

**Wheat Market Outlook and Price Report: January 14, 2019**  
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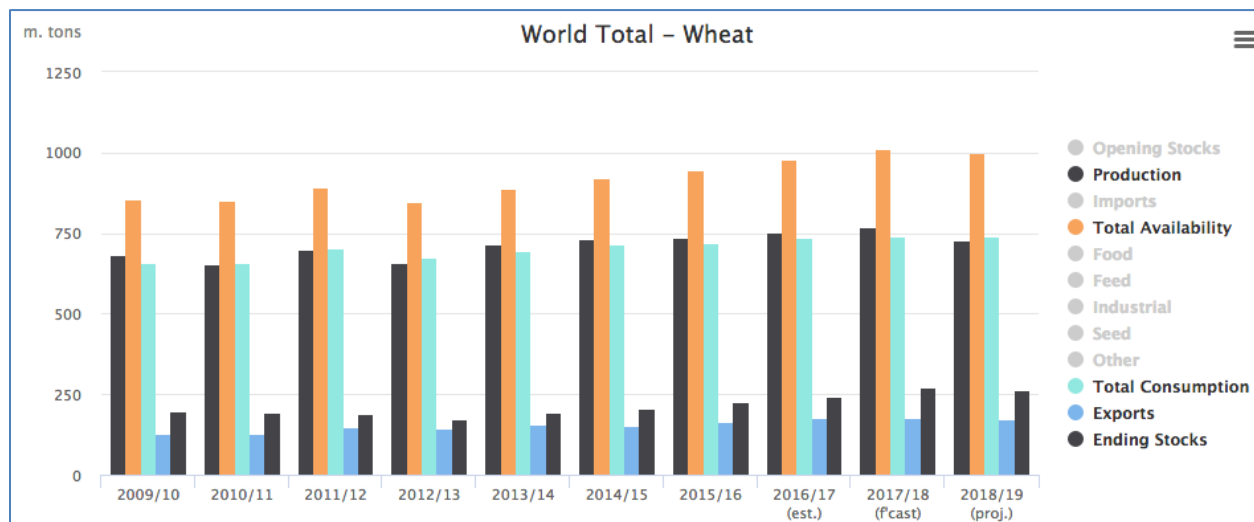
**i) Background and Rationale for the Report**

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 Jan. 14, 2019**

**International Grains Council (IGC) – Global Wheat Overview**



- The latest IGC numbers on wheat state that **'18/19 wheat production** fell by 38.6 mln mt from the year prior.
- Total **'18/19 wheat availability** at 1,001.1 mln mt is down by 27.6 mln mt due to carry-in from the previous year.
- **Global wheat consumption** is up marginally to 739.2 mln mt.
- Importantly, **'18/19 wheat exports** are projected to drop by 5.2 mln mt to 171.2 mln mt.
- **Global wheat ending stocks** are projected to drop by 10.7 mln mt to 261.8 mln mt.

