

Wheat Market Outlook and Price Report: March 11, 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 March 11, 2019

AMIS¹ - World Wheat Supply-Demand²:

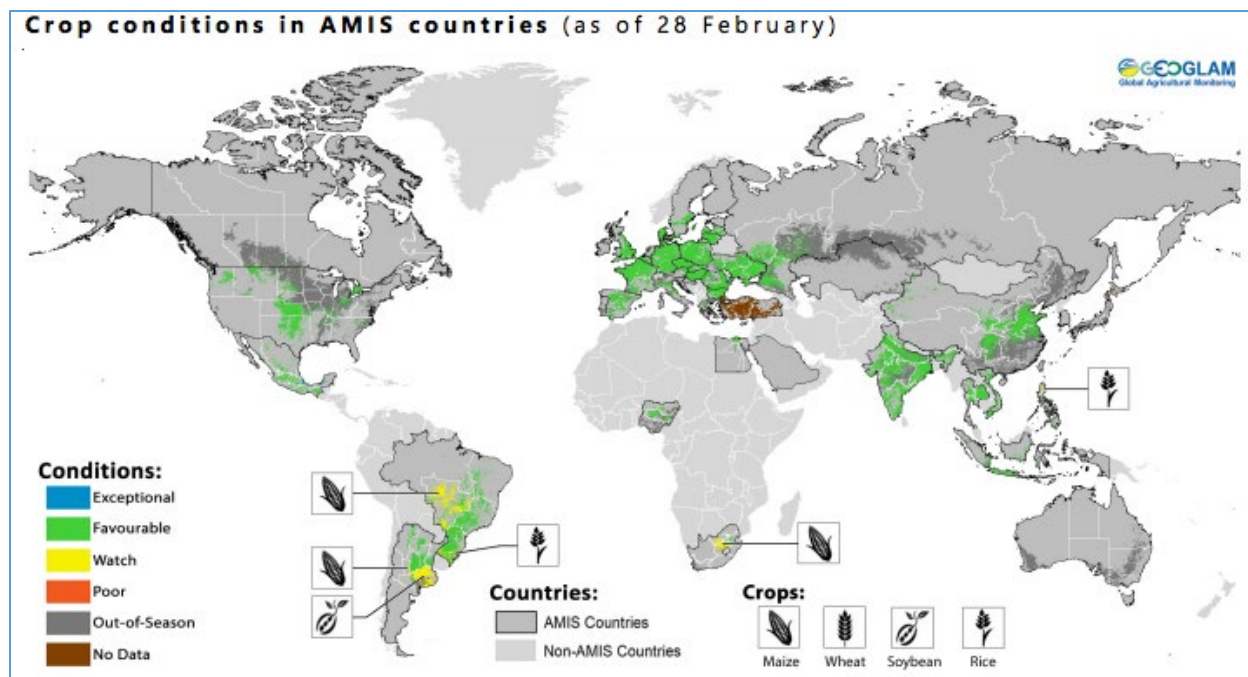
	FAO-AMIS			USDA		IGC	
	2017/18	2018/19		2017/18	2018/19	2017/18	2018/19
	est.	f'cast	f'cast	est.	f'cast	est.	f'cast
	7-Feb	7-Mar		8-Feb		22-Feb	
Production	759.4	728.4	728.3	763.2	734.8	763.6	735.2
	626.4	600.4	600.3	628.9	603.3	629.3	603.7
Supply	1,014.0	1,005.7	1,003.6	1,024.2	1,014.8	1,012.0	1,005.8
	792.1	772.6	770.6	775.0	752.1	776.9	760.2
Utilization	737.8	742.6	741.8	744.2	747.2	741.3	743.6
	617.2	621.9	621.1	623.2	622.2	617.9	615.8
Trade	176.9	171.8	171.0	181.2	178.7	175.2	170.1
	173.0	168.2	167.9	176.2	174.0	171.4	165.9
Stocks	275.3	266.9	264.7	280.0	267.5	270.7	262.3
	170.3	151.1	149.4	148.8	127.5	155.3	140.3

- **Wheat production** in 2018 is down 4.1% from the 2017 record and slightly lower m/m, with reduced estimates in Kazakhstan offsetting higher estimates for Argentina and Australia.

