

## Wheat Market Outlook and Price Report: March 25, 2019

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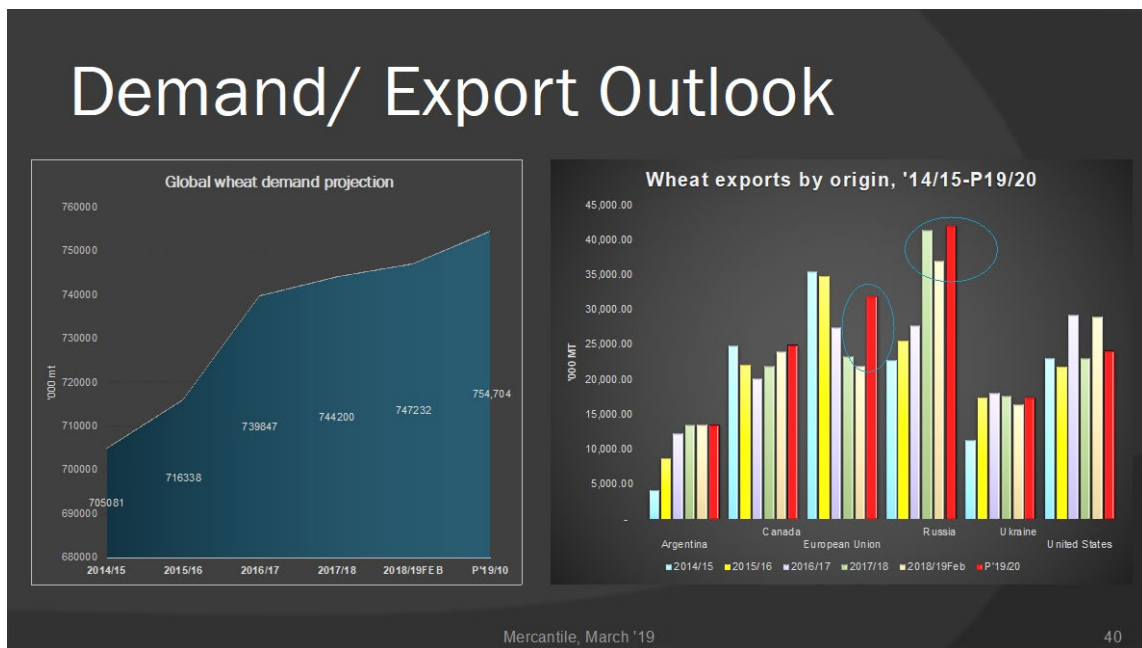
### **i) Background and Rationale for the Report**

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 March 25, 2019**

#### **Projection - 2019/20 Global Demand/ Export Outlook:**



- Last week we quantified that Mercantile projects **global wheat production** in 2019/20 to recover from the drought reduced numbers this crop year by ~23 mln mt to 757.7 mln mt, an increase of 3.1%. The bulk of the recovery is expected in the EU, the Russian Federation, and in the Ukraine.
- Mercantile anticipates 2019/20 **global demand for wheat** to increase by 1% (+7.5 mln mt) to 755 mln mt.

- If the EU, Russia and the Ukraine are indeed able to improve production this year as expected given more normal weather and precipitation, then these exporters will be competing hard for destination demand, especially for the September '19 through January '20 shipping periods.