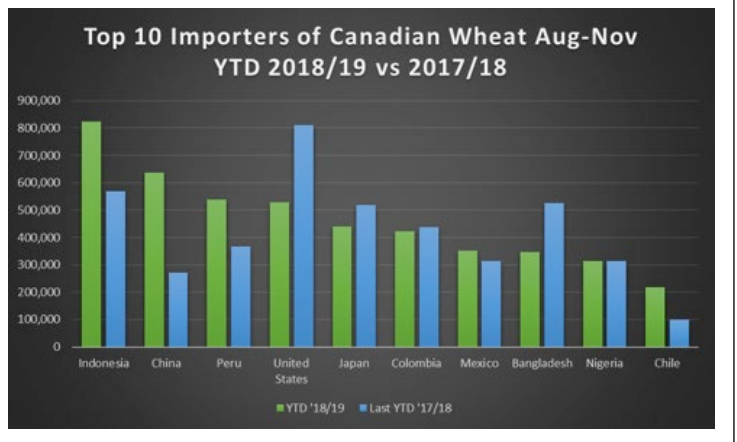
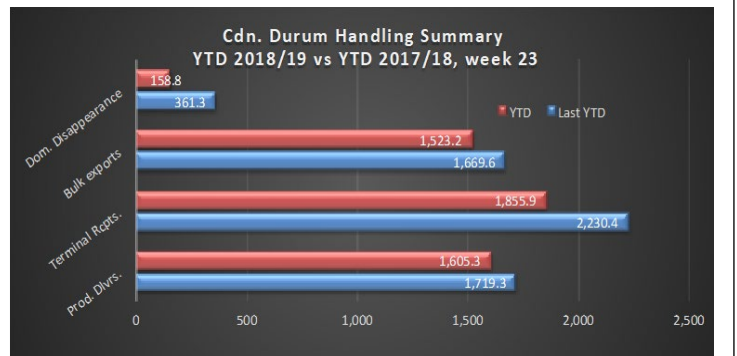
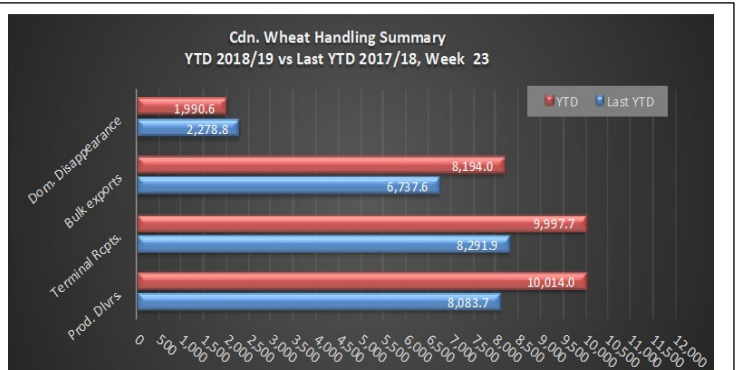
➤ **Global wheat production and trade:**

