

## Wheat Market Outlook and Price Report: November 26, 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 Nov. 26, 2018**

#### **International Grains Council (IGC) November World Wheat Estimate Summary**

<b>WORLD ESTIMATES</b>					
	15/16	16/17	17/18 est.	18/19 f'cast	25.10 22.11
million tons					
<b>WHEAT</b>					
<b>Production</b>	737	753	767	<b>729</b>	<b>729</b>
<b>Trade</b>	166	177	176	<b>172</b>	<b>171</b>
<b>Consumption</b>	718	735	739	<b>740</b>	<b>739</b>
<b>Carryover stocks</b>	227	244	273	<b>262</b>	<b>262</b>
<b>year/year change</b>	19	18	28		<b>-11</b>
<b>Major exporters <sup>b)</sup></b>	68	79	81	<b>65</b>	<b>65</b>

- The IGC lowered their **global wheat trade** estimate by 1 mln mt to 171 mln mt due to a 1 mln mt decline in their **global wheat consumptions** estimate. **Global wheat ending stocks** stayed unchanged at 65 mln mt, am 8.8% stock-use ratio. Ending stocks are expected to be 16 mln mt lower than last crop year.
- The IGC's first projection for **all-wheat harvested area in 2019/20** is for a rise of about 1%, to 220 mln ha. Although acreage gains are anticipated in the EU, Russia, the USA and India, inclement weather in the early part of the growing season is of some concern.

➤ **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:** Dec '18 contract **Chicago winter wheat** closed at 499-6, up 1-0 cents in Friday's trade and down 5-6 cents for the week.  
Dec 18 contract **Kansas hard red winter wheat** closed down 7-6 cents at 461-2, down 18-8 for the week.  
In **Minneapolis**, Dec '18 contract **hard red spring wheat** closed at 574-2, up 2-2 cents for the day, down 0-4 for the week, while Mar '19 hard red spring wheat closed at 571-2, down 0-6 cents for the day, down 3-6 cents for the week.
- **Funds:** Index funds did nothing during the week and we don't expect them to change their overall position. Specs sold a little, mainly corn, and we expect them to add a little to their overall short.
- **Matif:** Matif had its lowest intra-day close since late July before ending the week little changed.

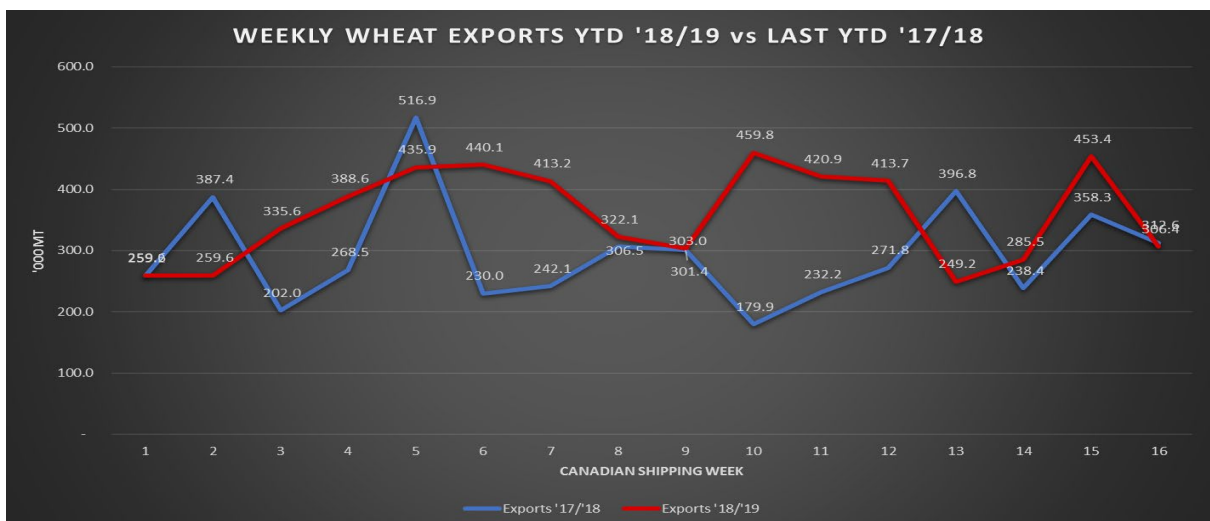
**Canadian wheat:**

- YTD Canadian wheat (excl durum) exports at 5.750 mln mt are over 1 mln mt (+22%) ahead of last year's wheat exports. This makes good sense as wheat is generating the best elevator margins for grain companies/exporters this crop year, well ahead of margins for canola and peas.
- Into week 16, average weekly exports are at 359.4k mt. If the same momentum is maintained, Canada is on pace for 18.7 mln mt of wheat exports. This would exceed the AAFC '18/19 wheat export projection by 689k mt, or by 3.8%. If achieved, it would reduce this crop year's Cdn. wheat ending stocks (excl. durum) to 3.28 mln mt, down from 4.7 mln mt last crop year and 5 mln mt the year prior. Too bad durum exports are lagging last years by 16% (-188.4k mt).