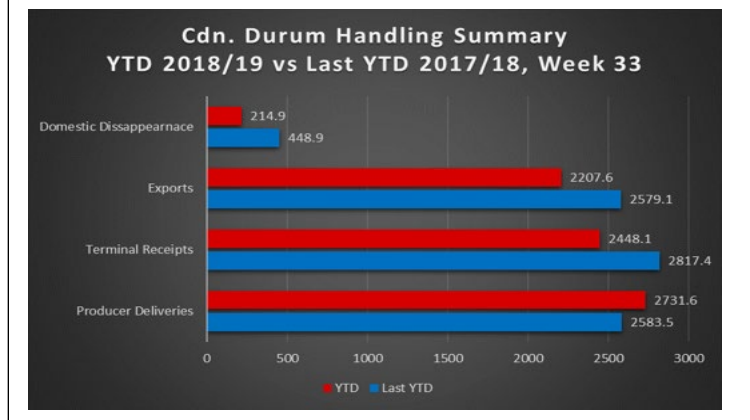
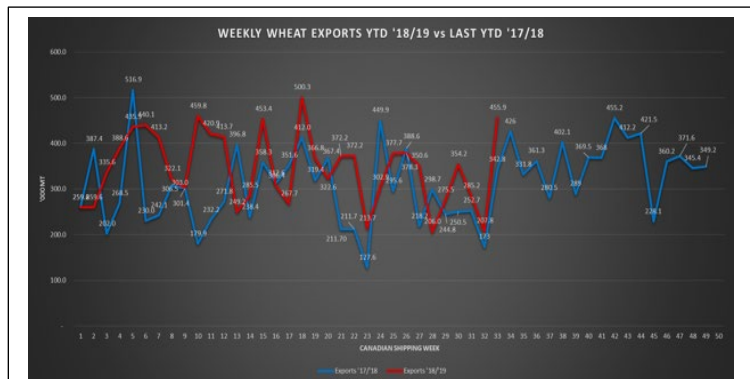
➤ **Global wheat production and trade:**

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 466-0, down cents in Friday's trade and up 3-6 cents for the week.  
May '19 contract **Kansas hard red winter wheat** closed down 2-0 cents at 445-0, up 2-0 cents for the week.  
**Minneapolis**, May '19 contract **hard red spring wheat** closed at 572-2, up 1-0 cents in today's trade, up 16-4 cents for the week, while Jul '19 hard red spring wheat closed at 570-6, down 0-4 cents for the day and up 12-4 cents for the week.
- **Matif:** Matif wheat futures in Europe was little changed despite a big French export sales line-up.
- **Funds:** Index Funds continue to trim their overall long. They are long 69 mln mt (with +18.8 mln mt in wheat, down 800k mt for the week). Overall, this is the smallest position Index Funds have held for months, which suggest they are not worried about a move in the financial markets. Specs offset the Index long (-69 mln mt overall, -21 mln mt in wheat), which leaves the market with undersold growers and commercials neutral.