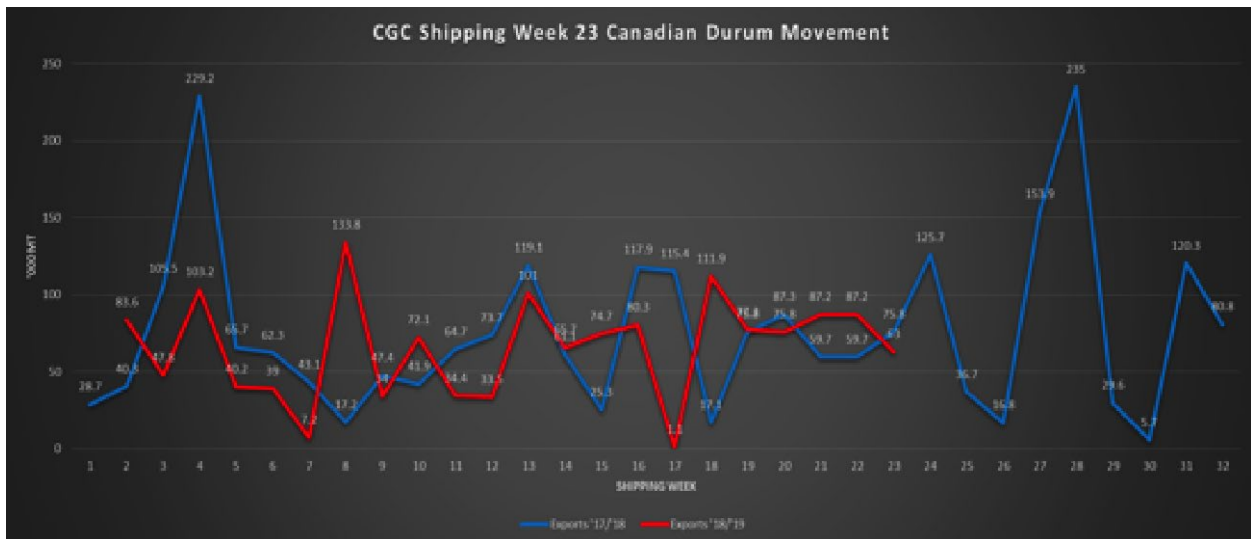
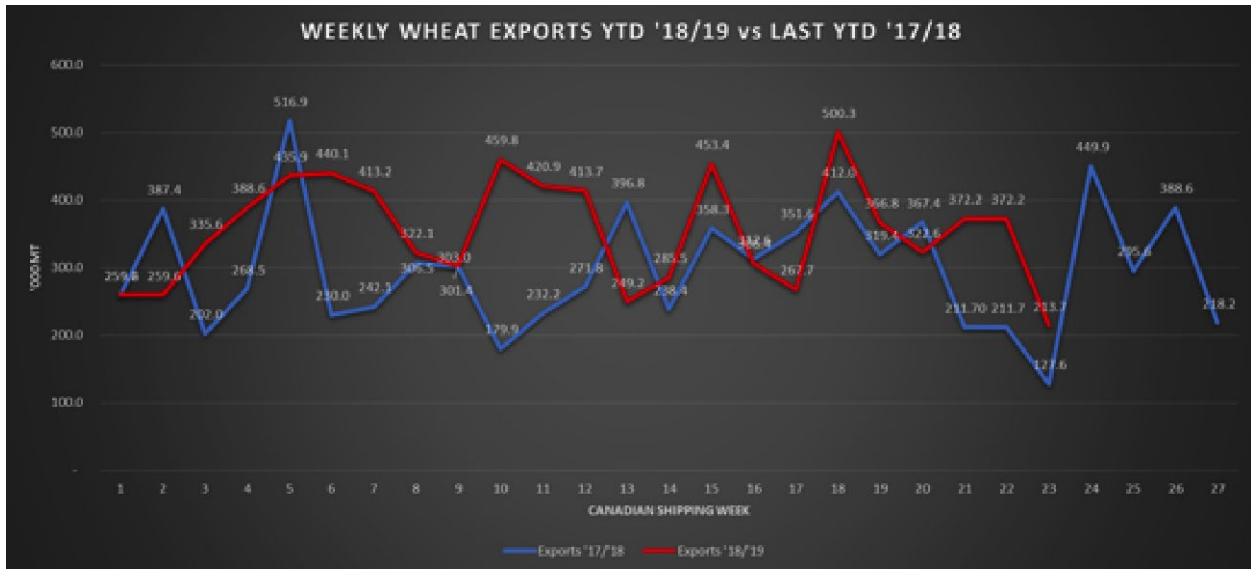
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Mar '19 contract **Chicago winter wheat** closed at 519-4, up 5-6 cents in today's trade, and up 2-4 cents for the week.
- Mar '19 contract **Kansas hard red winter wheat** closed up 5-6 cents at 504-4, down 1-4 cents for the week.
- **Minneapolis**, Mar '19 contract **hard red spring wheat** closed at 570-0, up 6-0 cents for the day and up 0-4 cents for the week, while May '19 hard red spring wheat closed at 574-2, up 4-6 cents for the day, but down 0-4 cents for the week.
- **Minneapolis** Mar '19 contract hard red spring wheat closed at 570-2, up 5-0 cents for the day, up 18-6 cents for the week, while May '19 hard red spring wheat closed at 574-6, up 5-0 cents for the day and up 18-4 cents for the week.
- **Matif:** Matif fell by €2/mt.