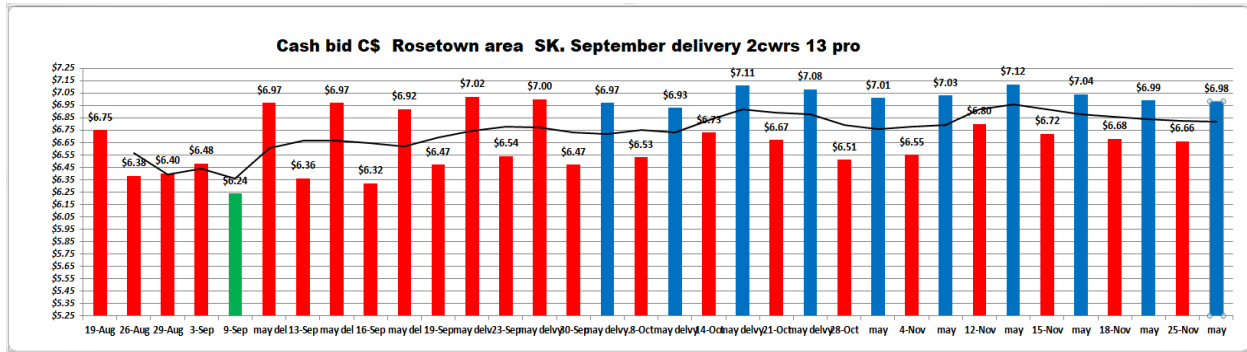
(CGC) Grain Handling Summary Wheat				Week 16 (to Nov. 18/18)	
('000 mt)	Terminal		Bulk exports	Dom.	
	Prod. Divrs.	Rcpts.		Disappearance	
<b>Current week</b>	479.4	334.5	306.4	78.8	
Week ago	407.6	229.5	453.4	67.5	
<b>YTD</b>	<b>6,641.0</b>	<b>7,020.6</b>	<b>5,750.4</b>	<b>1,285.1</b>	
Last YTD	5,702.1	5,988.2	4,732.7	1,719.5	
<b>YTD less Last YTD (k mt)</b>	<b>938.9</b>	<b>1,032.4</b>	<b>1,017.7</b>	<b>-434.4</b>	
<b>YTD over Last YTD (%)</b>	<b>116%</b>	<b>117%</b>	<b>122%</b>	<b>75%</b>	

(CGC) Grain Handling Summary Durum				Week 16 (to Nov. 18/18)	
('000 mt)	Terminal		Bulk exports	Dom.	
	Prod. Divrs.	Rcpts.		Disappearance	
<b>Current week</b>	66.1	85.3	80.3	1.6	
Week ago	65.4	107.1	74.7	1.8	
<b>YTD</b>	<b>1,086.2</b>	<b>1,202.1</b>	<b>996.5</b>	<b>116.7</b>	
Last YTD	1,082.5	1,509.4	1,184.9	247.0	
<b>YTD less Last YTD (k mt)</b>	<b>3.7</b>	<b>-307.3</b>	<b>-188.4</b>	<b>-130.3</b>	
<b>YTD over Last YTD (%)</b>	<b>100%</b>	<b>80%</b>	<b>84%</b>	<b>47%</b>	



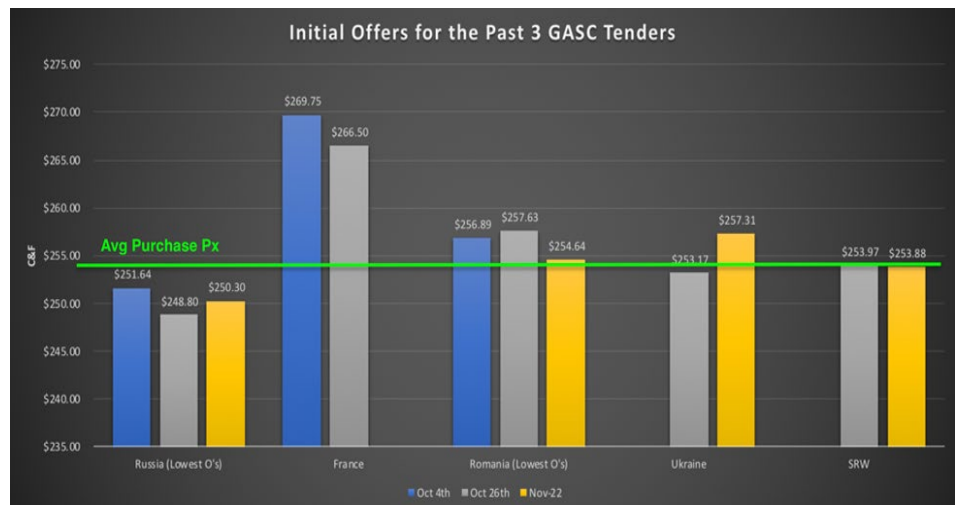
- Canadian elevator bids were about unchanged and there are higher bids than Cargill's (depicted below).



