

## Wheat Market Outlook and Price Report: December 10, 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 Dec. 10, 2018**

#### **December AMIS<sup>1</sup> Report: World Wheat Balances, with and without China<sup>2</sup> (in mln mt)**

<b>WHEAT</b>	<b>FAO-AMIS</b>			<b>USDA</b>		<b>IGC</b>	
	<b>2017/18</b>	<b>2018/19</b>		<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>
	<i>est.</i>	<i>f'cast</i>		<i>est.</i>	<i>f'cast</i>	<i>est.</i>	<i>f'cast</i>
		<i>01-Nov</i>	<i>06-Dec</i>		<i>08-Nov</i>		<i>22-Nov</i>
<b>Production</b>	<b>760.3</b>	<b>727.9</b>	<b>725.1</b>	<b>763.1</b>	<b>733.5</b>	<b>767.1</b>	<b>728.5</b>
	627.3	599.9	597.1	628.7	601.0	628.9	593.8
<b>Supply</b>	<b>1 015.4</b>	<b>1 004.7</b>	<b>1 001.9</b>	<b>1 024.1</b>	<b>1 012.5</b>	<b>1 011.5</b>	<b>1 001.1</b>
	793.6	771.8	769.0	774.8	748.8	772.2	744.5
<b>Utilization</b>	<b>738.0</b>	<b>740.1</b>	<b>739.6</b>	<b>745.1</b>	<b>745.8</b>	<b>738.9</b>	<b>739.2</b>
	617.4	619.4	618.9	624.1	622.8	618.6	612.4
<b>Trade</b>	<b>176.2</b>	<b>173.2</b>	<b>172.5</b>	<b>181.3</b>	<b>178.8</b>	<b>176.4</b>	<b>171.2</b>
	172.5	169.2	168.5	177.3	174.8	172.7	167.2
<b>Stocks</b>	<b>276.7</b>	<b>264.4</b>	<b>264.5</b>	<b>279.0</b>	<b>266.7</b>	<b>272.5</b>	<b>261.8</b>
	171.9	148.3	148.5	147.7	123.1	154.7	133.1

- The **global wheat production** forecast was lowered slightly, mostly on downward revisions in the Russian Federation and Turkey.
- **Global utilization of wheat in 2018/19** was lowered marginally following a further downgrading of prospects for feed use of wheat. (Wheat is expensive relative to corn.)

<sup>1</sup> AMIS- Agricultural Market Information System. The analysis is a collective assessment of the market situation and outlook by ten international organizations and entities that form the AMIS Secretariat.

<sup>2</sup> Data shown in the second rows refer to world aggregates without China; world trade data refer to exports and world trade without China excludes exports to China.

- **Wheat trade in 2018/19** (July/June) was lowered due to smaller expected imports in North Africa; exports from Argentina and the Russian Federation were trimmed since last month.
- **Global ending stocks** (ending 2019) are almost unchanged m/m, but 4.4 percent below their record high opening levels, driven by drawdowns among the major wheat exporters.

➤ **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** Mar '19 contract **Chicago winter wheat** closed at 531-2, up 15-6 cents in Friday's trade, *up 16-0 cents for the week.*
- Mar '19 contract **Kansas hard red winter wheat** closed up 16-4 cents Friday at 512-0, *up 11-2 cents for the week.*
- **Minneapolis** Mar '19 contract **hard red spring wheat** closed at 581-4, up 12-2 cents for the day and *up 4-0 cents for the week*, while May '19 hard red spring wheat closed at 585-6, up 11-4 cents for the day and *up 2-6 cents for the week.*
- **Funds:** The CFTC did not publish their new report so we only have the old report number. We expect the Spec funds bought last week, so their bear and wheat short is reduced it will be interesting to see their numbers in the latest report and if they continue buying.
- **Matif:** Matif managed a positive end to the week despite the EU raising the soft wheat crop by 1.8 mln mt to 129.2 mln mt and despite another poor week of EU shipments.

