

Wheat Market Outlook and Price Report: November 13, 2018
By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

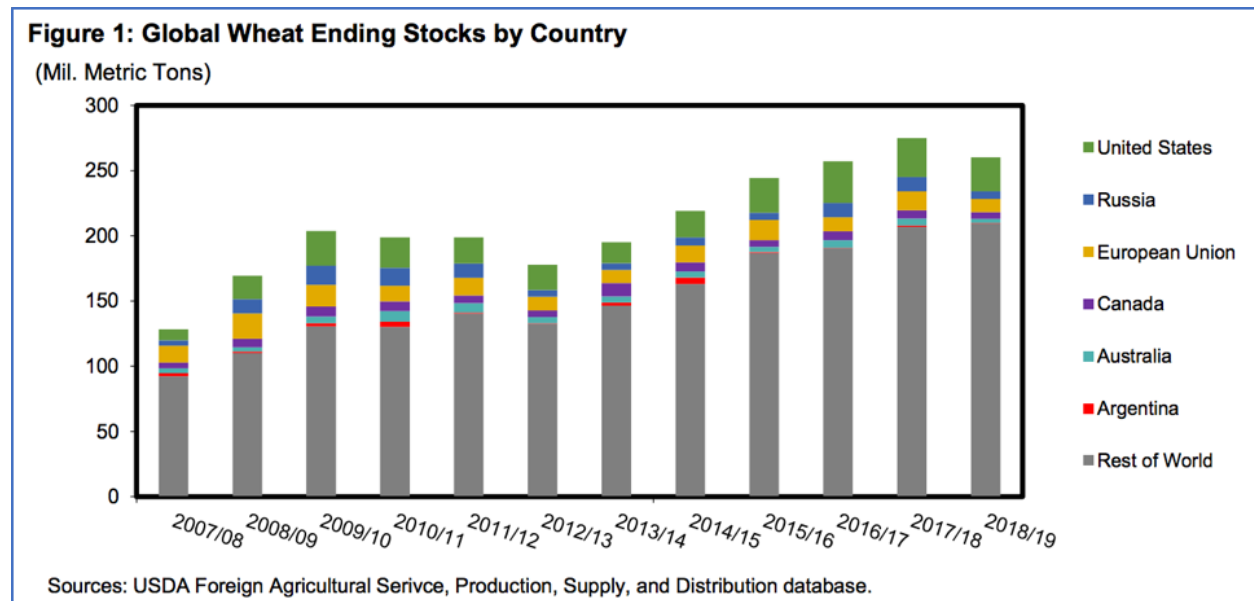
i) Background and Rationale for the Report

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.

