Wheat Market Outlook and Price Report: February 25, 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 25, 2019

International Grains Council (IGC) February Global Wheat Balance Sheet Update:

WORLD ESTIMATES

million tons	15/16	16/17	17/18 est.	18/19 f'cast 24.01	18/19 f'cast 21.02
WHEAT					
Production	740	757	764	**737**	**735**
Trade	166	177	175	**170**	**170**
Consumption	720	735	741	**745**	**744**
Carryover stocks	227	248	271	**263**	**262**
year/year change	*19*	*22*	*22*		***-8***
Major exporters [b)]	68	79	82	**65**	**66**

- The 2018 **wheat production** forecast was adjusted slightly in the February '19 IGC report to 735 mln mt, 3.8% smaller than in 2017/18.
- Global **wheat trade** stayed the same as in the January report (170 mln mt), but is 5 mln mt smaller than in 207/18.
- **Wheat consumption**) dropped by 1 mln mt from last month to 744 mln mt, which still is 3 mln mt higher than last crop year.

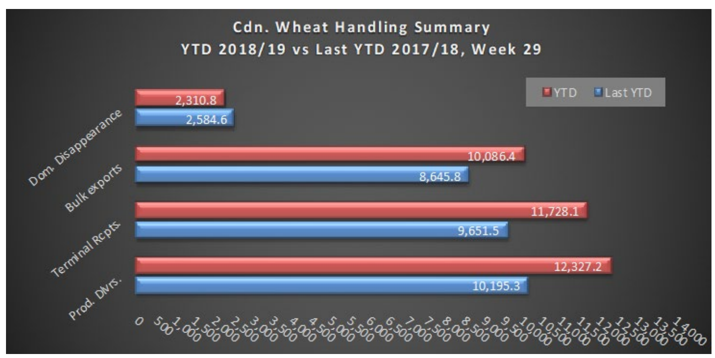
- Global **wheat ending stocks** dropped by 1 mln mt from last month to 263 mln mt, 9 mln mt smaller than last years. And especially stocks for major exporters dropped by a full 16 mln mt from last crop year.

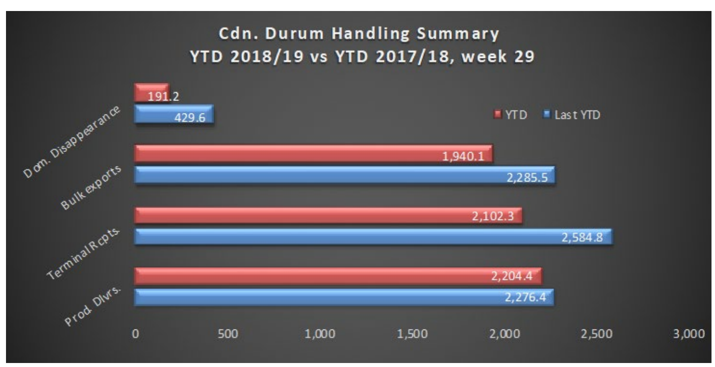
➢ Global wheat production and trade:

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 486-6, up 0-2 cents in Friday's trade and *down 20-2 cents for the week.*
  Mar '19 contract **Kansas hard red winter wheat** closed up 3-2 cents at 458-4, *down 23-0 cents for the week.*
  Minneapolis, Mar '19 contract **hard red spring wheat** closed at 566-6, up 9-0 cents for the day, down 7-0 cents for the week while May '19 hard red spring wheat closed at 564-4, up 6-6 cent for the day, *down 4-2 cents for the week.*
- **Matif:** Matif wheat hit 7-month lows before closing up 75¢, with March at a €1.50/mt premium to May.

