

Wheat Market Outlook and Price Report: February 11, 2019
By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

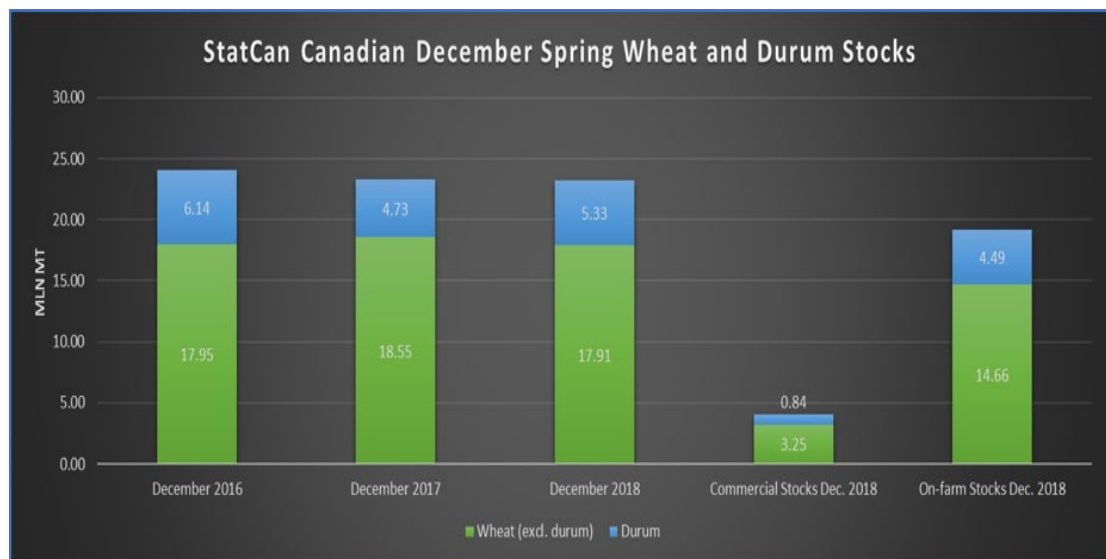
i) Background and Rationale for the Report

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 February 11, 2019

Statistics Canada – Canadian Wheat Stocks as of Dec. 31, 2018



- Statistics Canada released their estimates of Canadian wheat stocks as of December 31, 2018 in Feb. 5, 2019
- **All wheat stocks** in Canada as of Dec 2018 were estimated at 23.23 mln mt, down just 0.2% from last year. A 3.5% decrease in non-durum wheat stocks was offset by 12.5% higher durum stocks of 5.33 mln mt.
- Slightly below average production and strong export performance has non-durum wheat stocks at 17.91 mln mt (640k mt smaller than the 18.55 mln mt shown last year at this time).
- 14.66 mln mt of wheat are estimated to be on-farm, while commercials are holding 3.25 mln mt of wheat.

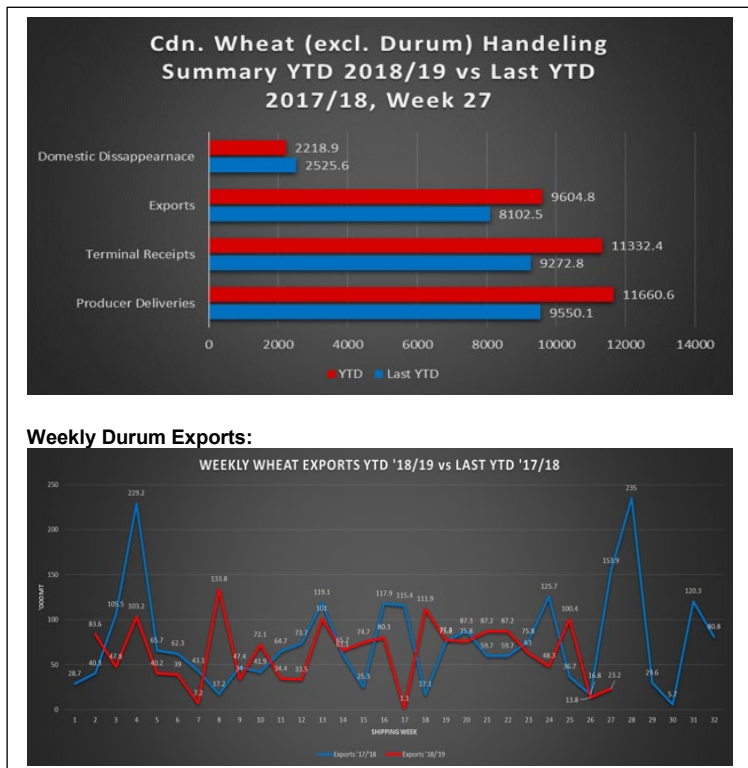
➤ **Global wheat production and trade:**