**Canadian Wheat:**

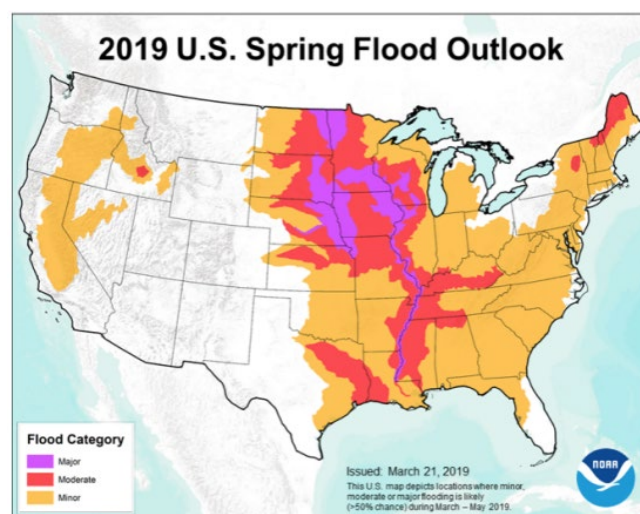
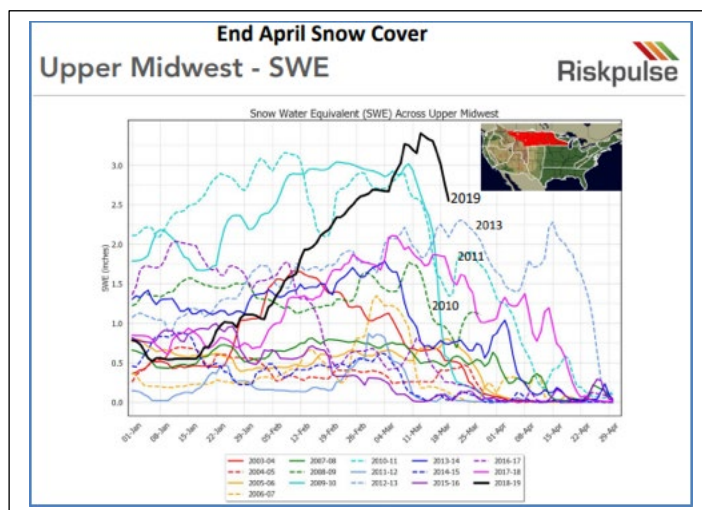
- Canadian exports of 455.9k mt for the week result in a YTD total of 11.39 mln mt, up 18% (+1.722 mln mt) y/y. This compares to AAFC's predicted 7% increase.
- In their March balance sheet report, AAFC maintained their 18.7 mln mt export projected for the 2018/19 MY. Current expectations for the 2019/20 MY are for 18.5 mln mt.
- There are some potential weather concerns, the US stocks and plantings report is now just 5 days away, and the US-China saga goes on. But the funds keep adding to their shorts and the wheat market still does not have the spark it needs to move substantially higher.
- Durum exports through the week were 104.3k mt for a season total of 2.208 mln mt, down 14% (-371.5k mt) from last year. In their latest outlook, AAFC lowered durum export expectations 100k mt to 4.10 mln mt (a 6.5% decrease from last year). We think this is still too high as average weekly exports would still need to be 100k mt per week to reach this.



- The AAFC is now calling for a 20% decrease in 2019/20 durum acres to 2 mln acres, and 4.60 mln mt of exports.

## US wheat:

- Current snow cover in the US spring wheat area is at record levels in terms of water equivalent. The most similar year was 2011 when 11 mln acres that were prevented from being planted.
- Flooding and the potential of 11+ mln potentially lost planted acres in the US were supportive to US wheat (esp. Minneapolis). The bomb cyclone that hit the Midwest has brought record flooding across parts of Nebraska, Iowa, South Dakota, Kansas and Missouri. Floodwaters have overrun the banks of the Missouri, Platte, Elkhorn, and more, destroying dams, bridges and buildings. Snow remains over most of the US Spring wheat area. The Snow Water Equivalent across the upper Midwest has surpassed the previous 2011 record when 11 mln acres were prevented from being planted (vs -4 mln avg. and -2 mln last year). Oct-Mar precipitation amounts were the highest since 1992, so the saturated ground and expected late melt (like in 2011) will cause planting to be delayed across the entire US, not just the Dakotas and Delta. This could not only impact seeded area but yields as well.
- The Crop Progress reports showed KS winter wheat G/E ratings down 2% to 49%, while OK and TX were slightly higher.
- US export sales at 298,600 mt were within expectations (200-500k mt) for 2018/19. HRW will easily make the USDA's projection. HRS will not. Total HRS commitments are up just 11.4% from last year vs the 21% projected by the USDA.
- We will have the USDA's planting intentions and grain stocks estimates on March 29<sup>th</sup> and we expect traders to want to see these estimates before taking any more futures positions



## Australian wheat:

- Australian farmers are in “wait and see” mode, postponing purchases of fertilizer as their drought lingers. They received showers last week, but the building El Nino is a longer-term risk.
- Australian wheat futures fell US\$5/mt with Fob values down \$2 to \$256/mt on improved rains.