¹ AMIS – Agricultural Market Information System for wheat, corn, rice and soybeans.

² Without China: Data shown in the second rows refer to world aggregates without China; world trade data refer to exports and world trade without China excludes exports to China.

- **Utilization** in 2018/19 was lowered slightly m/m largely on downgrading of feed estimates for Canada and the US.
- **Trade** forecast for 2018/19 (July/June) was trimmed, reflecting lower than-earlier anticipated purchases by several countries.
- **Ending stocks** (ending in 2019) are declining by 3.9%, with the latest forecast reflecting bigger drawdowns in several Asian countries and downward adjustments to inventory levels in Argentina (starting from 2014/15).
- **2019 wheat production outlook:** *FAO-AMIS foresees global wheat production to strongly recover from last year, rising by 4.0%, to 757.4 million mt in 2019.* This would be close to the record crop of 2017, with the bulk of the recovery originating in the **EU**, where a larger planted area, combined with thus far favourable weather, is seen driving up wheat production by at least 8% from last year's six-year low. In the **Russian Federation**, an expectation of increased overall plantings and beneficial weather could similarly push up production by almost 10%, while this year's wheat output in the **Ukraine** is forecast to rise by nearly 8%.
- **Crop Conditions:** In the **EU**, winter wheat conditions are favourable with only minor frost damage. In **Ukraine**, winter wheat conditions are favourable with no winterkill reported to date. The crop is still mostly dormant with the exception of southern and western regions where the crop is resuming vegetative growth. In the **Russian Federation**, conditions are favourable with the majority of the crop still in dormancy. Warmer than average temperatures this winter helped to avoid incidents of winterkill. In **China**, conditions are favourable for winter wheat still in dormancy. In **India**, sowing is complete and crop conditions are favourable owing to adequate rainfall and mild temperatures. In the US, winter wheat conditions are favourable. Total sown area is down from last year and the lowest since records have been kept, continuing a long-term decreasing trend since a national high in 1981. In **Canada**, winter wheat conditions are generally favourable for the dormant crop. However, the combination of extreme cold temperatures and little snow cover in the southern Prairies could increase the incidence of winterkill.



➤ **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:** May '19 contract **Chicago winter wheat** closed at 432-6, up 1-2 cents in Friday's trade, down 21-2 cents for the week.
 May '19 contract **Kansas hard red winter wheat** closed up 3-2 cents at 430-6, down 14-0 cents for the week.
 In **Minneapolis**, May '19 contract **hard red spring wheat** closed at 555-6, down 1-2 cents for the day, down 6-2 cents for the week. Jul '19 hard red spring wheat closed at 549-2, down 3-6 cents for the day, down 9-4 cents for the week.
- Matif:** Matif closed Friday at season lows despite a 20-month low in the Euro, improved EU shipments, and sales on the Saudi Arabia tender, which was probably 100% EU origin wheat.

Canadian wheat:

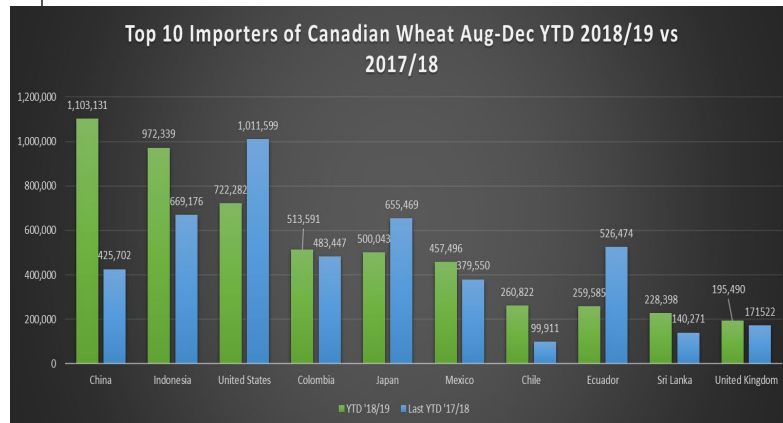
- Canadian wheat **exports** of 285.2k mt for the week calculate to a season total of 10.73 mln mt, up 17% (1.544 mln mt) y/y vs the AAFC's predicted 7% increase.
- In their last Outlook, the AAFC raised their Cdn. export predictions another 200k mt to 18.7 mln mt. We were optimistic that we would reach 18.5k mt but are doubtful that we will accomplish AAFC's current number.
- Stats Canada has updated their monthly Canadian export data. As of the end of Dec.'18, China has surpassed Indonesia as the largest customer of Canadian wheat this MY. China has imported just over 1.1 mln mt worth of wheat from Canada, a 259% increase from the same time last year. Meanwhile, Indonesia has imported 972k mt, a 145% increase from last year. Exports to Columbia, Mexico and Chile have been strong, while exports to the US, Ecuador and Japan are down 29% (-289.3k mt) 51% (-266.9) and 24% (-155.4k mt) respectively.
- We believe that the Chinese cancellation of Richardson's export licence is in retaliation of the Huawei dispute. This political squabble has the potential come at a huge expense to Canadian farms.

(CGC) Grain Handling Summary Wheat					Week 31 (to Mch. 3/'19)
('000 mt)	Terminal			Dom.	
	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance	
Current week	380.0	247.9	285.2	40.6	
Week ago	370.8	273.1	354.2	39.2	
YTD	13,082.6	12,338.7	10,725.8	2,417.3	
Last YTD	10,872.1	10,103.5	9,149.2	2,739.4	
YTD less Last YTD (k mt)	2,210.5	2,235.2	1,576.6	-322.1	
YTD over Last YTD (%)	120%	122%	117%	88%	

Based on weekly CGC Handling Data

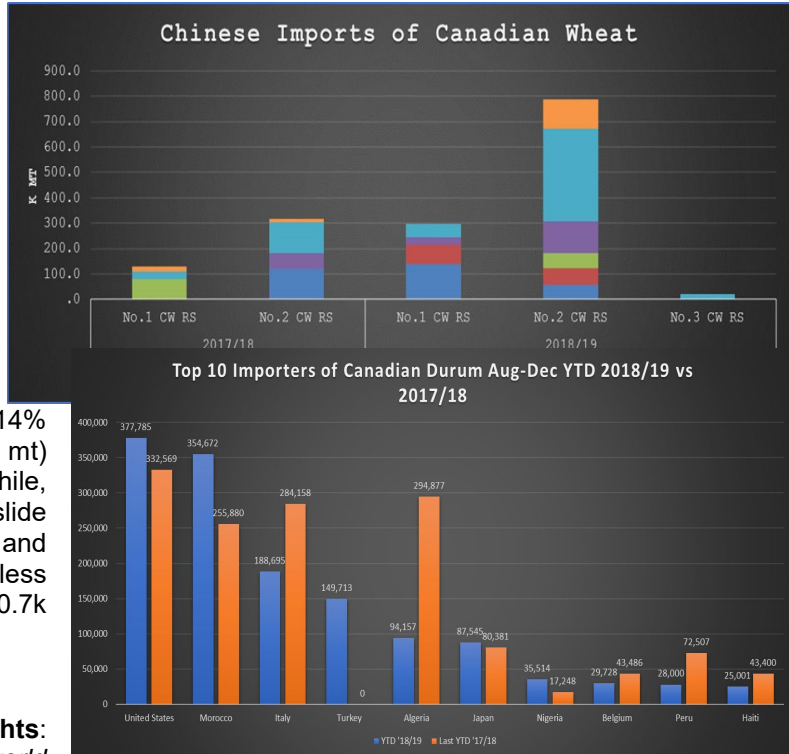
(CGC) Grain Handling Summary Durum					Week 31 (to Mch. 3/'19)
('000 mt)	Terminal			Dom.	
	Prod. Dlvs.	Rcpts.	Bulk exports	Disappearance	
Current week	131.1	71.5	76.8	3.9	
Week ago	131.9	60.4	0.4	1.9	
YTD	2,471.4	2,243.4	2,017.4	197.3	
Last YTD	2,410.0	2,679.5	2,411.4	441.3	
YTD less Last YTD (k mt)	61.4	-436.1	-394.0	-244.0	
YTD over Last YTD (%)	103%	84%	84%	45%	

