

Wheat Market Outlook and Price Report: February 19, 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 February 19, 2019

AMIS¹ Report, February 2019

	FAO-AMIS			USDA		IGC	
	2017/18 est.	2018/19 f'cast 6-Dec	2018/19 f'cast 7-Feb	2017/18 est.	2018/19 f'cast 11-Dec	2017/18 est.	2018/19 f'cast 24-Jan
Production	760.3	725.1	728.4	763.1	733.4	767.4	737.3
	627.3	597.1	600.4	628.7	600.9	629.2	602.6
Supply	1,014.9	1,001.9	1,005.7	1,024.1	1,013.4	1,011.3	1,007.5
	793.1	769.0	772.6	774.8	749.6	772.0	753.9
Utilization	737.0	739.6	742.6	744.2	745.3	741.1	744.8
	616.4	618.9	621.9	623.2	622.3	617.8	617.0
Trade	176.3	172.5	171.8	181.2	177.4	175.1	170.4
	176.1	172.4	171.7	180.2	176.2	173.9	169.3
Stocks	277.3	264.5	266.9	279.9	268.1	270.2	262.7
	172.3	148.5	151.1	148.7	124.5	155.4	138.0

- The 2018 **wheat production** forecast was raised in the February '19 AMIS report, but still is well short of the 2017 record.
- **Wheat utilization** in 2018/19 was lifted, largely on upward revisions to feed use in Australia.
- Global **wheat trade** in 2018/19 (July/June) was lowered slightly on reduced import prospects in Asia and in the EU.
- Global **wheat ending stocks** (ending in 2019) higher than in the previous forecast, reflecting upward revisions in Canada and in the Russian Federation.

¹ 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.

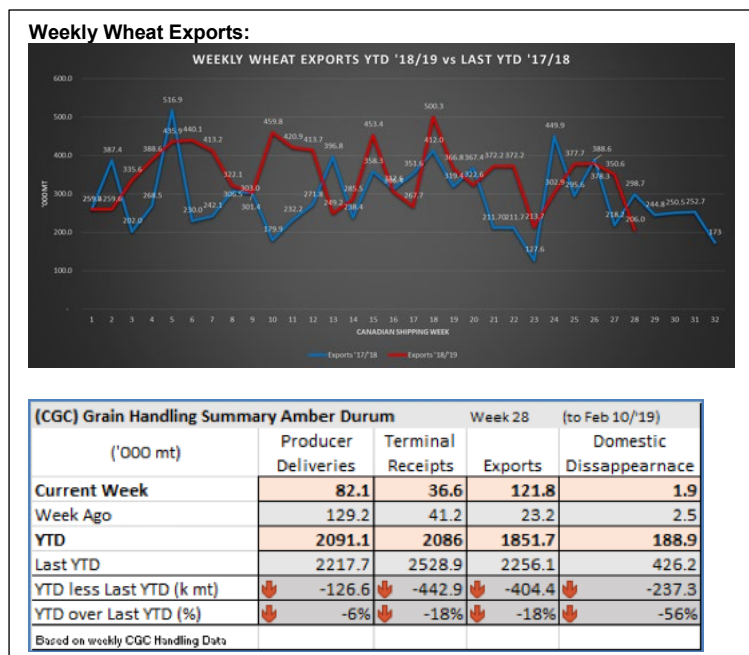
➤ **Global wheat production and trade:**

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 504-2 (a 13-month low), down 2-6 cents in Friday's trade and down 14-0 cents for the week.
Mar '19 contract **Kansas hard red winter wheat** closed down 5-0 cents at 476-4 (a contract low), down 17-4 cents for the week.
In **Minneapolis**, Mar '19 contract **hard red spring wheat** closed at 573-0, down 1-6 cents for the day, up 5-0 cents for the week while May '19 hard red spring wheat closed at 566-2, down 0-6 cent for the day, down 2-2 cents for the week.
- **Matif:** Matif wheat fell by €8/mt on old crop, and by €4/mt on new crop wheat, as the May/September inverse weakened to €15/mt.

