

Wheat Market Outlook and Price Report: April 15, 2019
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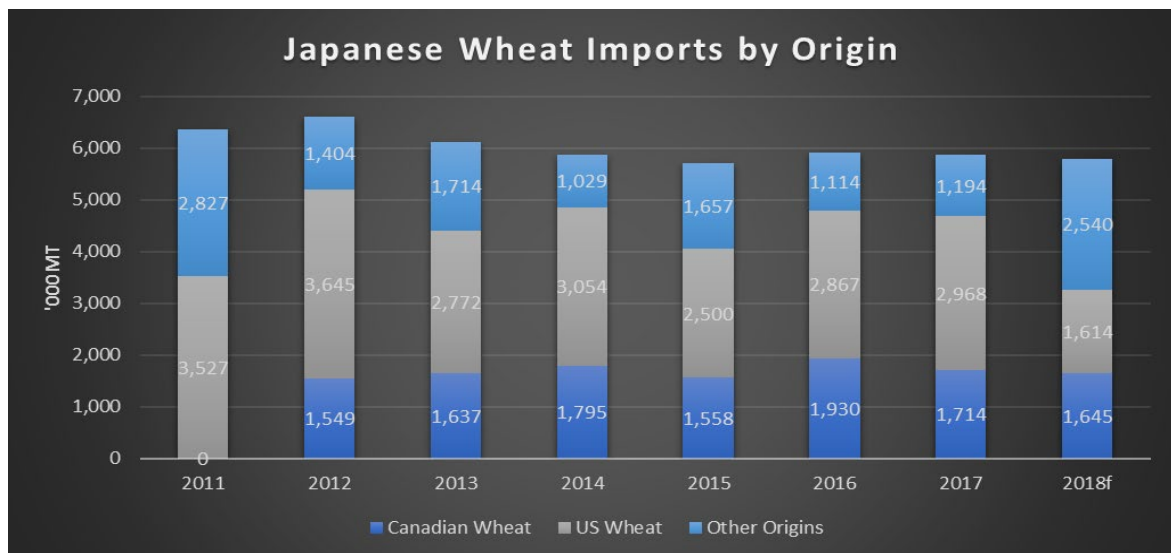
i) Background and Rationale for the Report

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 April 15, 2019

Focus on Japan and the CPTPP:



- The free trade agreement between Japan and the European Union (EU) and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) arrangement are leading to increased market competition for wheat and wheat product exports to Japan.
- Japan imports a total of approx. 5.5- 6 mln mt of food wheat per year, and almost all food wheat is imported under the state trading system.
- Under the import system operated by the Japanese state, the five major classes of wheat (i.e., U.S. Dark Northern Spring (DNS), U.S. Western White (WW), U.S. Hard Red Winter (HRW), **Canadian Western Red Spring (1CW)**, and Australian Standard White (ASW)) account for 95% of Japan's wheat imports. The remaining five percent (Canadian Durum, French wheat and some additional types of food wheat) are imported under the Simultaneous Buy and Sell (SBS) system.

- In 2016, 2.5 MMT of U.S. wheat (49% of imports), 1.7 MMT of Canadian wheat (34% of imports) and 840,000 MT of Australian wheat (17% of imports) were imported by Japan. Nearly half of Japan's imported wheat is hard wheat (DNS and 1CW) used for making bread, and *Canada has recently increased its 1CW market share, at the expense of U.S. DNS exports, due to its price competitiveness.*
- **Mechanics:** Under the TPP agreement, Country Specific Quotas (CSQs) were established for Canada and Australia, and will increase annually from 40,000MT to 53,000MT and 38,000MT to 50,000MT, respectively, from Year 1 to Year 7. Like the EU EPA, the markup within TPP CSQs and the WTO quota (for TPP countries only) will decrease annually, and in Year 9 will be reduced by 45% from current levels (to 9.35 yen/kg). Also, within **the** TPP CSQs, the markup for wheat other than the five major classes will decrease annually, and in Year 9 will be reduced by 50% from current levels (to 8.5 yen/kg).
- Under the provisions outlined under the **CPTPP**, the mark-up for Canadian Western Red Spring (1CW) and Australian Standard White (ASW) *decreased* from 17,000 yen/metric ton (MT) to 16,200 yen/MT between December 30, 2018 and March 31, 2019 (Year 1), and fell further (to 15,300 yen/MT) beginning April 1, 2019 (Year 2). Identical mark-up reductions have also been extended to wheat imports entering Japan under the much smaller EU quota. – *The US is not part of the CPTPP, so will not be able to participate in the decreases of the markups. All other things being equal, Australia and Canada enjoy an immediate advantage of 1,700 yen/MT (\$15.74/MT) over U.S. wheat suppliers.*
- *This is a great opportunity to expand Cdn. hard wheat exports to the world's biggest single buyer of quality wheat -Japan- by 1 mln mt.*