Mercantile based on weekly CGC Handling Data



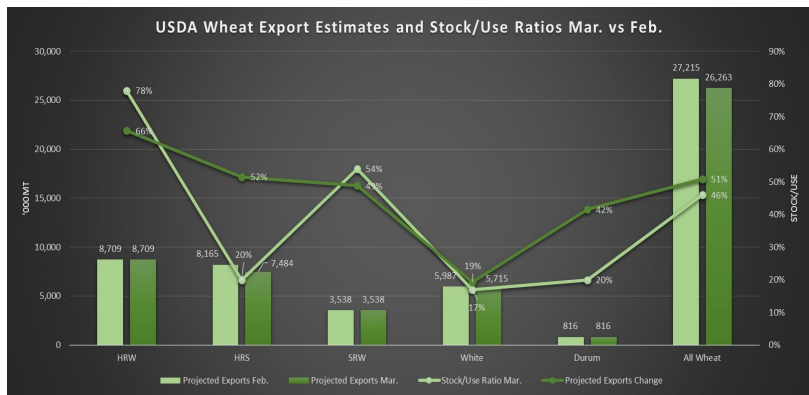
This political squabble has the potential come at a huge expense to Canadian farms. YTD 2018/19 (Jan), 33% of all Canadian grain exports have gone to China. YTD China has imported 12% (1.107 mln mt) of all Canadian wheat exports, accounting for 18% (298.4k mt) of all #1 CWRS, 13% (788.7k mt) of all #2 CWRS and 35% (20k mt) of all #3 CWRS.

- **Durum:** Durum exports during the week were 76.8k mt for a season total of 2.02 mln mt, down 16% from last year vs the AAFC's -4.3% estimate. With 21 weeks remaining in the MY we believe total exports will be 3.5 mln mt vs AAFC's 4.2 mln.
- Durum exports this MY continue to be strong to the US and Morocco. Both countries have imported +14% (45.2k mt) and +39% (98.8k mt) more than last year. Meanwhile, exports to Italy continue slide (down 95.4k mt from last year) and Algeria has taken significantly less durum YTD this MY down 200.7k mt (68%!).



US wheat:

- **USDA/WASDE highlights:** Basically US stocks higher, world stocks higher, slowing world economies, and nothing (so far) from the trade deal; little bullish here: World (non-China) 2018/19 production was revised down 1.75 mln mt. Increases in Argentina (+0.30 mln mt) and Australia (+0.30 mln mt) were offset by a 1 mln decrease in Kazakhstan and a 1.27 mln mt decrease in the EU. World demand was reduced 5 mln mt, notably a 3 mln mt decrease in India. Exports were little changed: US Exports were revised down 1 mln mt, which was offset by an equal increase in EU exports. World stocks are up 3 mln mt (notably +1.22 mln mt in the US and +2.9 mln mt in India).
- The USDA left HRW export expectations at 8.709 mln mt (down 14% y/y). Current HRW commitments are down just 10.7% from last year. HRS sales have been lagging, causing the USDA to lower export expectations 681k mt to 7.484 mln mt (still a 21% increase over last year vs the current +11.2%). SRW sales were unchanged at 3.538 mln mt, a 43% increase over last year vs the current +30.3%. White wheat exports were lowered 272k mt to 5.715, and durum export expectations were left unchanged at 816k mt.