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 517-2, up 4-0 cents in Friday's trade and *down 7-2 cents for the week*.
Mar '19 contract **Kansas hard red winter wheat** closed down 2-0 cents at 494-2, *down 14-6 cents for the week*.
In **Minneapolis**, Mar '19 contract **hard red spring wheat** closed at 568-4, up 4-0 cents for the day, down 7-2 cents for the week while May '19 hard red spring wheat closed at 569-0, up 1-0 cent for the day, *down 9-2 cents for the week*.
- **Matif:** Matif in Europe hit 2-month lows before rising slightly on Friday, following the Egypt sale.

Canadian wheat:

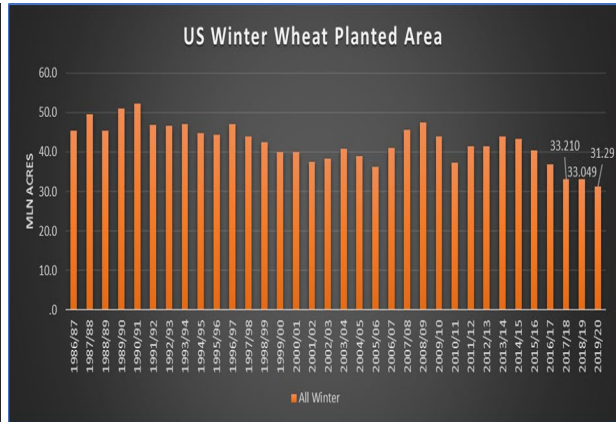
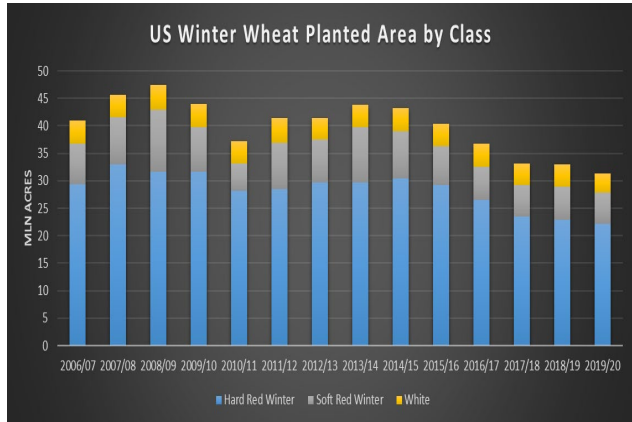
- Canadian producers delivered 329k mt of wheat (excl. durum) into the grain handling system during week 27 ending Feb 3rd. YTD deliveries are now 11.7 mln mt, up 22% from last year.
- Exports of 350.6k mt make for a total of 9.605 mln mt, up 19% (+1.502 mln mt) y/y.
- Canadian elevator companies reduced their bids for wheat
- Durum: Canadian producers delivered 129.2k mt of durum into the Canadian grain handling system in week 27. Total deliveries are down 6% from last year at 2.009mln mt.
- Durum exports were 23.2k mt for a season total of 1.730 mln mt, down 14% (-291.3k mt) from last year.
- There is an abundance of durum available, and we do not see any significant increases in export destinations anytime soon.