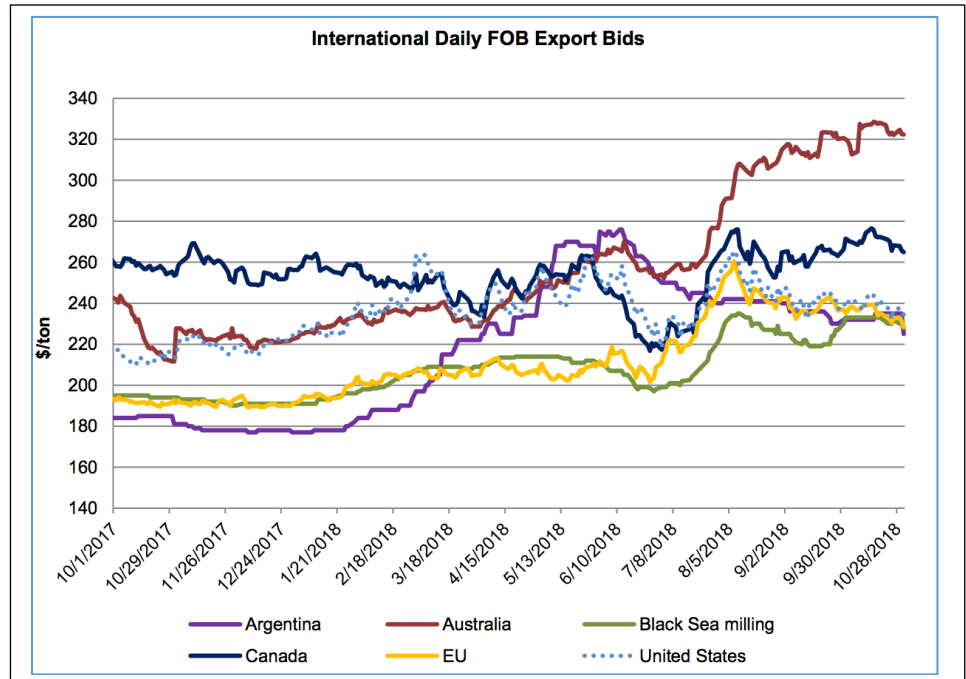
ii) Wheat Market Outlook Nov. 13, 2018

USDA Wheat Outlook



- Growing global use, fueled by expanding demand for wheat, contributes to balance sheet tightness and provides support for maintenance of the U.S. export figure at 27.9 million metric tons (1,025 million bushels), despite sluggish first quarter exports.

- Global Prices:** Exporter quotes were mixed in October. Argentine, EU, and U.S. prices were down, while Australian, Black Sea, and Canadian quotes were up. Australia's drought continues to result in increasingly uncompetitive prices. Black Sea, EU, Argentine, and U.S. quotes are currently within a very narrow range, while Canadian prices are up slightly.



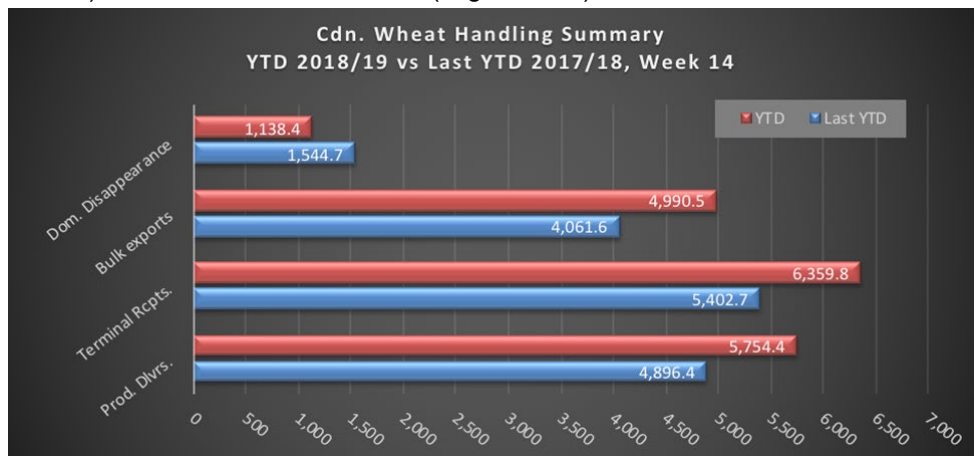
➤ **Global wheat production and trade:**

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 was from 4 cents lower to 13 cents higher.
- Funds:** Index funds did very little; Spec funds reduced their short to ~20 mln mt. The question is how much more the Specs want to cover given the uncertain environment in the face of Trump's tweets.
- Matif:** Matif wheat ended lower, but there was reported good interest in 2019 French premiums where the trade seems to feel the odds may be best that Russia will be much less present in export markets.