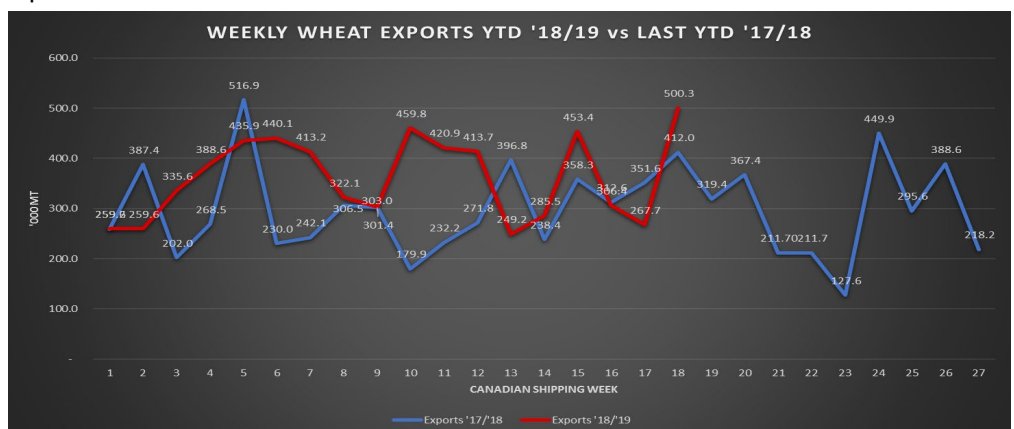
**Canadian wheat:**

- At 500k mt, Canadian shipping week 18 posted the strongest weekly wheat **exports** YTD. The YTD total of 6.5 mln mt is 1 mln mt (19%) bigger than last year. Shipping will slow somewhat over the holidays. YTD producer deliveries are also up 19% on last year at 1.3 mln mt.
- Overall **durum exports** at 1.1 mln mt continue to be dismal, though week 18 had the 2<sup>nd</sup> highest volume at almost 122k mt. Average weekly shipments are at only 62k mt per week. If this pace continues, we will fall short of the AAFC export number by 1 mln mt. Not a great situation, especially with StatsCan increasing durum production by 34.8k mt to 5.745 mln mt.

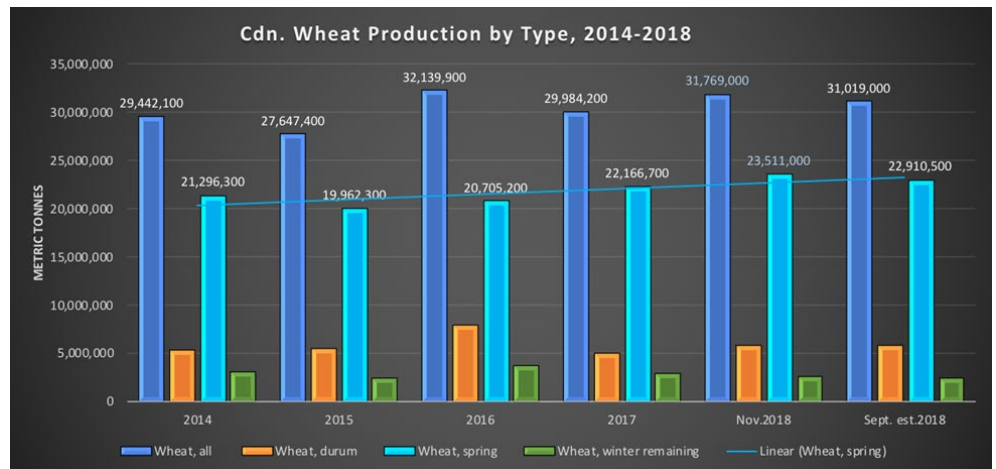
(CGC) Grain Handling Summary Wheat				Week 18 (to Dec. 2/'18)	
(000 mt)	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance	
<b>Current week</b>	590.4	410.0	500.3	41.1	
Week ago	551.3	411.0	267.7	67.4	
<b>YTD</b>	<b>7,794.7</b>	<b>7,883.2</b>	<b>6,518.5</b>	<b>1,409.2</b>	
Last YTD	6,529.9	6,771.6	5,495.6	1,858.9	
<b>YTD less Last YTD (k mt)</b>	<b>1,264.8</b>	<b>1,111.6</b>	<b>1,022.9</b>	<b>-449.7</b>	
<b>YTD over Last YTD (%)</b>	<b>119%</b>	<b>116%</b>	<b>119%</b>	<b>76%</b>	