US wheat:

- Overall, the USDA report had few surprises for wheat. Here are the wheat specific highlights from Friday's USDA-WASDE report:
- US 2018/19 ending stocks were raised 36 mln bu (the market was expecting a 15 mln bu increase) to 1,010 mln bu (-8% from last year) from lower than expected use.
- Feed and Residual was lowered 30 mln mt while seed use was lowered 6 mln bu because of lower 2019/20 seeded area.
- **Winter wheat planted area** was put at 31.29 mln acres, 4% (1.245 mln) less than the previous year's 32.535 mln acres, and **the second lowest in history**.
 - HRW is expected to account for 22.2 mln of the total winter wheat acres, down 3% from last year. The largest declines were seen in CA, KS, NE (a record low) and OK.
 - SRW wheat seeded area is 5.66 mln acres, down 7% from last year. White winter wheat area of 3.44 mln acres is down 3%.
- US exports were unchanged at 1,000 mln bu, still +0.99 mln bu from last year.

- World 2018/19 production was raised 1.3 mln mt, mainly because of a 1.6 mln mt increase in Russia.
- Global exports were raised 1.3 mln mt.
 - The unrealistically high EU export number was left unchanged, while Russia's number was raised another 500k mt to 37 mln mt which we also find unlikely given record high domestic prices.
- Use was raised 2.0 mln mt because of China.
- Ending stocks were put 0.6 mln lower at 267.5 mln mt.



- US wheat sales for the week ending Dec 27th were 593 mln mt, which is decent for a Christmas week. Now, 2/3 through the crop year, sales are still 51 mln bu behind last year vs the USDA's 99 mln bu increase. Two weeks left until we have up-to-date sales info. (unless we have another US govt. shut-down).
- Egypt (GASC) bought 120k mt of US wheat at their tender at \$260-261.65/mt for March 1-31/ '19 shipment (along with 120k mt of French wheat and 60k mt of Ukrainian wheat).

Australian wheat:

- Last week, Australian wheat futures made their lowest weekly close since November, and while FOB sellers continue to defend their replacement values, Australian wheat is finding little demand at these price levels.
- USDA lowered Australian exports by 500k mt. Even with the much-reduced crop this year, Australia still has an exportable surplus of 9-10 mln mt of wheat which needs to find homes; at current prices it is not doing this.
- Australian Fob values were down \$2.00/mt over the week at \$275/mt.

Argentine wheat:

- Argentine March Fob wheat for 12.5% protein wheat closed at US\$240-25/mt. The discount per ½% protein was at US\$2/mt.

EU wheat:

- Brussels' weekly shipments showed no sign of improvement with the all-wheat total exports still down 25% on last year.
- Egypt (GASC) bought 60k mt of French wheat at their tender last week.

Black Sea wheat:

- Estimates for the 2019/20 Russian crop by the AgMin are at 67 mln mt, and at up to 80 mln mt by private analysts (we are around 74 mln mt given a 4% increase in area and trend yields). Remember that ~50% of acreage is spring wheat (which remains to be planted) and all major Russian wheat problems in the last 20 years have been caused by weather during the spring/summer.

- Russian 11.5 pro March wheat is priced at \$250/mt. Russia offered Egypt 11.5% protein wheat at ~US\$245/mt.

China:

- China was closed all week due to their Chinese New Year's Holidays.
- The USDA reduced the Chinese crop by almost 1 mln mt reduced Chinese stocks by almost 4 mln mt. Global non-Chinese wheat stocks went up 3 mln mt (US, Russia, Australia).

➤ **Significant purchases/ trades:**

There was limited business last week:

- **Egypt** (GASC) bought 300,000 mt of wheat last Friday (120k mt of French-, 120k mt of US- and 60k mt of Ukrainian wheat) at \$260-261.65/mt for March 1-31;
- **Jordan** bought 60,000 mt wheat for FH Aug at \$239.
- **US inspections** were 440,000 mt (season total 545 mln bushels, down 11%), export sales for the wk ending Dec 27th were 593,000 mt (season total 653 mln bushels), down 9% against the USDA's unchanged 11% increase.