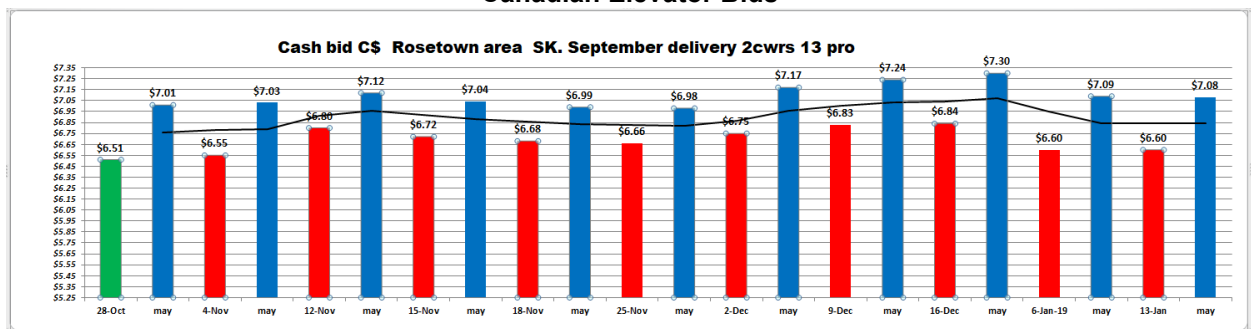
**Canadian wheat:**

- Wheat exports remained strong over the holidays before dipping in week 23 ending Jan 6<sup>th</sup>. Canadian YTD exports are 1.456 mln mt (22%) higher than last year.
- As of the end of November, Indonesia continues to be the largest customer of Canadian wheat (excl. durum), importing 824,260mt this year. The US used to be the 2<sup>nd</sup> largest buyer, but was passed by China and Peru. US imports are down 35% from last year while exports to China and Peru are up 45% and 135% respectively. Strikingly, Japanese wheat imports are down 15% from last year at 439,395 mt. This is should improve as the CPTPP, which took effect on Dec. 30<sup>th</sup>, will give Canadian wheat a competitive edge over the US.
- Durum: Canada exported 63,000 mt of durum during shipping week 23 ending Jan 6<sup>th</sup>. This makes for a total of 1.523 mln mt of durum exported this market year. Exports are now down 9% (146,400mt) from last year, which is a 5% improvement from before the holidays.
- Tunisia purchased 4 x 25k mt of Apr-May durum last week at US\$293.65 to \$295.49/mt, the origin/s were not reported. Morocco tendered for 345k mt US durum but did not receive any offers.





### Canadian Elevator Bids

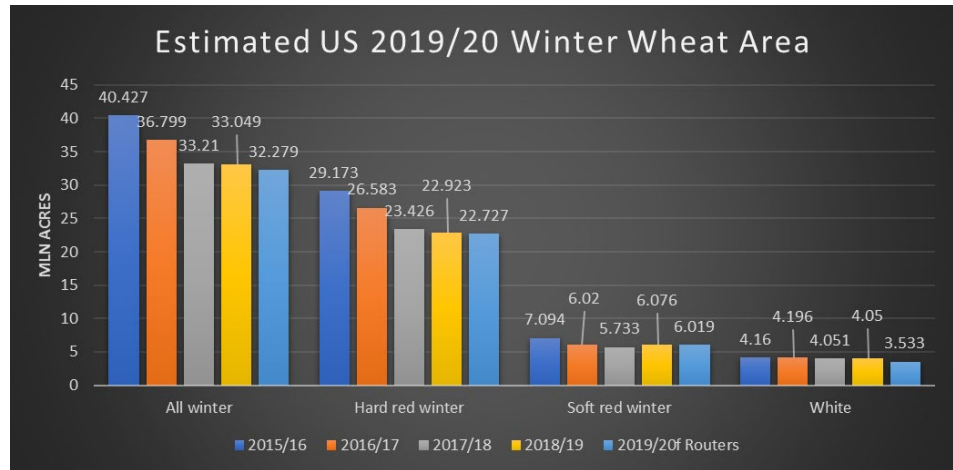


### US wheat:

- Friday's cancelled USDA report was expected to give an update on US winter wheat area. All official US reports remain cancelled due to the US Gvmt shut-down but, Informa and Reuters released their estimates. Informa put their estimate of 2019 US winter wheat seeded area at 31.513 mln acres, 1.022 mln acres less than 2018. The Reuters survey found that average trade

expectations are for all winter wheat area to be 32.279 mln acres, 770,000 acres less than last year. Both estimates represent historical lows.

- There was a strong line-up of tenders through the week, notably the Egyptian GASC tender. The



US had the cheapest Fob offers, but a ~\$13/mt freight disadvantage was too much to bridge and SRW was ~ \$3/mt too high on a C&F basis. GASC was able to buy 415k mt of Russian wheat at prices close to their previous purchase price (despite the later positions).

- The market was full of talk that China is looking for US wheat. But, similar to soybeans, private companies are not going to buy while the tariffs remain in place. If the state enterprises were to buy, this would be for the reserves rather than for the consumption market.

#### Australian wheat:

- December was confirmed as the warmest on record in Australia and some private estimates still show the final crop needs to be lowered further.
- It was unclear if Argentina sold any wheat on the Algerian tender due to last week's rejection of a cargo. However, Argentine wheat does continue to trade into Asia with Indonesia paying US\$270/mt C&F Indonesia.

#### Argentine wheat:

- Rain continued to plague Argentina, but harvest was still able to progress to 96% complete vs 99% last year. Production estimates have held at 19 mln mt (BAGE), 18.7 mln mt (Rosario GE) and 19.5 mln mt (USDA).
- Argentine Fob wheat values were little changed on the 12.5% protein at US\$235/mt. The discount per ½% protein was US\$3/mt.

