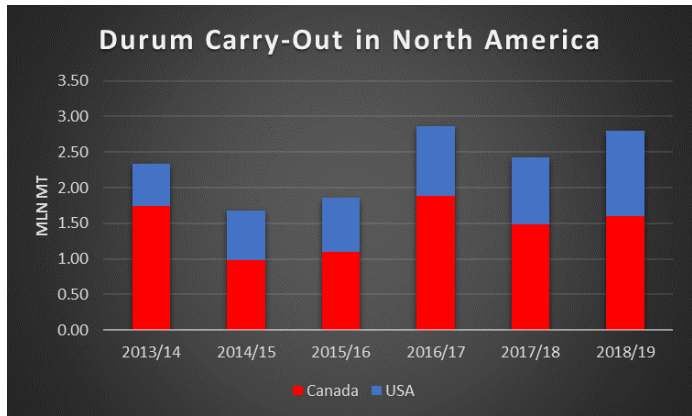
(CGC) Grain Handling Summary Wheat				Week 13 (to Oct. 28/'18)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
<b>Current week</b>	399.6	342.4	249.2	49.5	
<b>Week ago</b>	624.3	422.6	413.7	98.4	
<b>YTD</b>	<b>5,454.6</b>	<b>6,038.0</b>	<b>4,704.8</b>	<b>1,065.9</b>	
<b>Last YTD</b>	4,581.0	5,003.7	3,824.2	1,457.6	
<b>YTD less Last YTD (k mt)</b>	<b>873.6</b>	<b>1,034.3</b>	<b>880.6</b>	<b>-391.7</b>	
<b>YTD over Last YTD (%)</b>	<b>119%</b>	<b>121%</b>	<b>123%</b>	<b>73%</b>	

Based on weekly CGC Handling Data





- In international markets, Fob spreads are starting to reallocate demand. HRW, EU, and Russian 12.5 pro wheat values were all within \$2 of each other, but have widened out on the US rally. Russian wheat is not getting any cheaper, rather it will continue creeping higher as grain has to be sourced further and further inland.
- We expect significant changes to the world trade matrix in the next USDA report this week. We don't expect much cash trade until the USA election results are seen and the new WASDE estimates have been reviewed. We are thinking about increasing wheat sales and looking for a firm spot.
- **Durum:** Week 13 showed 101k mt of durum exports, but total YTD exports remain quite poor.
- The AAFC October report has 2018/19 Cdn. durum exports down 200k mt from the previous report to 4.6 mln mt. The reason for this is competition from Kazakhstan and the EU. However, 2018/19 harvest in Kazakhstan is expected to be down 45k mt (11% y/y) to 400k mt. Significantly, they provided 240k mt of Italy's durum demand last year, a market that has essentially dried up for Canada because of arguments over glyphosate contamination. On October 19<sup>th</sup> the Canadian Ag Minister went to Italy to speak to Italian importers about the durum dispute, but there has not been any news about the results of the meeting.
- According to the IGC, global durum supplies at 47.3 mln mt are estimated to be higher than last year. Increased demand (mostly from human consumption) totalling 37.5 mln mt leave total ending stocks essentially unchanged at 9.8 mln mt. According to the USDA and AAFC estimates, the combined ending stocks of Canada and the US (2.8 mln mt) will account for 28.5% of the total global ending stocks.
  - **US wheat:**



- US winter wheat planting is 78% complete (83% LY, 85% avg.) while the first set of ratings for the season show the crop as 53% G/E (52% LY).
- The US forecast looks increasingly wet into the middle of next week which will further hamper harvest. The market is paying fresh attention to US winter wheat seeding due to delays owing to the excessive rain. In contrast, the dry conditions/drought are expanding in the EU and Black sea areas. Argentina has some risks of frost.
- World FOB price spreads are changing as the market is working to re-allocate world trade flows. This is evident when comparing GASC's last Oct 26<sup>th</sup> tender with their Oct. 4<sup>th</sup> tender: On October 4, Russia beat out the competition handily, supplying Egypt's entire 180k mt tender at prices ranging from \$251.64-\$254.59 C&F. The closest competing bid (Romania) was still \$2.3 higher at \$256.89. But on Oct. 26<sup>th</sup>, the picture was quite different. Russia was still able to offer the lowest price, taking the majority of the tender (350k mt) at prices ranging from \$248.80-\$253.17 C&F. However, Ukraine also sold 60k mt at \$253.17 C&F while the US sold 60k mt of SRW at

\$253.97 C&F. French wheat continues to be the most expensive at \$266.50, \$12.53 above the highest price paid by GASC on Oct. 26<sup>th</sup>.

