

Wheat Market Outlook and Price Report: January 21, 2019

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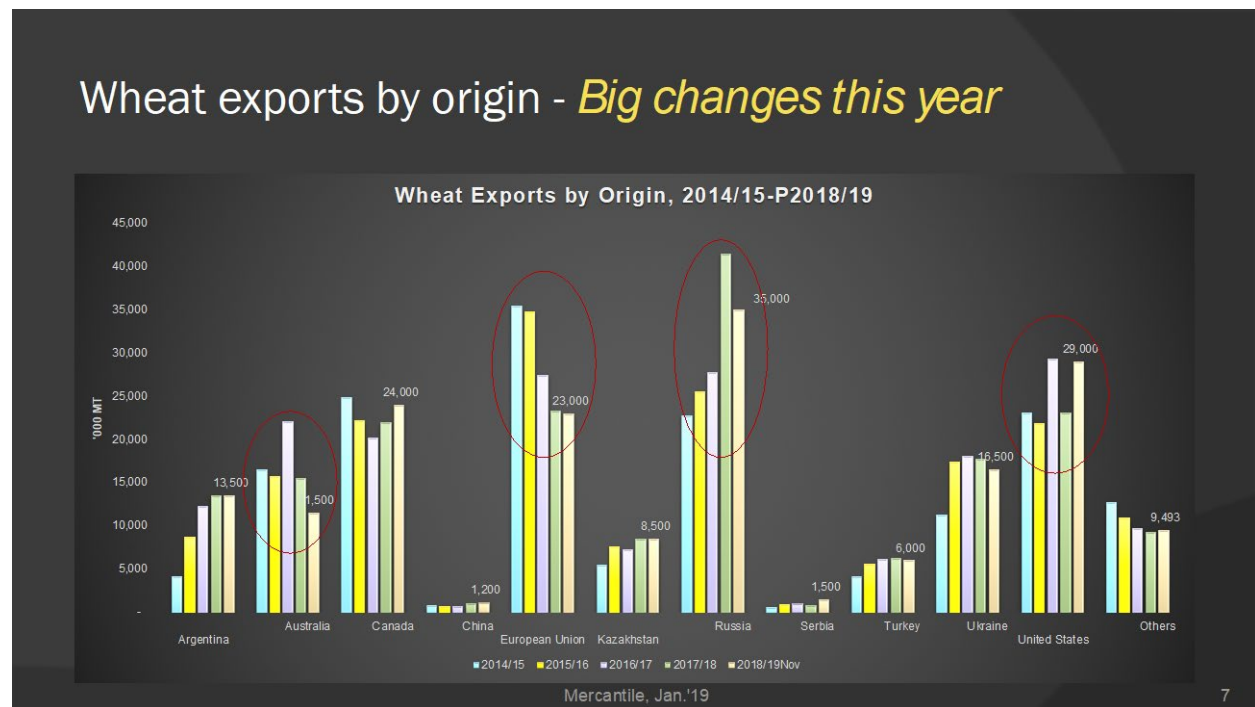
i) Background and Rationale for the Report

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. 21, 2019

Changes in wheat export volumes by origin over the past 5 years



- The image above depicts one of the slides shown at the wheat outlook presentation at CropSphere '19 last week. Its purpose was to highlight the changes in volume exported this year versus last year.
- Notably, **Russian, EU and Australian wheat exports** will be reduced significantly this year due to drought reduced production in those countries.
- The **US and Canada** should be the prime beneficiaries of the reduced production elsewhere, and both countries are expected to increase exports materially this crop year.

➤ **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 517-6, unchanged in today's trade, but down 1-6 cents for the week.
Mar '19 contract **Kansas hard red winter wheat** closed up 2-0 cents at 506-0, up 1-4 cents for the week.
In **Minneapolis**, Mar '19 contract **hard red spring wheat** closed at 574-2, up 2-2 cents for the day, up 4-2 cents for the week, while May '19 hard red spring wheat closed at 579-0, up 2-2 cents for the day and up 4-6 cents for the week.
US futures are closed on Monday (Jan. 21) due to Martin Luther King Day.
- **Matif:** Matif fell by €0.75/mt last week.