(CGC) Grain Handling Summary Durum				Week 18 (to Dec. 2/'18)	
(000 mt)	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance	
<b>Current week</b>	99.8	111.1	111.9	2.2	
Week ago	91.8	58.3	1.1	2.0	
<b>YTD</b>	<b>1,286.6</b>	<b>1,371.3</b>	<b>1,121.2</b>	<b>121.1</b>	
Last YTD	1,302.6	1,719.5	1,314.7	264.4	
<b>YTD less Last YTD (k mt)</b>	<b>-16.0</b>	<b>-348.2</b>	<b>-193.5</b>	<b>-143.3</b>	
<b>YTD over Last YTD (%)</b>	<b>99%</b>	<b>80%</b>	<b>85%</b>	<b>46%</b>	

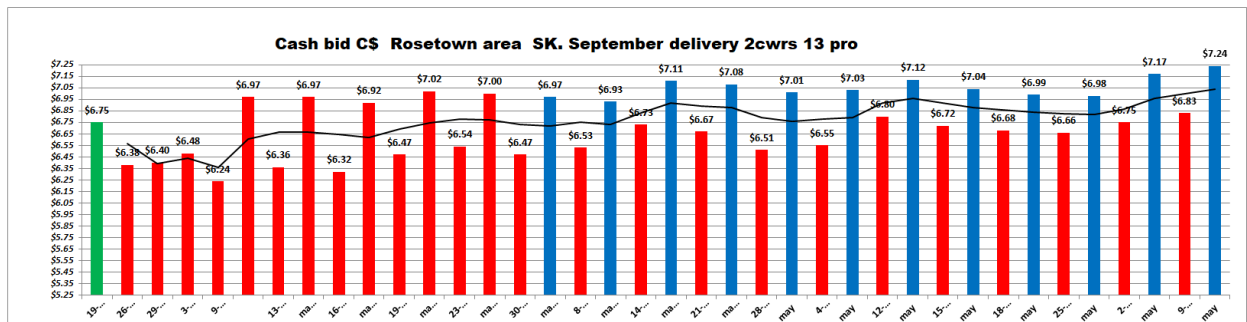


- **StatsCan** issued their **Dec. production numbers** last Thursday. At 31.8 mln mt, total Cdn. wheat production is seen 750k mt bigger (+2.4%) than in their Sept. estimate. And 2018 **spring wheat production** at 23.5 mln mt exceeds the StatsCan Sept. estimate by a



sizeable 601k mt. Compared to last year, 2018 spring wheat production is a full 1.3 mln mt (6.1%) bigger than the 2017 spring wheat production (22.2 mln mt). The trade in Cda. had expected total wheat production to come in at 31.4 mln mt, with 5.7 mln mt in durum wheat. Spring wheat was not split out in the pre-report estimates, but is bigger than expected.