#### EU wheat:

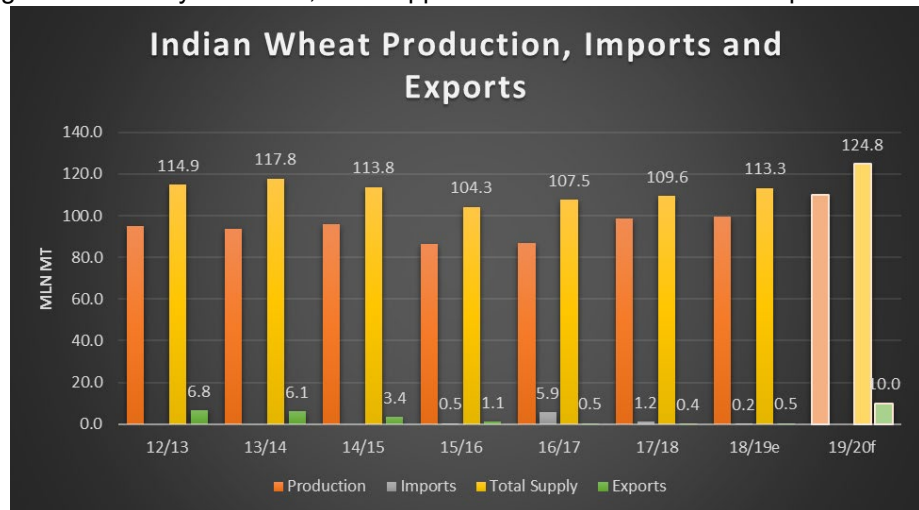
- French wheat was \$7-10/mt too expensive on the GASC tender, and the volume/prices of Russian offers to GASC brought renewed doubt over the prospects for EU exports in the second half of the season.
- With 86% of French Jul-Nov non-EU exports 'normally' going to Algeria, the long term risk to France is very high indeed if Algeria ever starts taking Black Sea wheat.

#### Black Sea wheat:

- As described in the section on US wheat, Russia won the entire 415k mt GASC tender at prices that were little changed despite the later positions. (The US had the cheapest Fob offers, but a ~\$13/mt freight disadvantage was too much to bridge and SRW was ~ \$3/mt too high on a C&F basis).
- Jan Russian 12.5 protein wheat was valued at \$240/mt FOB at the close. Feb Panamax were bid UD\$242/mt with no offer.
- Logistics in Russian are increasingly difficult (lots of snow and politics/phyto problems), and interior supplies continue to decline.

**India:**

- According to local media in India, the 2019 Indian wheat crop will be 10% higher than last year at a record 110mln mt. Given the sub-par monsoon, this has come as quite a surprise. There are questions about the accuracy of this number and the quality of the crop, both of which will not be known until harvest begins in February. If correct, total supplies could be 125 mln mt for a potential 10 mln mt of exportable surplus. In 2012 and 2013 India had 95 mln and 94 mln mt crops respectively and exported 7 mln and 6 mln mt in each respective year. This will be watched moving forward.



➤ **Significant purchases/ trades:**

There was a tender strong line-up last week:

- **Egypt (GASC)** bought 295,000 mt of Russian wheat for 20-28 Feb at \$263.50-265.50/mt C&F, plus 120,000 mt of Russian for 1-10 March at \$265.75/mt.
- **Algeria** bought 550,000 mt of wheat US\$261.50 for Feb-Mar shipment.
- **Tunisia** bought 100,000 mt of Apr-May durum at \$293.50-\$295.50/mt C&F.
- **Korea** bought 65,000 mt of March feed wheat at \$255.50.
- **Jordan** passed on their tender.
- **Morocco** got no offers at its US durum tender.
- There were as of yet no results on **Bangladesh** or the **Pakistan** export tenders.
- **USA wheat** export inspections were well below expectations at 260,000 mt, leaving the season total 475 mln bushels down 13%.
- There was no US export sales data this past week and this could go on for some time with no end in sight to the Government shutdown.