○ **Canadian wheat:**

- Canadian wheat producers delivered 440.2k mt of wheat (excl. durum) into the grain handling system during week 24 ending Jan 13th. YTD deliveries are now 10.454 mln mt, up 24% (2.038 mln) on last year.

Exports had a relatively slow week compared to last year's week 24, exporting just 302.9k mt vs 449.9k mt over the same period last year. Total exports are now 8.497 mln mt, 18% ahead of last year (though down 4% from last week).

- **Durum:** Canadian Producers delivered 85.4k mt of durum in the Canadian grain handling system in week 24. Total deliveries are down just 6% from last year at 1.691 mln mt.

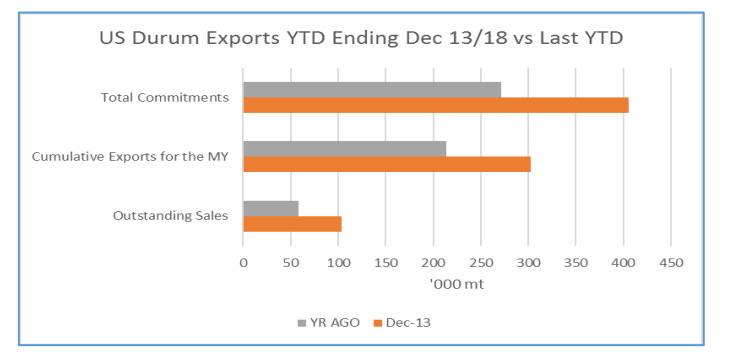
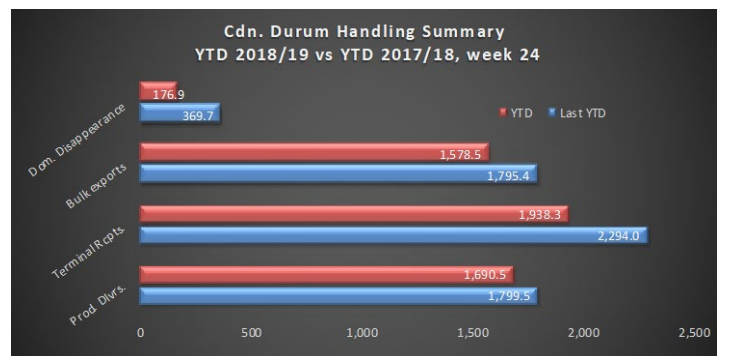
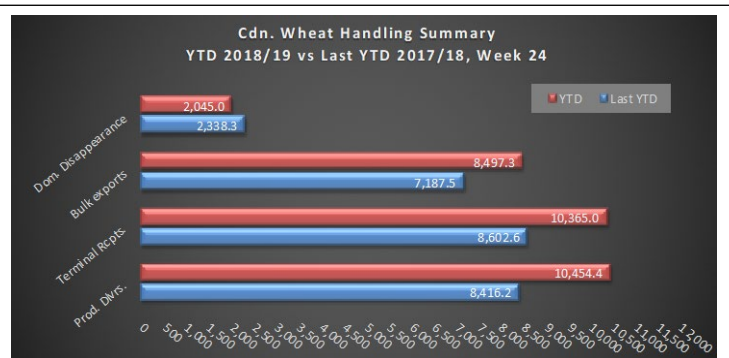
Meanwhile durum **exports** are down 12% (-216.9k mt) at 1.579 mln mt (having only exported 48.3k mt during week 24).

At the current pace, MY exports would total 3.42 mln mt vs StatsCan's estimated 4.3 mln mt.