- *However, given solid international cash sales activity and stronger futures over the past week, **Canadian elevator bids have improved.** We expect they will be better in the coming week when we think it will be a good time to sell some additional Canadian wheat.*



### US wheat:

- Wheat found strength early in the week on news of an agreement between China and the US. With little further direct or indirect impact from the G20 meeting, wheat traded quietly mid-week before rising on Friday when the USDA export sales report showed very large US wheat sales though the week of Nov 23-29<sup>th</sup>.
- **US wheat export sales** of 711,800 mt were well above the 300-600k mt expected. Despite this, US export sales remain 91 mln bu behind last year, vs the 124 mln bu increase expected by the USDA. But the recent increase in sales shows that demand is switching to the US, though it has been a slow process.
- **Cash markets** seem to have found a floor. There was a large increase in tenders amidst the general belief that world wheat consumers have very little coverage for 2019.
- Tuesday's USDA-WASDE report is unlikely to bring any market moving changes.

### Australian wheat:

- Production forecasts were updated in Australia. Even though Australian yields have been better than expected, this year's drought was worse than those of '94/95, '02/03, '06/07 and '07/08. ABARES current production estimate is 16.956 mln mt, 10% lower than last year's 21.244 mln mt production, 544k mt lower than the USDA's 17.5 mln mt estimate, and 20% below the 20-year average.

- Still, Australian wheat Aussie futures fell by \$6/mt in US\$ terms. The WA harvest is around 50% complete with yields better than expected but quality is lacking. SA and the east coast will be close to finished by the middle of next week.
- Cash APW in WA were at \$270/mt and ASW was priced at \$262-265/mt this week.

#### **Argentine wheat:**

- A weaker peso caused domestic prices in Argentina to rise \$5/mt sparking farmer selling. O/C farmer sales are finished for the year at 16.7 mln mt (1.8 mln lower than the official crop number) while YTD N/C sales of 8.2 mln mt are 1.9 mln mt higher than year.
- Harvest is \$5 complete.
- Argentine Dec. 12% protein wheat was buyable at ~\$219/mt, plus \$3-4/mt carry per month.

#### **EU wheat:**

- In the EU, both Brussels and Coceral updated soft wheat production numbers. The former increased their estimate 1.8 mln mt to 129,894 mln mt while the latter lowered their estimate 1.3 mln mt to 128.004 mln mt. Brussels' estimate is down 9% from last year.
- Matif closed the week up.

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

- It seems Russian authorities are doing what they can to slow their exports. Increasingly arduous phytosanitary certification and reporting regulations are being put in place, and we have heard of reduced and/or abandoned transportation subsidies from the interior.

#### **Chinese wheat:**

- Rumours were circulating that **China** would buy 7 mln mt of US wheat by the end of the MY. This would be the first time that China has indicated their intentions before execution, and the market didn't buy it.

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

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

- **Japan** bought 143,643 mt of hard wheat from Australia, Canada, and the US, with 62,975 mt coming from the US.
- **Egypt** (GASC) bought 290k mt of Russian wheat and 60k mt of Ukrainian wheat for \$252.25- &253.25/mt C&F.
- **Thailand** bought 68k mt feed wheat for Jan shipment at \$255.85 liner out.
- **Jordan** bought 60k mt wheat at \$267.40/mt for FH March.
- Wheat offers to **Bangladesh** ranged from US\$284- 291.40/mt liner out.
- **Indonesia** is demanding pest treatment on Ukrainian wheat starting Jan. 1, 2019. Indonesia is a 2 mln mt market for Ukrainian wheat.
- US wheat offers to **Iraq** ranged from US\$320-328.50/mt, Australian wheat was \$344.50-357.70, and there was one US/Cdn optional wheat offer at \$327/mt.
- **Syria** reportedly tendered for 200k mt wheat and 50k mt flour, but with no details out yet.
- **US wheat export inspections** were 473k mt (season total 389 mln bu, down 17%) sales were the 2nd highest this season at 712k mt (season total 573 mln bu, down 11%).

#### ➤ **Wheat Market Outlook:**

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

- We think wheat could be the market leader as it broke through resistance has some bullish sentiment and should trade on tenders like to Iraq. Spec Funds are heavily short in wheat and soybeans, so their actions could be the key if they choose to cover.