### US wheat:

- Winter wheat acres are set to increase this year as the drought in the Southern Plains has been relieved by heavy rains. The latest USDA estimates for total wheat acreage have an increase from 47.8 mln acres this year to 51.0 mln acres next year (combined winter and spring acres).
- US weekly export sales at 330k mt were the low end of expectations (300-600k mt). At least the last 5 weeks sales are better than the previous 5 weeks sales. Exports are catching up a bit on last year, but US sales are still running way behind pace (-97 mln bu), and the clock is ticking. The longs are getting tired of waiting.
- Poor US export performance is going to keep pressure US wheat futures. We are going to need some big weeks of USA wheat exports to catch up with the USDA estimates.
- This week, **Egypt (GASC) bought 120k mt U.S. SRW wheat**, 60k mt Russian wheat, and 60k mt Romanian wheat, all for Jan 10-20 shipment at prices ranging from ~\$250-254/mt C&F. This means that US wheat has made its presence felt in the Egyptian market with the lowest FOB offer of all origins at \$220.90/mt.

Freight adds about \$32.90/mt to US SRW wheat, \$16.60 to Russian wheat, and \$15.65 to Romanian wheat. French wheat was also offered but is way too expensive to have a chance to trade. With French wheat crop ratings currently the worst in 6 years, it is unlikely French wheat will become competitive any time soon.



- We think we need much more volume of US/ N. American wheat traded very soon to make a lasting difference to the markets.

### Australian wheat:

- Harvest reports from Australia are very mixed. Generally, yields are better than expected but quality is lower.

- Aussie futures ended the week up A\$12/mt, but cash APW in WA was priced down at \$268/mt and ASW was priced at \$261/mt this week. However, this wheat remains well priced out of all but the most inelastic demand.

#### **Argentine wheat:**

- Despite heavy rains, some wheat quotes materialised in Argentina, with a bid-offer spread at \$215-222/mt.
- BAGE cut the Argentine wheat crop by 200k mt to 19.2 mln mt.

#### **EU wheat:**

- In Europe, Matif wheat increased by €1-2/mt on reports of a Panamax vessel scheduled to load wheat in Dunkirk, France, destined for China. A crop failure in Australia and US/China trade tensions have caused China to look outside of their usual suppliers to France, the first time since January 2014. Two ships for ~36k mt are scheduled (one arrived last Friday).

#### **Black Sea wheat:**

- Data for Russian farm stocks show a major decline on last year, but the volume and price of Russian wheat offers to Egypt argue a different story.
- The bulk of the Russian offers put 11.5% protein wheat replacement around \$228/mt Fob.
- Crude oil fell 11% to 14-month lows and has now fallen 30% since the highs of the first week of October. The link to the Ruble seems to have broken as it is virtually unchanged.

#### **Chinese wheat:**

- China sold 516k mt of wheat from their state reserves last Wednesday, just 17.3% of the amount offered.

#### ➤ **Significant purchases/ trades:**

A lot of cash business in wheat was concluded during this past week:

- **Japan** bought 99k mt of wheat in their weekly tender, with 64k mt from the US and the balance bought from Canada.
- **Egypt (GASC)** bought 240,000 mt U.S./Russian/Romanian wheat at \$250-254 C&F for Jan 10-20/'19 shipment.
- **Saudi Arabia** bought 495,000 mt Jan/Mar at \$264.50 basis port Jeddah.
- **Turkey (TMO)** bought 180,000 mt of 13.5% pro wheat at \$252-261 depending on the port.
- **Tunisia** bought 4 x 25,000 mt at \$251-252.25. Tunisia passed on the durum wheat.
- **Morocco** received no offers at its 45,000 mt EU durum tender.
- **Algeria** tenders next Tuesday for LH and FH Jan. '19.
- **Pakistan** approved the export of 500,000 tonnes of subsidized wheat, which was less than expected.
- **US wheat inspections** were 509,000 tonnes (season total 360 myn bushels down 18%), sales were 330,000 tonnes (season total 533 myn bushels down 19% against the USDA's projected 14% increase).