Canadian wheat:

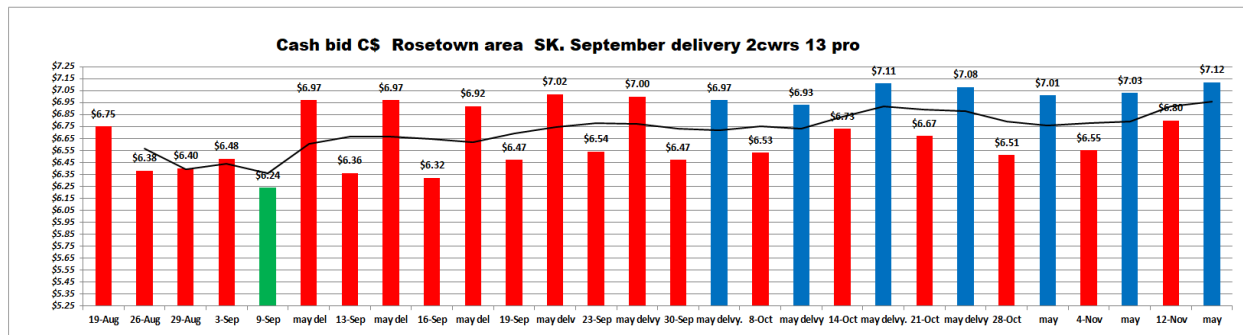
- The final SK crop report was released today, showing that 99% of the SK spring wheat crop is harvested. The provincial average yield was 43 bu/ac, in line with StatsCan's 43.3 bu/ac. While there was concern about the quality of the crop from the delayed harvest, 46% of the crop was rated as #1CW (avg. is 39%), 28% was rated as #2CW (avg. is 34%) while 26% was rated as #3CW or CW Feed (avg. is 27%).
- Crop year Canadian wheat exports (excl. durum) to week 14 at just under 5 mln mt are a significant 929k mt higher (+23%) than last year at this time. Adding durum into the equation, combined wheat and durum exports are 734k mt ahead



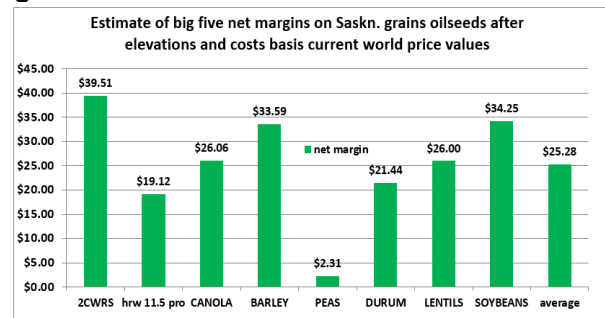
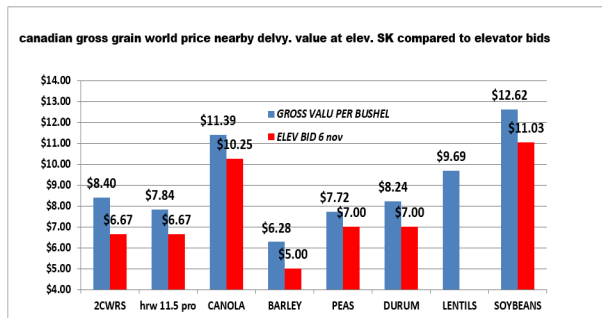
(+14%) over last year's combined wheat & durum exports. (YTD durum exports lag last year's by 195k mt, or by 19%). However, railcar loadings with wheat seem to be slowing; only 94,300 mt of wheat was loaded to railcars during week 14.

Indonesia, Peru, and China were the three biggest destinations for Canadian wheat during Aug./Sept., importing 341k mt, 337k mt, and 329k mt, respectively.

- According to the CGC, YTD durum exports of 980,300 mt continue to lag behind last year by 19%. This, despite the fact that YTD producer deliveries of 954,900 mt are slightly (0.05%) ahead of last year. Domestic disappearance has been very slow. The YTD total of 113,500 mt is just 53% of last year's 215,700 mt.
- *Total grain and oilseed deliveries in week 14 were 1.2 mln mt compared to rail loadings of 325,000 mt. Canada appears committed to loading crude oil onto railcars into a declining value market, while providing insufficient railcars for grain and oilseeds. Total grain stocks are over 7 mln tonnes.*