- *There has been a big increase in tender business this week amidst the perceived wisdom that world consumers have little cover for 2019, Russian exports seem to be slowing notably, this week saw the first big jump in USA sales and hopefully this continues.*
- The trade will be watching closely for any confirmation of new Chinese business or confirmation that they are going to buy more US grain as Trump promised at the G-20.
- The arrest by the USA of the Chinese Huawei electronics company executive (daughter of the owner) could blow up and change the market situation between China and the USA. Huawei is one of the largest telecommunications equipment and services providers in the world, recently passing Apple to become the second-biggest smartphone maker after Samsung.
- This week's USDA report is unlikely to bring any market moving changes.

➤ **Outlook:**

Cash markets seem to be finding a floor. There has been a big increase in tender business this week amidst the perceived wisdom that world consumers have little cover for 2019, Russian exports seem to be slowing notably, this week saw the first big jump in USA sales and hopefully this continues. The trade will be watching closely for any confirmation of new Chinese business or confirmation that they are going to buy more US grain as Trump promised at the G-20. This week's USDA report is unlikely to bring any market moving changes.

***Canadian elevator bids have improved and we expect they will be better in the coming week when we think it will be a good time to sell some additional Canadian wheat.***

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

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

Date: December 10, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$7.14	\$262.35	1 CWRS 13.5	\$7.36	\$270.44
1 CWAD 13.0	\$5.82	\$213.85	1 CWAD 13.0	\$6.10	\$224.14
1 CPSR 11.5	\$6.32	\$232.22	1 CPSR 11.5	\$6.54	\$240.31
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$7.00	\$257.21	1 CWRS 13.5	\$7.24	\$266.03
1 CWAD 13.0	\$5.84	\$214.58	1 CWAD 13.0	\$6.13	\$225.24
1 CPSR 11.5	\$6.09	\$223.77	1 CPSR 11.5	\$6.42	\$235.90
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$6.90	\$253.53	1 CWRS 13.5	\$7.10	\$260.88
1 CWAD 13.0	\$6.00	\$220.46	1 CWAD 13.0	\$6.15	\$225.98
1 CPSR 11.5	\$6.08	\$223.40	1 CPSR 11.5	\$6.35	\$233.32
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$6.87	\$252.43	1 CWRS 13.5	\$7.04	\$258.68
1 CWAD 13.0	\$6.05	\$222.30	1 CWAD 13.0	\$6.25	\$229.65
1 CPSR 11.5	\$6.03	\$221.57	1 CPSR 11.5	\$6.27	\$230.38

**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>3</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

<sup>3</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.”

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				December 10, 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	\$346.51	\$319.02		
HRS	\$339.15			
HRW 11.5	\$331.29			
SWW 12.0	\$310.19			
1 CWRS 13.5 <sup>3</sup>	\$346.51		\$260.88	\$85.62
2 CWRS 13.0 <sup>3</sup>	\$339.15		\$251.70	\$87.45
3 CWRS <sup>3</sup>	\$331.29		\$229.65	\$101.64
CPS <sup>3</sup>	\$303.32		\$227.81	\$75.50
1 CWAD <sup>4</sup>		\$320.49	\$201.72	\$118.77
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$232.00			
French 11.5 (Rouen)	\$235.91			
APW 10.5 (W Coast)	\$270.00			
Argentine 12.0	\$219.00			
<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

Canadian Wheat - World Price Parities					December 10, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.24	\$9.04	\$8.83	\$8.25	\$8.25
Parity Track Rosetown	\$7.75	\$7.55	\$7.33	\$6.76	\$6.76
Track Bid Rosetown Area	\$7.10	\$6.85	\$6.25	\$6.20	\$6.20
Gross Margin at Elevator (\$/bu)*	\$0.65	\$0.70	\$1.08	\$0.56	\$0.56
Gross Margin at Elevator (\$/mt)*	\$23.77	\$25.59	\$39.79	\$20.52	\$20.52
* to cover elevation, elevator market risk, margin					