Australian wheat:

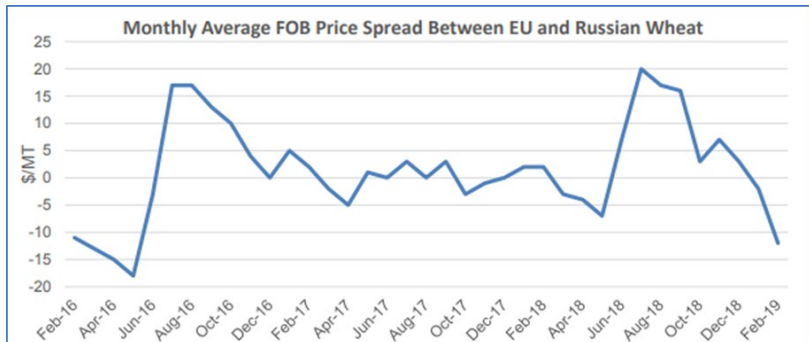
- USDA raised the Australian crop by 300k mt to 17.5 mln mt, putting 200k mt into feed and 100k mt into ending stocks.
- Australian wheat futures were higher on the week as their currency fell to 2019 lows, but Fob values were down around \$3/mt at \$252/mt for APW.

Argentine wheat:

- The USDA raised the Argentine wheat crop by 300k mt to 19.5 mln mt, putting 200k mt into exports and 100k mt into ending stocks.
- Argentine March Fob wheat for 12.5% protein wheat is pretty well unchanged at US\$232/mt. The discount per ½% protein was at US\$2/mt.

EU wheat:

- The USDA's 1 mln mt swap in wheat exports from the US to the EU (now estimated at 23 mln mt) is because the EU's Fob price will capture additional demand. EU Fob values struggled to be competitive in the first half of the MY vs of very cheap Russian wheat. Now however, Russian supplies have tightened, driving their Fob higher, while EU wheat has followed US wheat lower. EU wheat, which is generally shown at a premium to Russian wheat, is showing the largest price discount to Russian wheat since May 2016. Moving forward, the discounted Fob position has the EU looking to be the major supplier into Africa, the Middle East and Egypt. EU wheat will also be competitive into Sub-Saharan Africa markets such as Kenya and Nigeria, where they have been uncompetitive until this point. They will also continue to service their usual Algeria, Morocco and Saudi markets.
- **New Crop:** In its first 2019/20 S&D, the EU put the soft wheat crop at 140.8 mln mt, up 12 mln mt on 2018 (the USDA first new crop S&D is not until May). The EU crop is based on trend yield, which is reasonable with no perceived major weather problems so far. This will raise the 19/20 all-wheat exportable surplus to around 26 mln mt.



Black Sea wheat:

- USDA left Russian exports unchanged at 37 mln mt. In actual fact, shipments to the end of Feb are around 29 mln mt, the March program is put at 1-1.5 mln mt. Russian interior flour prices made yet more new highs, which also argues for declining export availability.
- SovEcon, a Russian agriculture consultancy, raised its 2018/19 wheat export estimates from 35.6 mln mt to 35.9 mln mt last week.
- The Black Sea wheat ended at US\$229/mt for 12.5% protein wheat, with the 11.5% protein discount at \$5/mt, and feed a further \$5/mt less.
- IKAR last week raised their 2019 Russian wheat estimate by 900,000 mt to 78.5 mln mt.

➤ Significant purchases/ trades:

There was a good amount of business done last week:

- **Saudi Arabia** bought 625,000 mt of wheat for Apr-Jun shipment at \$244.50/mt basis Jeddah.
- **Syria** bought 200,000 mt of wheat for April at \$252/mt.
- **Korea** bought 30,000 mt of May feed wheat at \$254.25/mt.
- The **Philippines** bought 40,000 mt of Australian feed wheat at \$265/mt.
- **Algeria** bought 300,000 mt of durum wheat at \$283/mt.
- **Iraq** bought 50,000 mt of US hard wheat at \$294.14 and 50,000 mt of **Canadian wheat** at \$303.75/mt.
- **US inspections** were 440,000 mt (season total 623 myn bushels, down 7%), sales were 625,000 mt for a total 830 mln bushels, which for the first time this season is up on last year (by 3%).