➤ **Wheat Market Outlook:**

Significant events:

- The **WASDE report** was not bullish; it was virtually unchanged from the December estimates for corn and wheat.
- The industry continues to believe that the USDA is too high on EU and Russian exports. It seems that USDA will wait until April or May to adjust their numbers, by which time the season will effectively be over.
- We do not expect the **Russia** to restrict their wheat exports; they will let the markets do it for them.
- Wheat values: Note that there is a big **inverse** between old crop and new crop wheat (i.e., new crop wheat is cheaper than old crop wheat).
- **Canadian elevator companies** have reduced their bids for wheat.
- **Egypt** (GASC) bought 120k mt of US wheat at their tender at \$260-261.65/mt for March 1-31/ '19 shipment (along with 120k mt of French wheat and 60k mt of Ukrainian wheat).

➤ **Outlook:**

USDA numbers: As mentioned, USDA said that US farmers seeded the smallest winter wheat area (31.290 million acres) since 1909. An abundance of cheaper supplies around the globe and especially Black sea countries have made U.S. wheat less essential to overseas buyers in recent years. At the same time, the industry continues to believe that the USDA is too high on EU and Russian exports thus underestimating year-end global wheat ending stocks. It seems that USDA will wait until April or May to adjust their numbers, by which time the season will effectively be over.

We do not expect the Russia to restrict their wheat exports; they will let the markets do it for them. Canadian elevator companies have already reduced their bids for wheat.

Because of the old crop-new crop wheat price inverse, growers should dispose of their old crop wheat where they can, and turn their attention to new crop.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: February 11, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May.'19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$6.98	\$256.47	1 CWRS 13.5	\$7.12	\$261.62
1 CWAD 13.0	\$6.26	\$230.02	1 CWAD 13.0	\$6.47	\$237.73
1 CPSR 11.5	\$6.27	\$230.38	1 CPSR 11.5	\$6.42	\$235.90
SW Sask			SW Sask		
1 CWRS 13.5	\$6.86	\$252.06	1 CWRS 13.5	\$7.01	\$257.58
1 CWAD 13.0	\$6.25	\$229.65	1 CWAD 13.0	\$6.50	\$238.84
1 CPSR 11.5	\$5.95	\$218.63	1 CPSR 11.5	\$6.33	\$232.59
NE Sask			NE Sask		
1 CWRS 13.5	\$6.75	\$248.02	1 CWRS 13.5	\$6.86	\$252.06
1 CWAD 13.0	\$6.53	\$239.94	1 CWAD 13.0	\$6.57	\$241.41
1 CPSR 11.5	\$5.97	\$219.36	1 CPSR 11.5	\$6.13	\$225.24
SE Sask			SE Sask		
1 CWRS 13.5	\$6.69	\$245.82	1 CWRS 13.5	\$6.81	\$250.23
1 CWAD 13.0	\$6.53	\$239.94	1 CWAD 13.0	\$6.66	\$244.72
1 CPSR 11.5	\$5.89	\$216.42	1 CPSR 11.5	\$6.11	\$224.51

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* 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

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.”

- 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				February 11, 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	\$335.39	\$308.54		
HRS	\$328.07			
HRW 11.5	\$325.14			
SWW 12.0	\$319.28			
1 CWRS 13.5 ³	\$335.39		\$256.11	\$79.28
2 CWRS 13.0 ³	\$328.07		\$243.25	\$84.82
3 CWRS ³	\$325.14		\$221.20	\$103.94
CPS ³	\$312.44		\$221.20	\$91.25
1 CWAD ⁴		\$305.12	\$248.02	\$57.10
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$250.00			
French 11.5 (Rouen)	\$235.17			
APW 10.5 (W Coast)	\$275.00			
Argentine 12.0	\$243.00			
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					February 11, 2019
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.94	\$8.74	\$8.66	\$8.50	\$8.50
Parity Track Rosetown	\$7.45	\$7.25	\$7.17	\$7.01	\$7.01
Track Bid Rosetown Area	\$6.97	\$6.62	\$6.02	\$6.02	\$6.02
Gross Margin at Elevator (\$/bu)*	\$0.48	\$0.63	\$1.15	\$0.99	\$0.99
Gross Margin at Elevator (\$/mt)*	\$17.46	\$23.00	\$42.12	\$36.26	\$36.26

* to cover elevation, elevator market risk, margin