Canadian wheat:





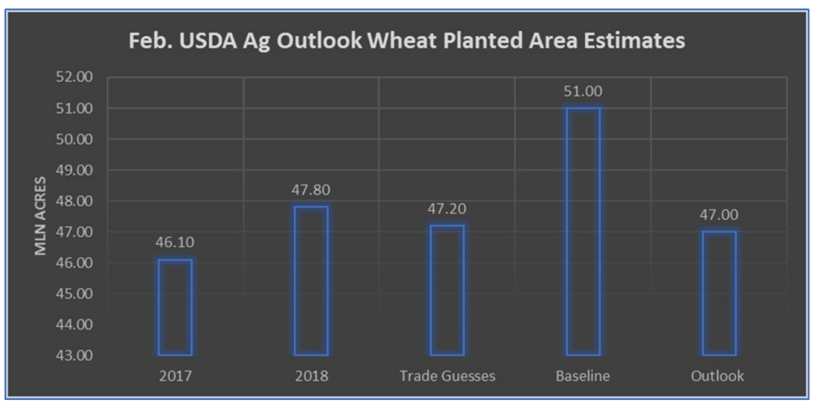
- Canadian producers delivered 397k mt of wheat (excl. durum) into the grain handling system during week 29 ending Feb 17th. YTD deliveries are now 12.327 mln mt, up 21% from last year. Exports of 154.5k mt over the week create a total of 10.086 mln mt, up 17% (1.502 mln mt) y/y. Exports have slowed over the past few weeks (as was the case last year). With just 23 weeks remaining in the MY, *Canada will need to export an average of 374.5k mt per week to reach the AAFC's 18.7 mln mt export estimate.*
- AAFC released their Feb. 2019 Outlook for Principal field crops, and their estimates for the 2019/20 crop year. Wheat (excl. durum) seeded area is forecast to be up 9% from 2018/19 as a further 4% decrease in winter wheat will be more than off-set by a 10% increase in spring wheat area. The increase in area seeded is due mainly from a shift away from durum and winter wheat as spring wheat returns look more attractive. We tend to agree as the durum outlook continues to be dismal, and spring wheat looks comparatively strong. *Mercantile is estimating a 6% increase for spring wheat, and a 10% reduction in durum acres.*
- Durum: Canadian producers delivered 113.4k mt of durum into the Canadian grain handling system in week 29. Total deliveries are down 3% from last year at 2.091mln mt. Exports during the week were 88.4k mt for a season total of 1.940 mln mt, down 15% from last year. *The weekly average durum export pace YTD is 67k mt/week.* At the current pace, we will export a total of 3.48

mln mt, -721k mt from AAFC's estimate. *In order to reach the 4.2 mln mt estimate, average weekly exports will need to be 98k mt from now till the end of the MY.*

- The AAFC Outlook has 2019/20 seeded area lowered to 1.880k ha, a 25% (623k ha) decrease from last year due to low prices. *That decrease is too much; Mercantile is using a 10% drop in acres.*
- The AAFC left 2018/19 exports unchanged at 4.2 mln mt, which we are skeptical about [see above] while raising 2019/20 exports to 4.5 mln mt.
- *There is an abundance of durum available, and we do not see any significant increases in export destinations nearby.*

US wheat:

- Details are limited, but China and the US are working on six memorandums of understanding, one of them being a 10-item list of ag commodities and other good that China will buy from the US (rumours of $30 bln more ag products, and TRQs on wheat and corn would be raised substantially).
- The highly anticipated **US sales report** was not extraordinary. US net sales were reported at 3.575 mln mt for delivery in the 2018/19 MY. *Total commitments as of Feb 14th now stand at 21.484 mln mt, 41k mt ahead of last year, and 79% of the USDA's total export number of 27.22 mln mt mt. To meet USDA's projection, US wheat sales from now to the end of the year will need to be 382.1k mt per week.*
- Total HRW commitments of 7.29 mln mt continue to run behind last year by 15%. Total SRW commitments are now 29% ahead of last year at 2.79 mln mt. White wheat commitments are up 2% y/y, and durum continues to be strong with total commitments up 36% from last year. *HRS was the biggest surprise as YTD total commitments of 6.127 mln mt, are up 495k (9%) mt from last year.*
- The USDA Outlook Forum released estimates for 2019/20 US wheat planted area. Total wheat area is projected down 800,000 acres from last year at 47 mln acres. This is all of 200,000 acres below trade guesses. Given the last USDA estimates of winter wheat area are for 31.29 mln acres, *this implies that spring wheat area will be up just under 1 mln acres* from last year at 15.71 mln acres.