Canadian wheat:

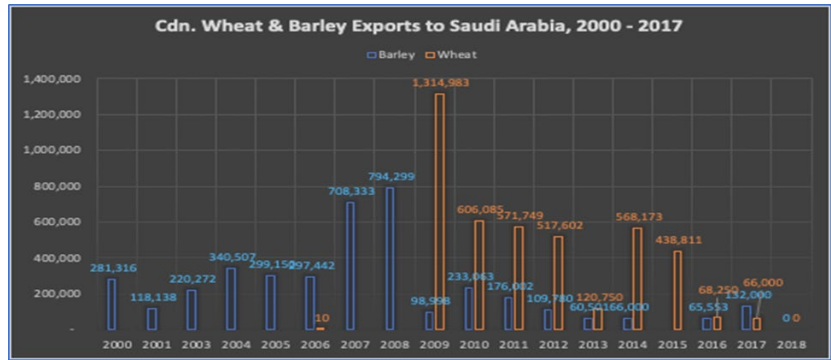
- Canadian producers delivered 266.4k mt of wheat (excl. durum) into the grain handling system during week 28 ending Feb 10th. YTD deliveries are now 11.930 mln mt, up 21% from last year. Exports of 206.0k mt make for a total of 9.811 mln mt, up 17% (1.502 mln mt) y/y. The export pace continues to be on track with StatsCan's estimated 18.5 mln mt worth of wheat exports
- **Durum:** Canadian producers delivered 82.1k mt of durum into the Canadian grain handling system in week 27. Total deliveries are down 6% from last year at 2.091mln mt. Exports were 121.8k mt for a season total of 1.852 mln mt, down 18% from last year. *Now 54% through the MY, Canada has exported just 43% of the 4.2 mln mt estimated by Stats Canada.*



At the current pace, just 3.439 mln mt of durum will be exported, 861,130 mt less than StatsCan's number. *There is an abundance of durum available, and we do not see any significant increases in export destinations anytime soon.*

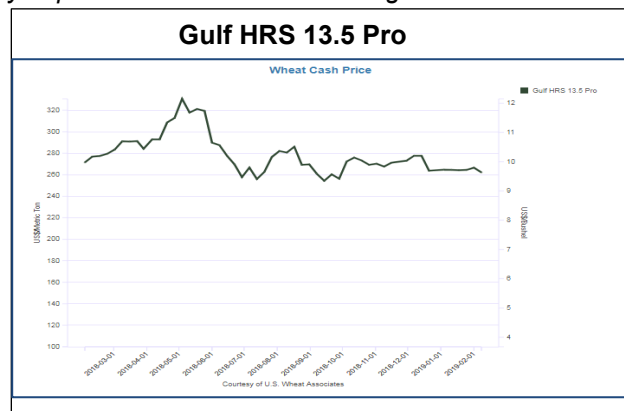
- **Focus on Saudi Arabia** - Saudi Arabi has been cutting back on both wheat and barley imports. According to the Saudi Arabian Grain Organization (SAGO) website, the country consumed 3.56 mln mt of wheat in 2017, 2.6 mln mt of this was (mostly white) flour. Wheat consumption is expected to decline in upcoming years because of the departure of hundreds of thousands of expatriates as the country has taken several measures to expel residency and labor law violators.

- Saudi tenders are usually open to the EU, N and S America and Australia. Since August however, Canada has been excluded from all Saudi tenders because of political tensions started by the tweet sent by the Canadian embassy urging the immediate release of woman's rights activists.



US wheat:

- Wheat markets started their tumble last Thursday when the US sales report showed just 131,000 mt worth of sales for the week ending Jan 3rd (the lowest this MY). YTD sales are now just 658 mln bu, down 8% from last year, vs the USDA's predicted 11% increase. HRW represents the entirety of the lag in sales. As of Jan 3rd, just 205 mln bu of HRW has been sold (80 mln bu behind last year) while other classes are a combined +20 mln bu y/y. The poor sales came as a surprise given the HRW price discount and rumors of volume sales.
- Further pressure was added to SRW and HRW from reports of excellent winter crop conditions (despite what we have been hearing of extreme cold and limited snow cover in the Central Plains), the USDA's high HRW carry-out number and the rising US\$ which made its highest close since December.
- **This week we will receive 6 weeks of US sales data which will finally bring us up to speed to the week ending Feb 14th. This will be very important as we are 70% though the MY and are yet to see an increase in demand.**
- Looking at N/C Fob values, US exports will struggle moving forward as there is a healthy carry in the US market, but huge inverses in both the EU and Black Sea.
- *After last week's very poor sales report, this week's report is even more important. We expect that it will be bullish in the short-term. Otherwise, any news from the China-US trade talks will be anticipated. China buying 7-9 mln mt of US wheat would be a game changer. If not, we will need a major weather market to turn this market around in the long-term.*



Australian wheat:

- Australian wheat futures fell A\$7/mt on the week.
- Nominal Fob wheat values were little changed, some discounting was going on in order to buy demand as 300k mt was added to the shipping program this week, all of which was for export. Australia still has 9-10 mln mt of exportable surplus despite the small crop.
- Australian APW Fob values were unchanged over the week at \$275/mt.