## Argentine wheat:

- Soil moisture in Argentina is good ahead of planting.
- The March update by the Argentine Ag Ministry showed no changes from their February wheat numbers with production at 19.5 mln mt (in line with the USDA; vs. 11.4 mln mt produced last year).
- Argentine Fob values for wheat fell by \$3/mt this past week. Argentine March Fob wheat for 12% protein wheat dropped to US\$220/mt. The discount per ½% protein was at US\$2-3/mt.

### Brazil:

- Brazil has granted 750,000 mt of duty-free wheat; originally wires reported this was exclusive to the US, but Brazil's AgMin said this is for all origins, not just the US.

### EU wheat:

- Temps are rising in the EU, and the European forecast is turning drier, notably Poland, which, along with the Balkans and Iberia, has poor soil moisture.
- Another week of good EU wheat export shipments: EU weekly shipments and adjustments totalled 440k mt, lifting the all-wheat season total to 13.96 mln mt. This is 13% lower than last year (soft wheat shipments are down 11%).
- The French wheat export line-up hit a new season high at over 800k mt.

### Black Sea wheat:

- Parts of the Black Sea are starting to get dry (esp. Stavropol).
- Russia finally sent a container of wheat to Algeria for testing and this clearly is a potential long-term concern for the French market, which has so far been the main supplier of wheat to Algeria.
- There are ongoing high prices in the domestic Russian wheat and flour markets, and slumping farm stocks.
- Black Sea wheat was priced firmer again with replacement for 12.5 protein wheat at Rb 13,500, which (with the Ruble at 8- month highs) equated to ~US\$232/mt Fob parity.

### ➤ Significant purchases/ trades:

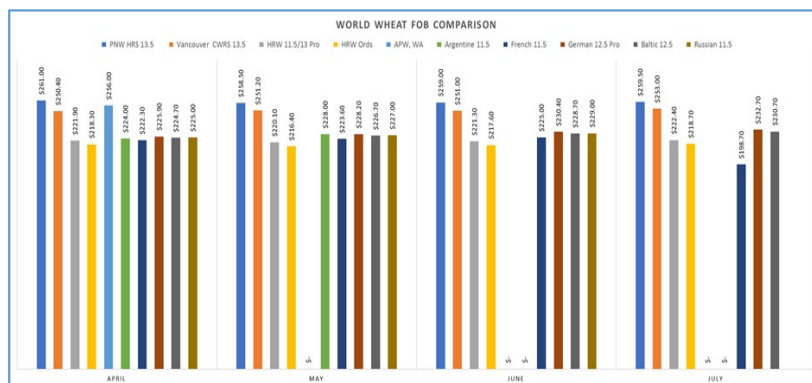
There was a good amount of business done last week:

- **Korea** bought new crop (Sept. arrival) feed wheat at \$214.25 (\$25 more than what they paid for corn).
- **US inspections** were 354,000 tonnes (season total 660 myn bushels down 6%), sales were 299,000 tonnes (season total 850 myn bushels up 3% against the USDA's 7% increase).
- Hopes of China buying wheat resurfaced at the end of the week, following the Chinese purchase of USA corn, but with nothing concrete.

### ➤ Wheat Market Outlook:

#### Significant events:

- The **Fob price line-up** seems to show that German/Baltic and French wheat will cover the majority any remaining demand leading into new crop. Neither market is acting like there will be any issues with late-season supplies. Russian 12.5 pro is still being offered around \$232 Fob parity vs bids around \$225. The 11.5 pro discount is about \$2-\$3.



- Nevertheless, there are ongoing high prices in the **domestic Russian wheat** and flour markets, and slumping farm stocks.
- Hopes of **China buying wheat** resurfaced at the end of the week, following the Chinese purchase of USA corn, but with nothing concrete.

- **Brazil** has granted 750,000 mt of duty-free wheat; originally wires reported this was exclusive to the US, but Brazil's AgMin said this is for all origins, not just the US.
- Current snow cover in the **US spring wheat area** is at record levels in terms of water equivalent. The most similar year was 2011 when 11 mln acres were prevented from being planted.
- We will have the **USDA's planting intentions** and grain stocks estimates on March 29<sup>th</sup> and we expect traders to want to see these estimates before taking any more futures positions.