#### ➤ **Wheat Market Outlook:**

##### **Significant events:**

- Egypt (GASC) bought 120k mt U.S. SRW wheat, 60k mt Russian wheat, and 60k mt Romanian wheat, all for Jan 10-20 shipment at prices ranging from ~\$250-254/mt C&F. This means that US wheat has made its presence felt in the Egyptian market with the lowest FOB offer of all origins at \$220.90/mt. – But we are going to need some big weeks of USA wheat exports to catch up with the USDA estimates.

- The poor USA exports kept the pressure on KC and the CBOT, which along with the slow EU shipments suggests either a major miss in world demand numbers, or that consumer continue to buy hand to mouth and de-stock.
- Wheat bulls are getting tired as markets don't appear to show any sign of shortage. Russia is becoming less important as USA and EU exports are way behind USDA estimates.

➤ **Outlook:**

Russian farm stocks data showed major declines on last year, but the volume of Russian wheat offers to Egypt (GASC) give encouragement to the bears on Russian wheat premiums. The poor USA exports kept the pressure on KC and the CBOT, which along with the slow EU shipments suggests either a major miss in world demand numbers, or that consumer continue to buy hand to mouth and de-stock. Wheat bulls are getting tired as markets don't appear to show any sign of shortage. Russia is becoming less important as USA and EU exports are way behind USDA estimates.

*We expect markets to remain in the doldrums. If we can sell wheat over \$7.00, we would be inclined to sell a percentage to get to a total of 70 percent sold.*

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

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

Date: November 26, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$6.99	\$256.84	1 CWRS 13.5	\$7.20	\$264.56
1 CWAD 13.0	\$5.74	\$210.91	1 CWAD 13.0	\$6.06	\$222.67
1 CPSR 11.5	\$5.98	\$219.73	1 CPSR 11.5	\$6.27	\$230.38
SW Sask			SW Sask		
1 CWRS 13.5	\$6.86	\$252.06	1 CWRS 13.5	\$7.08	\$260.15
1 CWAD 13.0	\$5.72	\$210.18	1 CWAD 13.0	\$6.09	\$223.77
1 CPSR 11.5	\$5.75	\$211.28	1 CPSR 11.5	\$6.17	\$226.71
NE Sask			NE Sask		
1 CWRS 13.5	\$6.74	\$247.65	1 CWRS 13.5	\$6.95	\$255.37
1 CWAD 13.0	\$5.85	\$214.95	1 CWAD 13.0	\$6.07	\$223.04
1 CPSR 11.5	\$5.74	\$210.91	1 CPSR 11.5	\$6.02	\$221.20
SE Sask			SE Sask		
1 CWRS 13.5	\$6.72	\$246.92	1 CWRS 13.5	\$6.89	\$253.17
1 CWAD 13.0	\$5.94	\$218.26	1 CWAD 13.0	\$6.19	\$227.45
1 CPSR 11.5	\$5.71	\$209.81	1 CPSR 11.5	\$6.03	\$221.57

**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	(0.01)	(0.37)
1 CWRS 12.5	(0.15)	(5.51)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.0	(0.10)	(3.67)
2 CWAD 12.5	(0.20)	(7.35)

#### **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>1</sup> (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)

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<sup>1</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.”



- 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 26, 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	\$338.50	\$313.70		
HRS	\$331.21			
HRW 11.5	\$313.21			
SWW 12.0	\$307.38			
1 CWRS 13.5 <sup>3</sup>	\$338.50		\$255.37	\$83.13
2 CWRS 13.0 <sup>3</sup>	\$331.21		\$246.18	\$85.02
3 CWRS <sup>3</sup>	\$313.21		\$224.14	\$89.07
CPS <sup>3</sup>	\$300.57		\$212.38	\$88.19
1 CWAD <sup>4</sup>		\$317.59	\$225.98	\$91.61
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$226.00			
French 11.5 (Rouen)	\$234.93			
APW 10.5 (W Coast)	\$269.00			
Argentine 12.0	\$216.00			
<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 26, 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>	\$9.03	\$8.83	\$8.34	\$8.18	\$8.18
<b>Parity Track Rosetown</b>	\$7.53	\$7.33	\$6.84	\$6.68	\$6.68
<b>Track Bid Rosetown Area</b>	\$6.95	\$6.70	\$6.10	\$5.78	\$5.78
<b>Gross Margin at Elevator (\$/bu)*</b>	\$0.58	\$0.63	\$0.74	\$0.90	\$0.90
<b>Gross Margin at Elevator (\$/mt)*</b>	\$21.34	\$23.23	\$27.28	\$33.20	\$33.20

\* to cover elevation, elevator market risk, margin