- We will receive the **next USDA report on Thursday**. We expect significant changes to the world trade matrix (EU, Russia, Australia) with still 7-8 months of the season still to go and Russian wheat prices starting to allow other origins into the tender market. Also, world wheat has to buy additional acres this year, and the market has been paying scant attention to the expanding drought in Europe and the Black Sea, or to plantings problems in the US, and a possible 3rd year of drought in Australia.
  - **Australian wheat:**
    - The forecast rain for this week could not come at a worse time for the wheat harvest. Reports suggest the trade is already taking its crop estimates down below 16 mln mt just a week after ABARES' revision to 16.6 mln mt. However, even with the lower crop, Australia should still have 9-10 mln mt to export. Still, current prices in Australia will make exporting very difficult.
  - **Argentine wheat:**
    - Buenos Aires Grain Exchange (BAGE) left their wheat crop estimate at 19.4 mln mt this week, but flagged quality problems in the north where the rains caused sprouting, and frost risks in the south.
    - Harvest was called 4.5% complete (3.5% last year) with a yield so far of 1.57 mt/ha (1.45 last week). But despite the apparent crop concerns, ratings rose again with GD/EX 41% against 34% last week and 51% last year.
    - New crop Fob values for Argentine wheat were still offered at US\$223/mt for Dec 12.5% protein wheat, less \$5/mt per half point of protein.
  - **EU wheat:**
    - Matif wheat hit 6-week lows on another poor week of EU exports.
    - The market recovered on increased concern over dryness across Europe and the Black Sea, along with additional Russian moves to stall exports via the suspension of interior loading points due to quality violations.
  - **Black Sea wheat:**
    - Russian exports seem to be slowing because of the suspension of interior loading points due to 'quality violations'. Traders wonder if these are conscious delaying tactics, as Russian wheat exports will reach ~17.5 mln mt by end of October. We hear reports that consumer sales are increasingly being made on an "optional origin" basis. Maybe this is the signal that the wheat market is starting to actively reallocate demand.
    - Wheat replacement remained around \$230 with the best offers for Dec at US\$235/mt. With crude at near 6-month lows and additional US sanctions on Russia possible, attention turned to the Ruble and its probable impact on both Fob wheat values and domestic inflation. The Ruble closed Friday at 4-week lows.
    - The best offer for Dec. Russian 12.5 protein wheat was at US\$235/mt; the nominal monthly carry is at \$5/mt *but with no firm sellers for deferred positions*.

➤ **Significant purchases/ trades:**

To our knowledge, there were no significant trades concluded this past week.

- US inspections were 393,000 tonnes (season total 316 mln bushels, (down 23% from last year), sales were at a very good 582,000 tonnes (season total 482 mln bushels down 15% on the previous year, although the gap to last year keeps narrowing).

➤ **Wheat Market Outlook:**

**Significant events:**

- Russian exports seem to be slowing because of the suspension of interior loading points due to 'quality violations'. Traders wonder if these are conscious delaying tactics, as Russian wheat exports will reach ~17.5 mln mt by end of October. We hear reports that consumer sales are increasingly being made on an "optional origin" basis. Maybe this is the signal that the wheat market is starting to actively reallocate demand.
- Fob spreads are starting to reallocate demand. HRW, EU, and Russian 12.5 pro wheat values were all within \$2 of each other, but have widened out on the US rally. Russian wheat is not getting any cheaper, rather it will continue creeping higher as grain has to be sourced further and further inland.
- Reports from Australia suggest the trade is already taking its crop estimates down below 16 mln mt just a week after ABARES' revision to 16.6 mln mt.