➤ **Wheat Market Outlook:**

**Significant events:**

- Russia won the entire 415k mt GASC tender at prices that were little changed despite the later positions.
- French wheat was \$7-10/mt too expensive on the GASC tender, and the volume/prices of Russian offers to GASC brought renewed doubt over the prospects for EU exports in the second half of the season.
- The market was full of talk that China is looking for US wheat. But, similar to soybeans, private companies are not going to buy while the tariffs remain in place. If the state enterprises were to buy, this would be for the reserves rather than for the consumption market.
- There are no fresh comments regarding the Russians restricting export sales



➤ **Outlook:**

With Egypt (GASC) now partially covered into March, time is starting to run out for any significant switching of origin sales in the world trade matrix. There are no new comments regarding the Russians restricting export sales. Lower winter wheat area will offer support to the market, but this will be limited unless the US is able to capture more export demand. With the US Gov't shut down, news is limited, and the trade has no actual numbers on US sales and winter wheat area.

*We would sell the balance of old crop wheat at \$7.25 or better.*

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

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

Date: January 14, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$6.95	\$255.37	1 CWRS 13.5	\$7.21	\$264.92
1 CWAD 13.0	\$6.00	\$220.46	1 CWAD 13.0	\$6.27	\$230.38
1 CPSR 11.5	\$6.33	\$232.59	1 CPSR 11.5	\$6.60	\$242.51
SW Sask			SW Sask		
1 CWRS 13.5	\$6.85	\$251.70	1 CWRS 13.5	\$7.10	\$260.88
1 CWAD 13.0	\$6.01	\$220.83	1 CWAD 13.0	\$6.31	\$231.85
1 CPSR 11.5	\$6.03	\$221.57	1 CPSR 11.5	\$6.51	\$239.20
NE Sask			NE Sask		
1 CWRS 13.5	\$6.71	\$246.55	1 CWRS 13.5	\$6.93	\$254.64
1 CWAD 13.0	\$6.23	\$228.92	1 CWAD 13.0	\$6.32	\$232.22
1 CPSR 11.5	\$6.01	\$220.83	1 CPSR 11.5	\$6.29	\$231.12
SE Sask			SE Sask		
1 CWRS 13.5	\$6.67	\$245.08	1 CWRS 13.5	\$6.89	\$253.17
1 CWAD 13.0	\$6.28	\$230.75	1 CWAD 13.0	\$6.42	\$235.90
1 CPSR 11.5	\$5.94	\$218.26	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>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)
  - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)

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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.”

- 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				January 14, 2019
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)
<b>DNS 14.0</b>	\$337.58	\$313.22		
<b>HRS</b>	\$329.79			
<b>HRW 11.5</b>	\$323.94			
<b>SWW 12.0</b>	\$313.22			
<b>1 CWRS 13.5<sup>3</sup></b>	\$337.58		\$252.06	\$85.52
<b>2 CWRS 13.0<sup>3</sup></b>	\$329.79		\$242.88	\$86.91
<b>3 CWRS<sup>3</sup></b>	\$323.94		\$220.83	\$103.11
<b>CPS<sup>3</sup></b>	\$306.40		\$223.40	\$83.00
<b>1 CWAD<sup>4</sup></b>		\$304.45	\$238.84	\$65.62
<b>Competing wheat: US\$/mt</b>				
<b>Russia 12.5 (Black Sea, 25k mt)</b>				<b>\$243.00</b>
<b>French 11.5 (Rouen)</b>				<b>\$240.09</b>
<b>APW 10.5 (W Coast)</b>				<b>\$286.00</b>
<b>Argentine 12.0</b>				<b>\$232.00</b>

<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>					January 14, 2019
<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>	\$9.00	\$8.79	\$8.63	\$8.34	\$8.34
<b>Parity Track Rosetown</b>	\$7.51	\$7.29	\$7.13	\$6.84	\$6.84
<b>Track Bid Rosetown Area</b>	\$6.86	\$6.61	\$6.01	\$6.08	\$6.08
<b>Gross Margin at Elevator (\$/bu)*</b>	\$0.65	\$0.68	\$1.12	\$0.76	\$0.76
<b>Gross Margin at Elevator (\$/mt)*</b>	\$23.71	\$25.10	\$41.30	\$28.01	\$28.01

\* to cover elevation, elevator market risk, margin