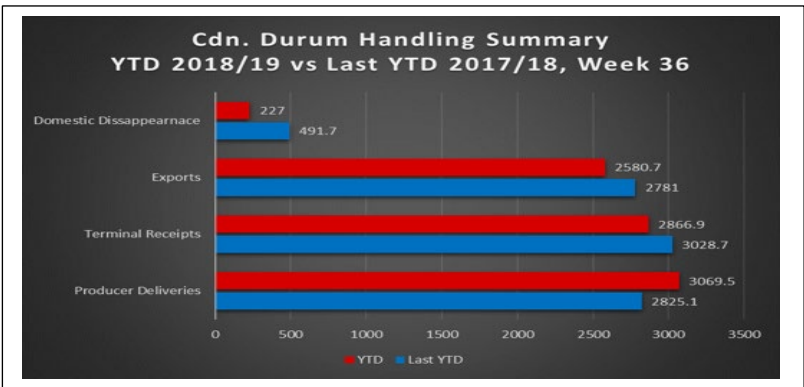
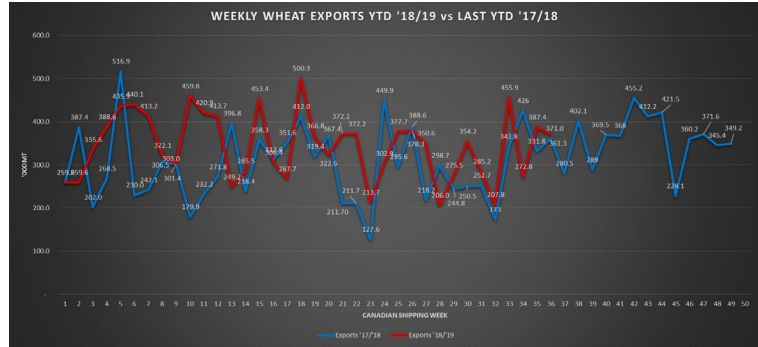
➤ **Global wheat production and trade:**

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:** Chicago and Kansas wheat managed to close up in Friday's trade on short covering, while Minneapolis futures were down on technical selling.
- May '19 contract **Chicago winter wheat** closed at 464-4, up 4-0 in Friday's trade, *down 3-2 cents for the week.*
- May '19 contract **Kansas hard red winter wheat** closed up 3-6 cents at 434-2, *up 3-0 cents for the week.*
- **Minneapolis** May '19 contract **hard red spring wheat** closed at 531-2, down 2-0 cents in Friday's trade, up 9-4 cents for the week, while Jul '19 hard red spring wheat closed at 536-2, down 2-6 cents for the day, *up 5-2 cents for the week.*
- **Matif:** Matif ended flat Friday despite the Algerian tender and ongoing dry conditions across France and northern Europe.
- **Funds:** Funds did nothing on the week and we don't expect the Spec Funds to increase their overall short at current levels.

Canadian Wheat:

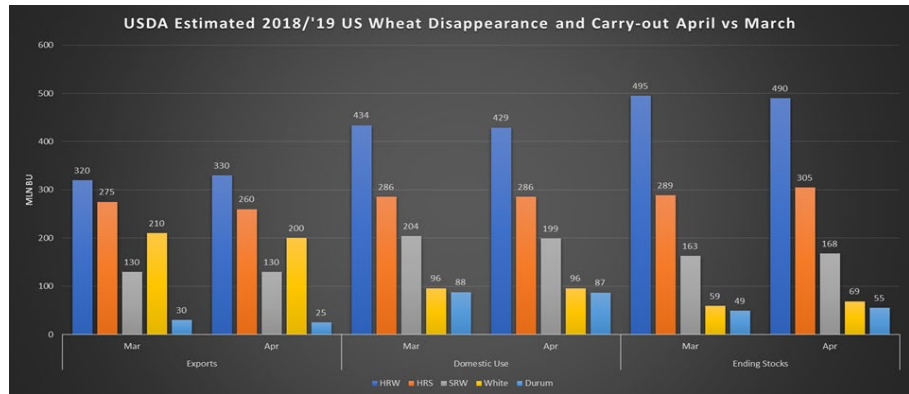
- Canadian producers delivered 408.3k mt of wheat (excl. durum) into the grain handling system during week 36, ending April 7th. YTD deliveries are now 15.20 mln mt, up 20% from last year.
- Exports of 371k mt during the week create a total of 12.45 mln mt, up 15% (1.66 mln mt) year over year. Average weekly export will need to be 390.5k mt per week to meet the AAFC's 18.7 mln mt estimate.
- There are good prospects to increase Canadian spring wheat exports to Japan. [See above.]
- *The latest talk is that Canadian farmers are not planning on planting 10% fewer canola acres despite comments by Richardson's CEO. In either case, the market will need proof before changing its bearish tone.*
- Durum: Canadian producers delivered 124.9k mt of durum into the Canadian grain handling system during week 36. Total deliveries are up 9% from last year at 3.07 mln mt. Durum exports through the week were 81.7k mt for a season total of 2.58 mln mt, down 7% (200k mt) from last year. We think durum exports will be ~400k mt lower than the AAFC's 4.1 mln mt export number.
- *The durum situation is unchanged, there is lots of O/C durum available. We still see new crop acres down, but not at much as what the AAFC is saying.*



US wheat:

- After an expectedly bearish USDA report, trade has returned its attention to new crop. Winter wheat conditions are strong which is pressuring winter wheat futures, while on-going wet and flooding in the S Midwest, Delta and South East is supporting Minneapolis wheat. The forecast is for rain though the second week of May, which will put them well behind pace were yield reductions will become an issue.
- Crop insurance deadlines for most of N Dakota and Montana are June 5th and 10th. Meanwhile, the deadline in S Dakota is May 5th and 15th. Deadlines in Minnesota are May 15th (in the South), May 31st (Central) and June 5th (North). US spring wheat planting is currently 2% complete vs the 5-year average of 5%.
- US wheat sales for the week ending Apr 4th at 273,000 mt were below trade's 300-500k mt expectations. The USDA cut export expectations 20 mln bu to 945 mln bu (-11% y/y) last week.

- The **USDA report** left 2018/19 wheat supply unchanged, but given the Mar 29 Stocks report, feed and residual use was lowered 10 mln bu to 70 mln bu. US wheat exports were lowered 20 mln bu to 945 mln on continued sluggish export pace. HRW exports were raised 10 mln bu (potentially too low), which was offset by decreases in HRS, White, and durum which were lowered 15 mln, 10 mln, and 5 mln bu mt respectively. Lower demand and slightly lower seed use resulted in a 31.5 mln bu increase in US ending stocks at 1,087 mln bu.



Australian wheat:

- Australian wheat futures fell around US\$6-7/mt to their lowest levels since July 2018 and have now lost A\$75/mt since late January!
- The USDA made no changes to the current Australian wheat balance sheet.
- Australian wheat crop prospects in the west remain generally good with additional rain from the tropical cyclone activity, but the south and east remained dry.
- Australian Fob wheat values dropped by ~A\$5/mt to \$245/mt.

Argentine wheat:

- USDA lowered Argentine wheat exports by 500kmt and raised end stocks 400k mt, but left Argentine wheat production unchanged.
- Argentine old crop Fob values for 12% protein wheat were down by \$1/mt this week at \$217.00/mt, with 11.5% protein wheat at \$213-214/mt.