Argentine wheat:

- Argentine March Fob wheat for 12.5% protein wheat closed at US\$235-242/mt, down \$6/mt for the week. The discount per ½% protein was at US\$2/mt.

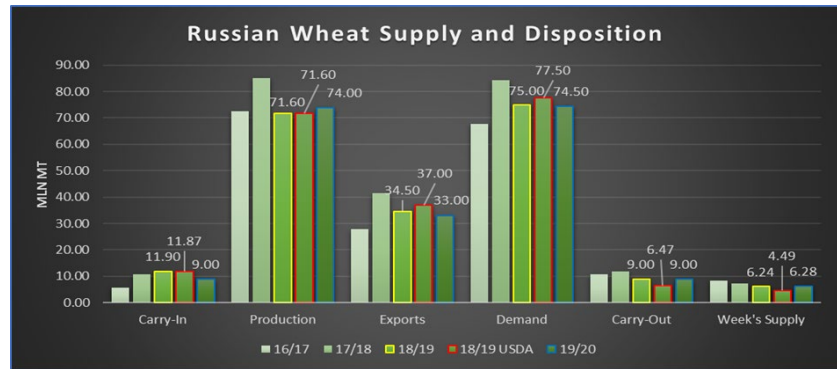
EU wheat:

- Matif wheat fell by €8/mt on old crop, and by €4/mt on new crop wheat, as the May/September inverse weakened to €15/mt.
- Fob values were little changed, both Algeria's and Tunisia's purchases were based on French wheat, but the EU shipment pace remains an annualised 4 mln mt below the USDA number.

Black Sea wheat:

- Russia: The threat of new EU and US sanctions against Russia has caused the Ruble to fall to 4-week lows, causing 12.5 pro replacement to fall \$2 to \$240 vs offers of March wheat for \$244. The debate continues as to how long Russia will be able to source wheat at current levels (given domestic wheat and flour markets). The Russian gov't is setting up a new export union to "understand the general trends... of the market" a nice way of saying that tighter controls are being implemented.

- Optimism for the Russian N/C has created a significant O/C-N/C. FWIW has estimated Russian 2019/20 production at 80 mln mt given a 2% increase in harvested area and 10% increase in yield y/y (8% over trend).



We agree with their acreage number, but being so early in the year,

cannot justify a yield increase over trend, giving us a '19/20 production number of 74 mln mt. The Russian winter crop is currently rated 91% G/E but the majority of Russian production problems occur in spring. For 2018/19, we do not think that the USDA's 4 weeks' worth of carry-out is reasonable and so have adjusted exports accordingly.

- Russian 11.5 pro March wheat is priced at \$240-241/mt, *down \$9.00 on the week* due to the weak Ruble.

➤ Significant purchases/ trades:

There was a good amount of business last week, but not enough purchases from N America:

- **Algeria** bought 600,000 mt of Mar-Apr wheat at \$247/mt.
- **Tunisia** bought 100,000 mt of Mar-Apr at \$254.50 plus 92,000 mt of durum at \$291.50/mt.
- **Indonesia** bought 65,000 mt of US SRW at \$265/mt.
- **The Philippines** bought 55,000 mt of Australian feed wheat at \$275/mt.
- **Egypt** will allow Serbian wheat imports, although it was not clear if this applies to GASC tenders.
- **US inspections** were 562,000 mt (season total 565 mln bushels down 10%), sales for week ended Jan 3rd were awful at just 131,000 mt leaving the season total 658 mln bushels down 8% against the USDA's projected 11% increase.
 - *The markets would need the Chinese to buy a lot of wheat to get to the USDA's export estimate.*

➤ **Wheat Market Outlook:**

Significant events:

- US wheat sales report: Wheat markets started their tumble last Thursday when the US sales report showed just 131,000 mt worth of sales for the week ending Jan 3rd (the lowest this MY). YTD sales are now just 658 mln bu, down 8% from last year, vs the USDA's predicted 11% increase.
 - HRW represents the entirety of the lag in sales. As of Jan 3rd, just 205 mln bu of HRW has been sold (80 mln bu behind last year) while other classes are a combined +20 mln bu y/y. The poor sales came as a surprise given the HRW price discount and rumors of volume sales.
- No discernable progress on the US-China trade negotiations. But the markets would need the Chinese to buy a lot of wheat to get to the USDA's export estimate.
- European wheat prices have plunged this week which lowers the bar for world prices.
- Russia: The threat of new EU and US sanctions against Russia has caused the Ruble to fall to 4-week lows, causing 12.5 pro replacement to fall \$2 to \$240 vs offers of March wheat for \$244. Russian 11.5 pro March wheat is priced at \$240-241/mt, *down \$9.00 on the week* due to the weak Ruble.

➤ **Outlook:**

The week brought considerable negativity across all the grain and oilseed markets, and next Friday's full update of US wheat sales has taken on greater importance. There is still hope of some new trade to China, however, hope is fading that this will change the longer-term bearish outlook. The markets are inverted with only a small opportunity to see old crop volume and price increase.

We are bearish on the market and recommend liquidation of old crop stocks.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: February 19, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '19 (bu.)	June '19 (mt.)
1 CWRS 13.5	\$6.97	\$256.11	1 CWRS 13.5	\$7.10	\$260.88
1 CWAD 13.0	\$6.48	\$238.10	1 CWAD 13.0	\$6.53	\$239.94
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SW Sask			SW Sask		
1 CWRS 13.5	\$6.82	\$250.59	1 CWRS 13.5	\$6.99	\$256.84
1 CWAD 13.0	\$6.51	\$239.20	1 CWAD 13.0	\$6.57	\$241.41
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
NE Sask			NE Sask		
1 CWRS 13.5	\$6.71	\$246.55	1 CWRS 13.5	\$6.84	\$251.33
1 CWAD 13.0	\$6.51	\$239.20	1 CWAD 13.0	\$6.52	\$239.57
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-
SE Sask			SE Sask		
1 CWRS 13.5	\$6.65	\$244.35	1 CWRS 13.5	\$6.78	\$249.12
1 CWAD 13.0	\$6.59	\$242.14	1 CWAD 13.0	\$6.65	\$244.35
1 CPSR 11.5	-	-	1 CPSR 11.5	-	-

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 Basis² (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are

² 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.”

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.

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

Relevant FOB Prices and Export Basis				February 19, 2019
Type of Wheat	FOB Prices CDA1 (calculated)		Street Prices	Export Basis2
	West Coast (Cdn./mt\$)	Great Lakes (Cdn./mt)	Rosetown (Cdn./mt)	Basis: West Coast- Centr. SK (Cdn\$/mt)
DNS 14.0	\$328.54	\$301.81		
HRS	\$320.76			
HRW 11.5	\$311.53			
SWW 12.0	\$312.98			
1 CWRS 13.53	\$328.54		\$245.82	\$82.72
2 CWRS 13.03	\$320.76		\$232.96	\$87.80
3 CWRS3	\$311.53		\$210.91	\$100.62
CPS3	\$306.18		\$206.87	\$99.31
1 CWAD4		\$303.75	\$221.93	\$81.82
Competing wheat:	US\$/mt			
Ruyssia 12.5 (Black Sea, 25k mt)	\$241.00			
French 11.5 (Rouen)	\$225.62			
APW 10.5 (W Coast)	\$275.00			
Argentine 12.0	\$237.00			
<p>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</p>				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					February 19, 2019
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.76	\$8.54	\$8.29	\$8.33	\$8.33
Parity Track Rosetown	\$7.26	\$7.05	\$6.80	\$6.84	\$6.84
Track Bid Rosetown Area	\$6.69	\$6.34	\$5.74	\$5.63	\$5.63
Gross Margin at Elevator (\$/	\$0.57	\$0.71	\$1.06	\$1.21	\$1.21
Gross Margin at Elevator (\$/	\$20.93	\$26.01	\$38.83	\$44.33	\$44.33

* to cover elevation, elevator market risk, margin