Canadian elevators bids and estimates of net margins



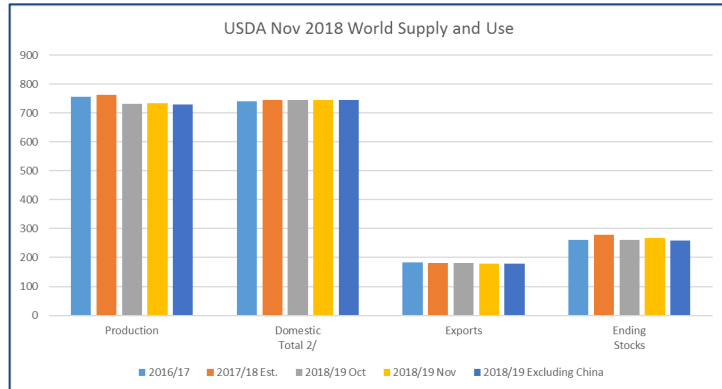
- Elevator margins remain healthy, particularly for wheat

US wheat:

- Wheat traded relatively flat to start the week. The US election results sparked little response, while Russia threw some confusion into the market reporting that they were lowering wheat export predictions before quickly redacting it and reporting unchanged numbers. Otherwise, all attention was on Thursday's USDA report. The report was bearish, and the markets spent the remainder of the week trading lower.
- USDA had US wheat supply unchanged, while total use was increased 7 mln bu, mainly from higher seed usage (increasing projected 2019/20 planted area), for an overall 7 mln bu lowering of ending stocks.
- In their global wheat numbers, the USDA was influenced by China's updated production numbers causing Thursday's report to look bearish. Global 2018/19 wheat stocks and production were raised by 6.7 mln mt and 2.6 mln mt respectively. *But the increase was solely from the influence of China increasing their production numbers by 20 mln mt for the past 10 years. Excluding China, global*

production was actually lowered 1.9 mln mt and stocks were down 0.9 mln mt (vs the 0.73 mln mt decrease expected).

- US export sales are slowly improving. Last week, US export sales of 661,241 mt were above the expected 300,000-600,000 mt, for a season total of 506 mln bu, now just 15% behind last year. This gap has been narrowing by 1% per week.



Australian wheat:

- The only change in the USDA's world export numbers was for Australia. They saw their number fall 1.5 mln to 11.5 mln mt (still high) because of a 1.5 mln mt decrease in production to 17.5 mln mt (also high). EU and Russian export numbers were left disappointingly, but unsurprisingly unchanged at 23 mln mt (~4 mln mt too high) and 35 mln mt (5 mln mt too high) respectively. The USDA is ignoring the fact that domestic flour prices in Russia are rapidly rising and that their carry-out number is worth just 27 days of supply.
- Australian wheat futures fell by A\$8/mt on the week, as farmer selling increased with the advancing harvest. Australian wheat prices remain too high to compete on the export market.

Argentine wheat:

- USDA left the Argentine S&D unchanged.
- *The Argentine wheat harvest is currently put at just 11% complete and while BAGE kept their production estimate unchanged last week, a reduction is expected in this week's update due to recent frosts in the south and the current heavy rain/flooding.*
- The weekend rain increased Argentine FOB offers by \$4/mt. New crop Fob values for Argentine wheat went to US\$217-224/mt for Dec 12.5% protein wheat, less \$5/mt per half point of protein.

EU wheat:

- EU wheat shipments were again poor last week, but once again USDA did not take account of the slow pace, leaving annual EU exports at an unchanged 23 mln mt. Also, the USDA is still keeping EU end stocks at the equivalent of just 24 days' supply, which remains very tight.