EU wheat:

- The trade ignored the USDA's 1 mln mt increase in EU all-wheat exports to 24 mln mt, which would require around 8 mln mt of sales and shipments during the final 3 months of the season.
- The dry conditions in the EU has Strategies Grains cutting wheat estimates, reducing 2019/20 EU soft wheat production by 1.3 mln mt to 144.8 mln mt. EU farmers have been watching the rain shortage, and are becoming increasingly reluctant old crop sellers. But although rain has been limited, vegetation maps in the EU are much improved from last week (especially in SW Europe) and are much more favourable than images from last year's drought.
- There were no French offers at Friday's Egyptian GASC tender following the midweek rejection of a French vessel for ergot. The cargo was re-accepted over the weekend after protests by France and subsequent retesting.
- The renewed hike in EU shipments showed soft wheat now just 4% down on last year.
- Matif ended flat last Friday, despite the Algerian tender and ongoing dry conditions across France and northern Europe.

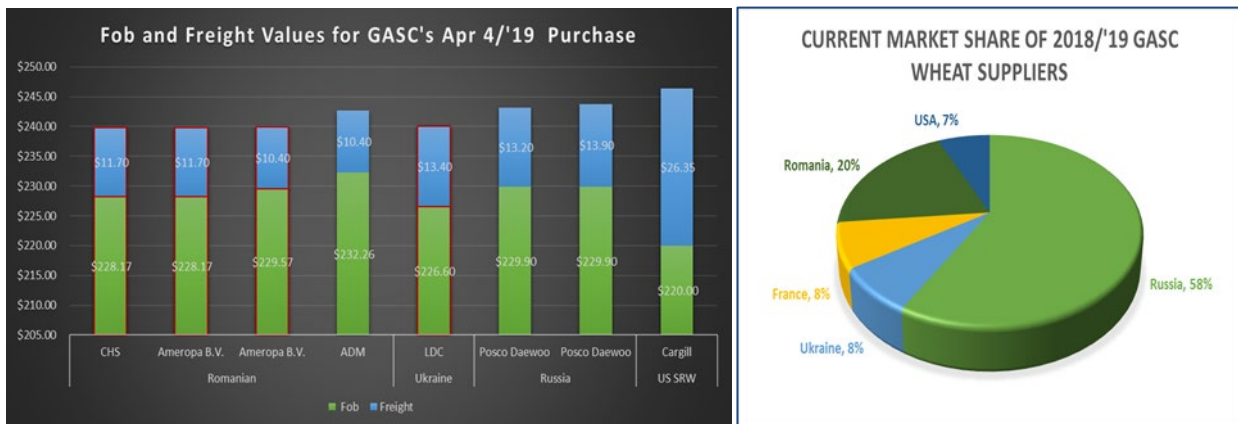
Black Sea wheat:

- Favourable conditions in Russia has allowed Russia to plant 968k ha, up 147% from last year, showing Russia 3% done. Ukraine's Ag ministry says that spring sowing is 85% complete at 141k ha.
- Russian wheat was out of the game at last week's GASC tender as wheat continued to head north to the domestic market, which is paying better prices.
- The Black Sea wheat market was again quiet. Russian 12.5 protein wheat was offered higher by \$2-4 at \$230/mt.

➤ **Significant purchases/ trades:**

There was significant business done last week:

- **Algeria** bought 540,000 mt wheat for June at \$238-239/mt CIF.
- **Egypt** (GASC) bought 240k mt May-June wheat for \$239.87-\$240/mt. 180k mt of this was sourced from Romania, while the remaining 60k mt was from Ukraine. Traded values are out-lined in red on the graph below. Each column represents a 60k mt offer. Given the Fob line-up going into the



tender, it was obvious that Romania was going to win the lion's share of the business, trading with GASC at \$239.87-\$239.97 C&F. The Ukraine was also able to win some business at \$240.00 C&F. Russian wheat was offered, but was \$3.10-\$3.80 too high. US SRW was also offered with large padding and risk protection at \$220 Fob (vs paper at \$204) making it \$6.35 too high.

- **Bangladesh** bought 50,000 mt wheat at \$269/mt Liner Out.
- The **Philippines** bought 165,000 mt feed wheat for Jun-Aug at \$209/mt.
- **Japan** purchased another 55,709 mt of wheat from the US last week, plus 23,635 mt Canadian wheat and 33,780 mt Australian wheat.
- **US wheat inspections** were 539,000 mt (season total 712 mln bushels down 5%), sales were 273,000 mt (season total 904 mln bushels up 7%). *No North American wheat was traded on the recent tender business.*

➤ **Wheat Market Outlook:**

Significant events:

- There were no real surprises in the **WASDE April report**. Certainly, there was not anything in the USDA's numbers that was to frighten the Funds into covering their short. The bears could point to the corn number at over 2 bln bushels as bearish, and the likelihood that the wheat number was being underestimated. Futures traded in a narrow range as they looked for something new to give them a sense of direction. Funds did virtually zero during the week.
- The old crop is coming to an end and the trade is increasingly focused on the weather around the world and the prospects for **new crop**.
- **Japan - CPTPP**: Under the provisions outlined under the CPTPP, the mark-up for Canadian Western Red Spring (1CW) and Australian Standard White (ASW) *decreased* from 17,000 yen/metric ton (MT) to 16,200 yen/MT between December 30, 2018 and March 31, 2019 (Year 1), and fell further (to 15,300 yen/MT) beginning April 1, 2019 (Year 2). → **If Canada needs to increase its exports due to lost canola export business to China, it would seem more exports of wheat should not be too hard to find. Japan is an ideal target market since the Trump/USA declined the new TPP.**

➤ **Outlook:**

The old crop trade is coming to an end and the trade is increasingly focused on the weather around the world and the prospects for new crop. Rightly or wrongly, the wheat market has now ejected US-China trade talks from its thinking, as any deal is not going to make any change in the old crop position.

We don't expect the Funds to be aggressive in covering anything over the next week, but we also don't expect them to be keen sellers. When you look closely at the world carryout, it is only rice that looks really heavy - stocks in grain countries are not so high, with the exception of soybeans. For prices to go much lower we need grower selling, which we don't expect as producers are more occupied planting than selling. We don't expect markets to see any major deviations from current values. Weather will be watched very closely before further shorts are established. In our view, weather is already becoming a real issue especially for spring wheat.

We recommend liquidating old crop but would not sell any new crop at current levels.

iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		July '19 (bu.)	July '19 (mt.)
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$6.41	\$235.53	1 CWAD 13.0	\$6.45	\$237.00
1 CPSR 11.5	\$5.87	\$215.69	1 CPSR 11.5	\$5.65	\$207.60
SW Sask			SW Sask		
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	\$6.54	\$240.31
1 CWAD 13.0	\$6.43	\$236.26	1 CWAD 13.0	\$6.47	\$237.73
1 CPSR 11.5	\$5.37	\$197.32	1 CPSR 11.5	\$5.53	\$203.19
NE Sask			NE Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.38	\$234.43
1 CWAD 13.0	\$6.43	\$236.26	1 CWAD 13.0	\$6.47	\$237.73
1 CPSR 11.5	\$5.67	\$208.34	1 CPSR 11.5	\$5.64	\$207.24
SE Sask			SE Sask		
1 CWRS 13.5	\$6.33	\$232.59	1 CWRS 13.5	\$6.37	\$234.06
1 CWAD 13.0	\$6.49	\$238.47	1 CWAD 13.0	\$6.57	\$241.41
1 CPSR 11.5	\$5.52	\$202.83	1 CPSR 11.5	\$5.50	\$202.09

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

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.”

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				
April 15, 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	\$323.78	\$295.33		
HRS	\$316.42			
HRW 11.5	\$304.65			
SWW 12.0	\$298.76			
1 CWRS 13.53	\$323.78		\$242.51	\$81.27
2 CWRS 13.03	\$316.42		\$233.32	\$83.10
3 CWRS3	\$304.65		\$220.46	\$84.18
CPS3	\$291.89		\$213.85	\$78.04
1 CWAD4		\$350.27	\$221.93	\$128.34
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$227.00			
French 11.5 (Rouen)	\$222.05			
APW 10.5 (W Coast)	\$245.00			
Argentine 12.0	\$217.00			

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					
April 15, 2019					
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.62	\$8.42	\$8.10	\$7.94	\$7.94
Parity Track Rosetown	\$7.13	\$6.93	\$6.61	\$6.45	\$6.45
Track Bid Rosetown Area	\$6.60	\$6.35	\$6.00	\$5.82	\$5.82
Gross Margin at Elevator (\$/bu)*	\$0.53	\$0.58	\$0.61	\$0.63	\$0.63
Gross Margin at Elevator (\$/mt)*	\$19.42	\$21.24	\$22.33	\$23.06	\$23.06

* to cover elevation, elevator market risk, margin