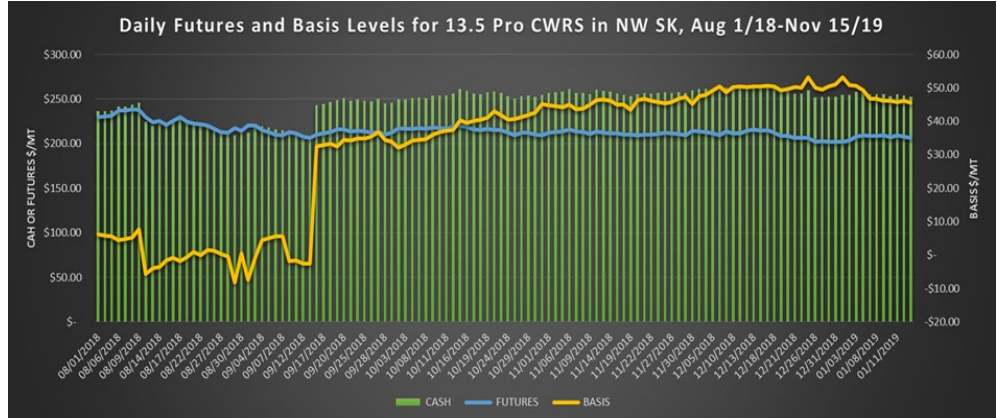
- While durum exports in Canada have been poor this MY, the US has had a relatively strong export program. As of December 13th (the last Gov't sales report) the US had exported 302.4k mt of durum, +88.9k mt (42%) more than the year previous.

Total commitments of 405.9k mt were up 50% from last year's 271.5k mt. The US has seen export increases to the EU, (specifically Italy (+34.2k at 149.2k mt) and Belgium (+21.3k at 21.3k mt)), Japan (+3.2k at 6.4k mt) and Africa (+16.8k at 97.4k mt).

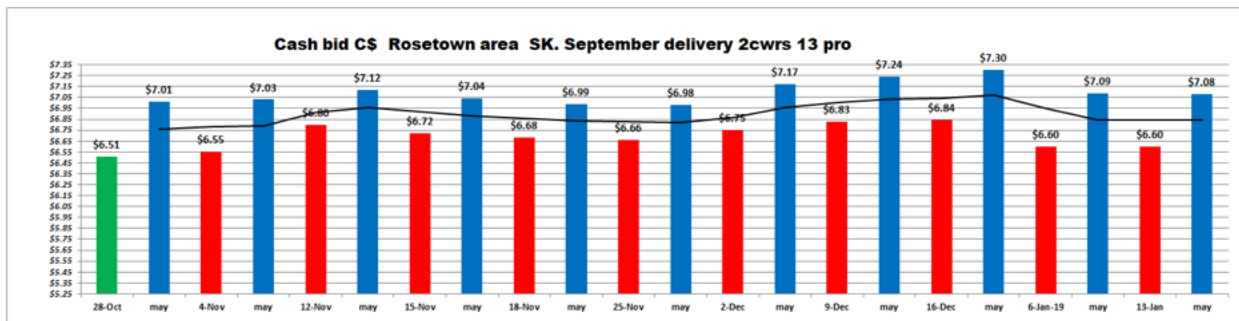
- There is an abundance of durum available, and we do not see any significant increases in export destinations anytime soon. If this rise in durum bids at North Gate translates into your area, we would recommend being 75% sold at these levels.



- Just FYI, Ceres at North Gate has increased their durum bids to: Jan/Feb/Mar \$7.00/bu, Apr/May \$7.25/bu and Jun/Jul \$7.50/bu
- While futures prices have been on a steady downward trend since August, basis levels in NW SK were steadily improving until they reversed on Jan 1st, 2019. On September 14th, 2018 there was a sharp \$35.14 rise in basis levels from -\$2.57 to \$32.57. Basis levels then rose until they peaked on Jan 1st, 2019 at \$53.26. Since then, basis levels have fallen \$7.62 to \$45.64. The highest cash price reported YTD was on Dec 13th where a combined \$216.15 futures and \$50.37 basis made for a \$266.51 cash price (\$7.25/bu). Remember, these are average *posted* elevator bids for NW SK. There have been many “specials” where basis levels have risen beyond these posted prices.