➤ **Outlook:**

We will receive the next USDA report on Thursday. We expect significant changes to the world trade matrix (EU, Russia, Australia) with still 7-8 months of the season still to go and Russian wheat prices starting to allow other origins into the tender market.

Also, world wheat has to buy additional acres this year, and the market has been paying scant attention to the expanding drought in Europe and the Black Sea, or to plantings problems in the US, and a possible 3rd year of drought in Australia.

We are thinking about increasing wheat sales and looking for a firm spot.

**iii) Primary Elevator Price Tables and Grade Spreads**

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

Date: November 5, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$7.02	\$257.94	1 CWRS 13.5	\$7.28	\$267.50
1 CWAD 13.0	\$5.76	\$211.65	1 CWAD 13.0	\$5.99	\$220.10
1 CPSR 11.5	\$6.03	\$221.57	1 CPSR 11.5	\$6.35	\$233.32
SW Sask			SW Sask		
1 CWRS 13.5	\$6.91	\$253.90	1 CWRS 13.5	\$7.20	\$264.56
1 CWAD 13.0	\$5.74	\$210.91	1 CWAD 13.0	\$6.02	\$221.20
1 CPSR 11.5	\$5.82	\$213.85	1 CPSR 11.5	\$6.27	\$230.38
NE Sask			NE Sask		
1 CWRS 13.5	\$6.78	\$249.12	1 CWRS 13.5	\$7.05	\$259.05
1 CWAD 13.0	\$5.81	\$213.48	1 CWAD 13.0	\$5.94	\$218.26
1 CPSR 11.5	\$5.79	\$212.75	1 CPSR 11.5	\$6.06	\$222.67
SE Sask			SE Sask		
1 CWRS 13.5	\$6.78	\$249.12	1 CWRS 13.5	\$7.00	\$257.21
1 CWAD 13.0	\$5.92	\$217.52	1 CWAD 13.0	\$6.08	\$223.40
1 CPSR 11.5	\$5.79	\$212.75	1 CPSR 11.5	\$6.12	\$224.87

**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<sup>2</sup> (see *Export Basis*

<sup>2</sup> 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.”

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.
  - 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				November 5, 2018
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$340.73	\$312.82		
HRS	\$333.51			
HRW 11.5	\$326.29			
SWW 12.0	\$305.12			
1 CWRS 13.5 <sup>3</sup>	\$340.73		\$255.37	\$85.36
2 CWRS 13.0 <sup>3</sup>	\$333.51		\$240.67	\$92.84
3 CWRS <sup>3</sup>	\$326.29		\$227.81	\$98.48
CPS <sup>3</sup>	\$298.38		\$206.13	\$92.25
1 CWAD <sup>4</sup>		\$308.00	\$207.24	\$100.77
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$255.00			
French 11.5 (Rouen)	\$232.25			
APW 10.5 (W Coast)				
Argentine 12.0				

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency  
<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price  
<sup>3</sup> DNS 14% = 1 CRWS 13.5%; HRS = 2 CWRS 13.0%; HRW = 3CWRS; SWW = CPS  
<sup>4</sup> Values derived to Lakehead FOB



**ADDENDUM**

**Futures Driven Basis Calculation, Canadian Dollars per MT**

<b>Canadian Wheat - World Price Parities</b>					November 5, 2018
<b>Canadian Funds</b>	<b>Grade</b>				
<b>PNW value/Vancouver</b>	<b>1CWRS13.5</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>May/June delivery</b>	\$9.09	\$8.89	\$8.70	\$8.12	\$8.12
<b>Parity Track Rosetown</b>	\$7.59	\$7.40	\$7.20	\$6.62	\$6.62
<b>Track Bid Rosetown Area</b>	\$6.95	\$6.55	\$6.20	\$5.61	\$5.61
<b>Gross Margin at Elevator (\$/bu)*</b>	\$0.64	\$0.85	\$1.00	\$1.01	\$1.01
<b>Gross Margin at Elevator (\$/mt)*</b>	\$23.64	\$31.12	\$36.76	\$37.26	\$37.26

\* to cover elevation, elevator market risk, margin