➤ **Outlook:**

There are some potential weather concerns for the 2019 wheat crop, the US stocks and plantings report is now just 4 days away, and the US-China saga goes on. But the funds keep adding to their shorts and the wheat market still does not have the spark it needs to move substantially higher. Russians are not curbing wheat sales and there appears to be enough wheat other than North American wheat to take care of demand. High quality wheat remains tight, but a good increase in the supply of new crop FAQ milling is coming.

***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 25, 2019

NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		July '19 {bu.}	July '19 {mt.}
<b>1 CWRS 13.5</b>	\$7.09	\$260.51	<b>1 CWRS 13.5</b>	\$7.13	\$261.98
<b>1 CWAD 13.0</b>	\$6.39	\$234.79	<b>1 CWAD 13.0</b>	\$6.42	\$235.90
<b>1 CPSR 11.5</b>	\$6.10	\$224.14	<b>1 CPSR 11.5</b>	\$5.90	\$216.79
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$6.94	\$255.00	<b>1 CWRS 13.5</b>	\$6.99	\$256.84
<b>1 CWAD 13.0</b>	\$6.38	\$234.43	<b>1 CWAD 13.0</b>	\$6.44	\$236.63
<b>1 CPSR 11.5</b>	\$5.60	\$205.77	<b>1 CPSR 11.5</b>	\$5.81	\$213.48
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.86	\$252.06	<b>1 CWRS 13.5</b>	\$6.88	\$252.80
<b>1 CWAD 13.0</b>	\$6.45	\$237.00	<b>1 CWAD 13.0</b>	\$6.43	\$236.26
<b>1 CPSR 11.5</b>	\$5.89	\$216.42	<b>1 CPSR 11.5</b>	\$5.82	\$213.85
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.77	\$248.76	<b>1 CWRS 13.5</b>	\$6.85	\$251.70
<b>1 CWAD 13.0</b>	\$6.50	\$238.84	<b>1 CWAD 13.0</b>	\$6.54	\$240.31
<b>1 CPSR 11.5</b>	\$5.78	\$212.38	<b>1 CPSR 11.5</b>	\$5.83	\$214.22



**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<sup>1</sup> (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are

<sup>1</sup> 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				
March 25, 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)
<b>DNS 14.0</b>	\$344.41	\$317.35		
<b>HRS</b>	\$337.03			
<b>HRW 11.5</b>	\$313.91			
<b>SWW 12.0</b>	\$299.64			
<b>1 CWRS 13.53</b>	\$344.41		\$262.35	\$82.06
<b>2 CWRS 13.03</b>	\$337.03		\$249.12	\$87.91
<b>3 CWRS3</b>	\$313.91		\$227.81	\$86.10
<b>CPS3</b>	\$292.75		\$220.83	\$71.92
<b>1 CWAD4</b>		\$351.30	\$221.93	\$129.37
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	<b>\$229.00</b>			
French 11.5 (Rouen)	<b>\$221.55</b>			
APW 10.5 (W Coast)	<b>\$256.00</b>			
Argentine 12.0	<b>\$220.00</b>			

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 25, 2019
Canadian Funds		Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$9.19	\$8.99	\$8.36	\$7.97	\$7.97	
Parity Track Rosetown	\$7.69	\$7.49	\$6.86	\$6.47	\$6.47	
Track Bid Rosetown Area	\$7.14	\$6.78	\$6.20	\$6.01	\$6.01	
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$0.55</b>	<b>\$0.71</b>	<b>\$0.66</b>	<b>\$0.46</b>	<b>\$0.46</b>	
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$20.19</b>	<b>\$26.04</b>	<b>\$24.22</b>	<b>\$16.94</b>	<b>\$16.94</b>	

\* to cover elevation, elevator market risk, margin