Canadian Elevator Bids



US wheat:

- Limited news and negative technicals caused wheat to struggle at the beginning of the week. Traders are getting tired of waiting for news out of China or any news that suggests North American wheat exports will find new demand. In the latter half of the week, wheat found strength as the decline in futures and lack of US sales data has US Fob drifting low enough to start pricing into additional origins. Also, rumours were rekindled of Chinese buying interest in US HRW and white wheat.
- Again, there will be no confirmation of increased sales until the US Gov't is running again.

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:

- Argentine harvest is now complete, and the total crop estimate remains unchanged at 19 mln mt (vs the latest USDA estimate at 19.5 mln mt), up 7% from last year on higher acreage as yield is down 3% y/y. YTD N/C farmer sales of 10.4 mln mt are 1.5 mln mt ahead of last year.

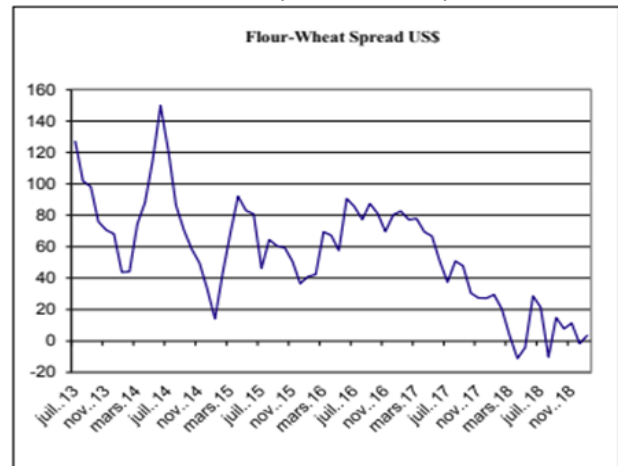
- Argentine Fob wheat values eased for 12.5% protein wheat at US\$230-234.00/mt. The discount per ½% protein fell from US\$3/mt to \$1/mt. Monthly carry remains at \$3/mt.
- December shipments were around 1.9 mln mt, about in line with the volumes shipped over the last 2 years.

EU wheat:

- Stratégie Grains reduced 2019/20 EU soft wheat production by 0.6 to 146.4 mln mt, which is still up 15.18 from the 2018/19 crop.
- Matif wheat fell 75¢ last week with EU shipments still 27% down on last year. But EU values are becoming increasingly competitive! 12.5 protein German and Baltic wheat was \$3-5 cheaper than Russian wheat.

Black Sea wheat:

- Russia's AgMin reminded us Friday that they have no intention to limit exports. This is questionable, although phytos, transportation (snow and longer inland distances) increasing domestic demand and their rising Fob may restrict exports for them.
- The graph to the right compares the average Fob milling wheat price in US\$ with the flour price in US\$. Note: these are average monthly prices and average \$US/Rb exchange rate which affects the accuracy. Regardless, the illustration is clear that Russian milling margins are at all-times lows, as wheat is increasingly difficult for mills to source. The AgMin has stated that it will start to regulate domestic wheat prices.
- Further gains were seen in Black Sea Fob values. Ukraine 11.5 protein wheat rose to \$238-240, while Russian 11.5 protein wheat is more expensive than German 12.5 protein wheat on a Fob basis. Equivalent US HRW is \$13 cheaper than Russian 12.5 protein wheat, a spread that should buy demand for HRW, especially in W Africa and W Mediterranean.
- APK-Inform estimated Ukrainian wheat exports will be 15.5 mln mt this MY, the USDA's last 16.5 mln mt estimate.



➤ Significant purchases/ trades:

There was a decent tender line-up last week:

- **Japan** bought of 111,961 mt of wheat from Australia, Canada, and the US on their weekly tender. 53k mt were bought from US.
- **Jordan** bought 60,000 mt of FH March at \$270/mt C&F.
- **S Korea** bought 65,000 mt of May feed at \$254.25/mt.
- The **Philippines** bought 50,000 mt of optional feed wheat at \$260 and 30,000 mt of Australian wheat at \$285/mt (non-Australian origins pay a 10% duty).
- **Turkey** announced a tariff-free import quota for wheat of 1 mln mt.
- A **Chinese auction** of state reserves saw 99,961 mt wheat (3% of the amount offered) sold on Wednesday.
- Bids at the **Pakistan** export tender reflected \$250-260/mt Fob.
- **US inspections** were 546,000 mt for a season total 496 mln bushels, down 11%.