Australian wheat:

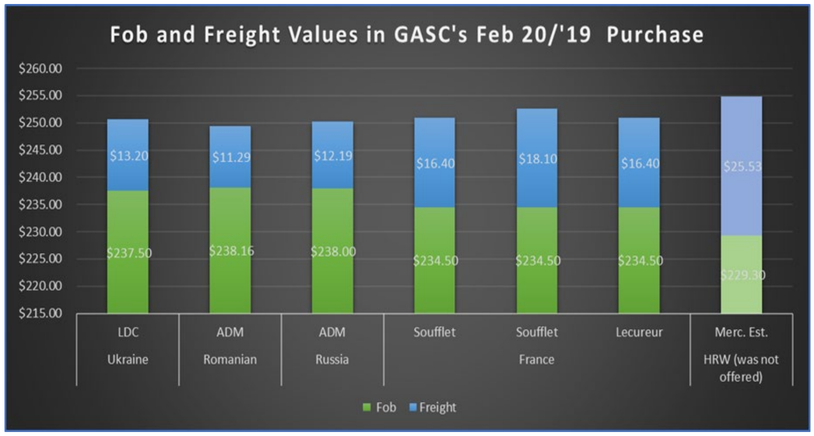
- Australian wheat futures closed down A$4/mt on the week. This followed ABARES wheat crop update of 17.3 mln mt against 17 mln mt previously. USDA is also at 17 mln mt.
- Importantly, Fob values for Australian wheat also continued to fall, although Australian feed wheat traded to the Philippines $20/mt higher what Korea paid, as non-Australian origins have a 10% duty to pay.
- Australian Fob APW fell during the week to at $268/mt (-A$7.00/mt).

Argentine wheat:

- Argentine March Fob wheat for 12.5% protein wheat fell by $5/mt over the week and closed at US$232/mt. The discount per ½% protein was at US$2/mt.

EU wheat:

- Matif wheat hit 7-month lows before closing up 75¢, with March at a €1.50/mt premium to May. Fob premiums also firmed as EU wheat shipments are becoming solid, showing an improved French vessel line-up and a sale to Egypt:
- Egypt (GASC) tendered on Wednesday, buying 36,000mt of Apr 5-15 wheat for an average of $250.79, *$10 cheaper than their Feb 8th tender*.
- Ukraine, Russia and Romania supplied a cargo each. Russia and Romania proving they (apparently) are not out of wheat yet. There was however a $4 gap between the 1st and 2nd Russian offers and a $6 gap between the 1st and 2nd Romanian offers. Trade believes that the Rus./Rom. sales were longs dumping their positions ahead of their O/C-N/C inverse (potentially) collapsing. If Russian domestic flour demand persists and farmers don't have the wheat (as we have been hearing), we suspect the ($45) inverse will remain.



- ***France took the lion's share of the tender at prices Ranging from $250.19-$250.90/mt***. There were no offers from the US. The US had the lowest Fob leading up to the tender, but using the same US freight costings as the last GASC tender, HRW would have still been ~$4 more than the most expensive French sale.

Black Sea wheat:

- Ukraine, Russia and Romania supplied a cargo each to Egypt, Russia and Romania proving they (apparently) are not out of wheat yet.
- At the same time, Russia's farm stocks remain well below last year, and domestic flour prices hit new all-time highs.
- Russian 11.5 pro March wheat is priced at $238.00/mt, *down $2-3/mt on the week*.

➢ **Significant purchases/ trades:**

There was a good amount of business done last week, but no significant sales by N America:

- **Egypt** (GASC) bought 360,000 mt of French/Russian/Ukraine/Romanian for April 5-15 at $249.50-$252.50/mt, ***some $10 less than at the previous tender***.
- **Korea** bought 60,000 mt of wheat for July arrival at $253.50/mt.
- **Thailand** bought 100,000 mt of feed wheat for Jul-Aug shipment at $215 Liner Out.
- Bids at **Pakistan's** wheat export tender reportedly were around $250/mt Fob parity, which would again allow the Government to sell without subsidies.
- There were no reports of North American grain trading.