Black Sea wheat:

- WASDE report: EU and Russian export numbers were left unchanged at 23 mln mt (~4 mln mt too high?) and 35 mln mt (5 mln mt too high?), respectively. The USDA is ignoring the fact that domestic flour prices in Russia are rapidly rising and that their carry-out number is worth just 27 days of supply. However, given the low crude prices and the weak Rouble, Russia might just put up with these problems for the sake of foreign exchange monies.
- The Rouble fell to 2-month lows as did crude oil, which fell to levels not seen since March. Interior flour prices continued to rise (up 30% since early summer), but the Gvmt. seems to be ignoring this.
- Ukraine said that 90% of its winter crops were in "Good condition and probably the best for 10 years".
- The Black Sea was again quiet and ill-defined with nearby sellers looking for bids, whilst 2019 bids found no offers.

Chinese wheat:

- Chinese wheat rallied despite the revisions by their Statistics Bureau, which increased Chinese wheat ending stocks by 7 mln mt to 143.5 mln mt, or 14 months of domestic consumption. However, no one knows the true numbers for China.

➤ **Significant purchases/ trades:**

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

- US export sales are slowly improving. Last week, US export sales of 661,241 mt were above the expected 300,000-600,000 mt, for a season total of 506 mln bu, now just 15% behind last year. This gap has been narrowing by 1% per week.

➤ **Wheat Market Outlook:**

Significant events:

- Wheat traded relatively flat to start the week. The US election results sparked little response, while Russia threw some confusion into the market reporting that they were lowering wheat export predictions before quickly redacting it and reporting unchanged numbers. Otherwise, all attention was on Thursday's USDA report. *The report was bearish, and the markets spent the remainder of the week trading lower.*
- *The Argentine wheat harvest is currently put at just 11% complete and while BAGE kept their production estimate unchanged last week, a reduction is expected in this week's update due to recent frosts in the south and the current heavy rain/flooding.*
- In Russia, The Rouble fell to 2-month lows as did crude oil, which fell to levels not seen since March. Interior flour prices continued to rise (up 30% since early summer), but the Gvmt. seems to be ignoring this.
- Crop year Canadian wheat exports (excl. durum) to week 14 at just under 5 mln mt are a significant 929k mt higher (+23%) than last year at this time. Adding durum into the equation, combined wheat and durum exports are 734k mt ahead (+14%) over last year's combined wheat & durum exports. (YTD durum exports lag last year's by 195k mt, or by 19%). *However, railcar loadings with wheat seem to be slowing; only 94,300 mt of wheat was loaded to railcars during week 14.*

➤ **Outlook:**

We await some news regarding export restrictions from Russia. However, we feel that with lower crude oil prices and a weak rouble, this may not be forthcoming. We did not see anything in the WASDE report that was particularly bullish on wheat. Canadian elevator bids did very little and rail loadings remain poor.

We note that some elevators were paying \$7.25/bu for 1-13.5 CWRS for Dec. delivery, which is not a bad price. We would need a better railcar supply in Canada to reach world prices for wheat. In lack thereof, \$7.25-7.50/bu wheat prices are not a bad target for additional sales.

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 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)
 - 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.

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.”

- 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 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	\$340.73	\$312.82		
HRS	\$333.51			
HRW 11.5	\$326.29			
SWW 12.0	\$305.12			
1 CWRS 13.5 ³	\$340.73		\$255.37	\$85.36
2 CWRS 13.0 ³	\$333.51		\$240.67	\$92.84
3 CWRS ³	\$326.29		\$227.81	\$98.48
CPS ³	\$298.38		\$206.13	\$92.25
1 CWAD ⁴		\$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				
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					November 5, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.09	\$8.89	\$8.70	\$8.12	\$8.12
Parity Track Rosetown	\$7.59	\$7.40	\$7.20	\$6.62	\$6.62
Track Bid Rosetown Area	\$6.95	\$6.55	\$6.20	\$5.61	\$5.61
Gross Margin at Elevator (\$/bu)*	\$0.64	\$0.85	\$1.00	\$1.01	\$1.01
Gross Margin at Elevator (\$/mt)*	\$23.64	\$31.12	\$36.76	\$37.26	\$37.26

* to cover elevation, elevator market risk, margin