➤ **Wheat Market Outlook:**

Significant events:

- The report issued by the **USDA** on Friday gave little to support the bulls and if the projected '19/20 crop numbers get harvested, we have a good upcoming supply situation. Given the projections and provided weather cooperates during the season, buyers will have plenty of options to source product from. The market for the first part of the 2019/20 season is more likely to be "supply push" than "demand pull".
- **Funds** were heavy sellers of the markets and now have the largest short positions in months. Index funds have reduced their long by 14 myn tonnes and Specs would appear close to their maximum short.
- There was nothing fresh coming out of **USA-China talks**, and for professional traders it is no longer relevant to longer-term prices.
- **Futures** prices continued to trend lower.

➤ **Outlook:**

The trade is turning its attention to new crop. Currently supply looks good and new crop prices are at a discount to old crop. Weather conditions are a mixed bag with the EU and Black Sea generally favourable; drought persists in Australia and is an increasing concern in North Africa. Spring wheat values remain poor in North America and flooding could be an issue in the Tri-States. This should be kept in mind when we consider that we are at 11-year lows in the stocks/use ratios of the major exporters and a 125,000 contract Fund short. *Down side from here looks limited to us.*

Our suggestions remain the same: liquidate old crop stocks hold new crop for the present.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: March 11, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		June '19 (bu.)	June '19 (mt.)
1 CWRS 13.5	\$6.89	\$253.17	1 CWRS 13.5	\$6.95	\$255.37
1 CWAD 13.0	\$6.40	\$235.16	1 CWAD 13.0	\$6.43	\$236.26
1 CPSR 11.5	\$5.93	\$217.89	1 CPSR 11.5	\$5.77	\$212.01
SW Sask			SW Sask		
1 CWRS 13.5	\$6.72	\$246.92	1 CWRS 13.5	\$6.75	\$248.02
1 CWAD 13.0	\$6.40	\$235.16	1 CWAD 13.0	\$6.44	\$236.63
1 CPSR 11.5	\$5.43	\$199.52	1 CPSR 11.5	\$5.30	\$194.74
NE Sask			NE Sask		
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	\$6.71	\$246.55
1 CWAD 13.0	\$6.44	\$236.63	1 CWAD 13.0	\$6.44	\$236.63
1 CPSR 11.5	\$5.71	\$209.81	1 CPSR 11.5	\$5.61	\$206.13
SE Sask			SE Sask		
1 CWRS 13.5	\$6.56	\$241.04	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$6.50	\$238.84	1 CWAD 13.0	\$6.55	\$240.67
1 CPSR 11.5	\$5.58	\$205.03	1 CPSR 11.5	\$5.51	\$202.46

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 Basis³ (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.

³ 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.”

- 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				March 11, 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	\$333.01	\$309.40		
HRS	\$325.63			
HRW 11.5	\$297.10			
SWW 12.0	\$297.10			
1 CWRS 13.53	\$333.01		\$250.23	\$82.78
2 CWRS 13.03	\$325.63		\$237.37	\$88.26
3 CWRS3	\$297.10		\$215.32	\$81.78
CPS3	\$290.21		\$209.07	\$81.14
1 CWAD4		\$332.02	\$221.93	\$110.09
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$230.00			
French 11.5 (Rouen)	\$212.89			
APW 10.5 (W Coast)	\$252.00			
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						March 11, 2019
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Vinter wht.	CPS	
May/June delivery	\$8.88	\$8.67	\$7.90	\$7.90	\$7.90	
Parity Track Rosetown	\$7.38	\$7.18	\$6.40	\$6.40	\$6.40	
Track Bid Rosetown Area	\$6.81	\$6.46	\$5.86	\$5.69	\$5.69	
Gross Margin at Elevator (\$/bu)*	\$0.57	\$0.72	\$0.54	\$0.71	\$0.71	
Gross Margin at Elevator (\$/mt)*	\$20.91	\$26.39	\$19.91	\$26.16	\$26.16	
* to cover elevation, elevator market risk, margin						