➤ **Wheat Market Outlook:**

Significant events:

- It is bad timing indeed for the US to be without export sales data during January due to the US Gvmt. shutdown.
- The Russian vessel line-up will be watched very closely to see if the current sharp drop in loadings continues.
- The question of overall demand discussed at the wheat meeting persists with the current export pace of the 7 major exporters running about 8% behind last year's pace against USDA's projected 2.3% decline in world trade.

➤ **Outlook:**

Users are now covered through March, so open demand to year-end is about 44 mln tonnes, which is readily available before new crop harvest starts. Traders are not prepared to be long while Trump actions are unpredictable and irrational. Unless we see a major weather problem or increased buying from China, we expect wheat markets will stay in a narrow range. Funds will be reluctant to take on significant positions while the outlook for the world economy looks uncertain. It is bad timing for the US to be without export sales data.

The USA markets are closed Monday. If wheat futures rally and we get a chance to sell May delivered elevator at \$7.25, we would take our wheat sales to 90 percent.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 21, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$7.03	\$258.31	1 CWRS 13.5	\$7.27	\$267.13
1 CWAD 13.0	\$6.02	\$221.20	1 CWAD 13.0	\$6.27	\$230.38
1 CPSR 11.5	\$6.38	\$234.43	1 CPSR 11.5	\$6.60	\$242.51
SW Sask			SW Sask		
1 CWRS 13.5	\$6.92	\$254.27	1 CWRS 13.5	\$7.16	\$263.09
1 CWAD 13.0	\$6.03	\$221.57	1 CWAD 13.0	\$6.31	\$231.85
1 CPSR 11.5	\$6.07	\$223.04	1 CPSR 11.5	\$6.51	\$239.20
NE Sask			NE Sask		
1 CWRS 13.5	\$6.79	\$249.49	1 CWRS 13.5	\$7.00	\$257.21
1 CWAD 13.0	\$6.27	\$230.38	1 CWAD 13.0	\$6.32	\$232.22
1 CPSR 11.5	\$6.06	\$222.67	1 CPSR 11.5	\$6.29	\$231.12
SE Sask			SE Sask		
1 CWRS 13.5	\$6.75	\$248.02	1 CWRS 13.5	\$6.96	\$255.74
1 CWAD 13.0	\$6.31	\$231.85	1 CWAD 13.0	\$6.42	\$235.90
1 CPSR 11.5	\$5.99	\$220.10	1 CPSR 11.5	\$6.28	\$230.75

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 Basis¹ (see *Export Basis*

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.

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.

“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.”

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				January 21, 2019
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	\$338.14	\$316.18		
HRS	\$330.82			
HRW 11.5	\$326.92			
SWW 12.0	\$315.69			
1 CWRS 13.5³	\$338.14		\$251.70	\$86.44
2 CWRS 13.0³	\$330.82		\$238.84	\$91.98
3 CWRS³	\$326.92		\$216.79	\$110.13
CPS³	\$308.86		\$225.24	\$83.62
1 CWAD⁴		\$304.96	\$212.75	\$92.21
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$245.00			
French 11.5 (Rouen)	\$238.60			
APW 10.5 (W Coast)	\$286.00			
Argentine 12.0	\$231.00			

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					January 21, 2019
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.02	\$8.82	\$8.71	\$8.41	\$8.41
Parity Track Rosetown	\$7.52	\$7.32	\$7.21	\$6.91	\$6.91
Track Bid Rosetown Area	\$6.85	\$6.50	\$5.90	\$6.13	\$6.13
Gross Margin at Elevator (\$/bu)*	\$0.67	\$0.82	\$1.31	\$0.78	\$0.78
Gross Margin at Elevator (\$/mt)*	\$24.63	\$30.17	\$48.31	\$28.64	\$28.64

* to cover elevation, elevator market risk, margin