- **Wheat Market Outlook:**

  Significant events:
  - **Egypt** (GASC) tendered for wheat last Wednesday, buying 36,000mt of Apr 5-15 wheat for an average of $250.79, *$10 cheaper than their Feb 8th tender*. *France took the lion's share of the tender at prices Ranging from $250.19-$250.90/mt*. There were no offers from the US, but *Ukraine, Russia and Romania supplied a cargo each to Egypt, Russia and Romania proving they (apparently) are not out of wheat yet.*
  - We had the highly anticipated **US sales report** update. US net sales were reported at 3.6 mln mt for delivery in the 2018/19 MY. *Total commitments as of Feb 14th now stand at 21.5 mln mt, 41k mt ahead of last year, and 79% of the USDA's total export number of 27.22 mln mt mt. HRS was the biggest surprise as YTD total commitments of 6.127 mln mt, are up 495k (9%) mt from last year.*
  - The **USDA Outlook Forum** released estimates for 2019/20 US wheat planted area. Total wheat area is projected down 800,000 acres from last year at 47 mln acres. Given the last USDA estimates of winter wheat area are for 31.29 mln acres, *this implies that spring wheat area will be up just under 1 mln acres* from last year at 15.71 mln acres.

- ***Outlook:***

The focus in the wheat market over the coming weeks will be:
- The US-China trade talks,
- the old crop-new crop inverse,
- the pace of Russian wheat exports, and
- the exceptionally warm dry weather in Europe.

The USDA's 2019/20 US wheat S&D was neutral as it showed ending stocks falling by only 66 mln bushels next year, which is not bullish.
We need China to buy more wheat, or need a weather problem to turn the market bullish. - *Our suggestions remain the same: Liquidate old crop stocks. Hold new crop sales for now.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: February 25, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '19 (bu.)	June '19 (mt.)
1 CWRS 13.5	$6.88	$252.80	1 CWRS 13.5	$7.00	$257.21
1 CWAD 13.0	$6.40	$235.16	1 CWAD 13.0	$6.43	$236.26
1 CPSR 11.5	$5.92	$217.52	1 CPSR 11.5	$5.96	$218.99
SW Sask			SW Sask		
1 CWRS 13.5	$6.76	$248.39	1 CWRS 13.5	$6.82	$250.59
1 CWAD 13.0	$6.41	$235.53	1 CWAD 13.0	$6.45	$237.00
1 CPSR 11.5	$5.58	$205.03	1 CPSR 11.5	$5.54	$203.56
NE Sask			NE Sask		
1 CWRS 13.5	$6.64	$243.98	1 CWRS 13.5	$6.78	$249.12
1 CWAD 13.0	$6.47	$237.73	1 CWAD 13.0	$6.48	$238.10
1 CPSR 11.5	$5.60	$205.77	1 CPSR 11.5	$5.76	$211.65
SE Sask			SE Sask		
1 CWRS 13.5	$6.59	$242.14	1 CWRS 13.5	$6.71	$246.55
1 CWAD 13.0	$6.53	$239.94	1 CWAD 13.0	$6.58	$241.78
1 CPSR 11.5	$5.56	$204.30	1 CPSR 11.5	$5.69	$209.07

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[1] (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

Releveant FOB Prices and Export Basis				February 25, 2019
	FOB Prices CDA1 (calculated)		Street Prices	Export Basis2
Type of Wheat	West Coast (Cdn./mt$)	Great Lakes (Cdn.$/mt)	Rosetown (Cdn.$/mt)	Basis: West Coast-Centr. SK (Cdn$/mt)
DNS 14.0	$327.52	$302.32		
HRS	$319.77			
HRW 11.5	$300.87			
SWW 12.0	$307.17			
1 CWRS 13.53	$327.52		$248.02	$79.50
2 CWRS 13.03	$319.77		$235.16	$84.60
3 CWRS3	$300.87		$213.12	$87.76
CPS3	$300.39		$199.15	$101.23
1 CWAD4		$302.81	$221.93	$80.87
Competing wheat:	US$/mt			
Ruyssia 12.5 (Black Sea, 25k mt)	$238.00			
French 11.5 (Rouen)	$228.58			
APW 10.5 (W Coast)	$268.00			
Argentine 12.0	$232.00			

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 25, 2019
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	$8.73	$8.52	$8.00	$8.18	$8.18
Parity Track Rosetown	$7.23	$7.02	$6.51	$6.68	$6.68
Track Bid Rosetown Area	$6.75	$6.40	$5.80	$5.42	$5.42
Gross Margin at Elevator ($/	$0.48	$0.62	$0.71	$1.26	$1.26
Gross Margin at Elevator ($/	$17.73	$22.84	$25.99	$46.25	$46.25

* to cover elevation, elevator market risk, margin