

**Wheat Market Outlook and Price Report: May 6, 2019**  
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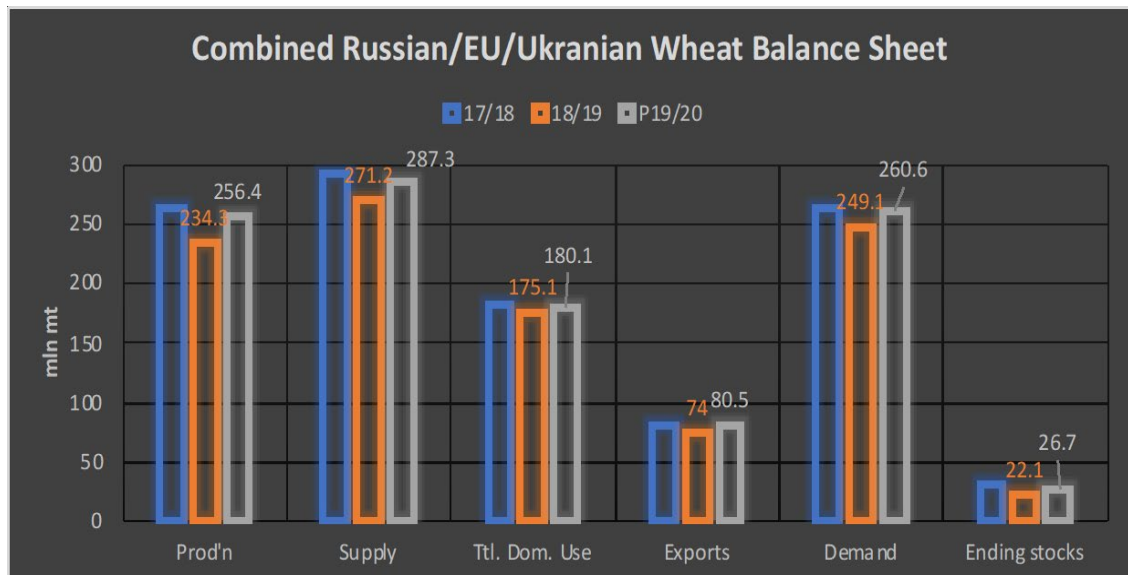
**i) Background and Rationale for the Report**

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 May 6, 2019**

**Focus on 2019/20 Wheat Projections for the EU and Eastern Europe:**



- The above graph combines the projections of the wheat balance sheets of Russia, the EU and Ukraine to anticipate what will happen to export competition in 2019/20.
- Combined production looks to increase by ~9% to 256 mln mt and supply by 6% to ~287 mln mt.
- Combined exports could increase by 8-9% to 80-81 mln mt, thus increasing competition in the international wheat markets for demand.
- In this scenario, even given increased exports, combined ending stocks would still rise by 20-21% to 26-27 mln mt.

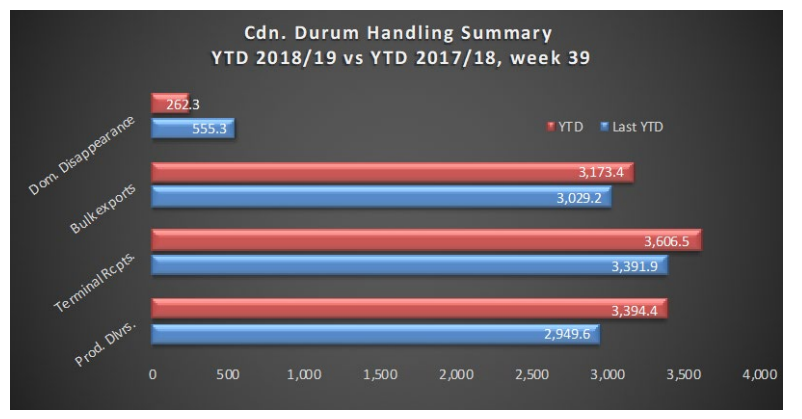
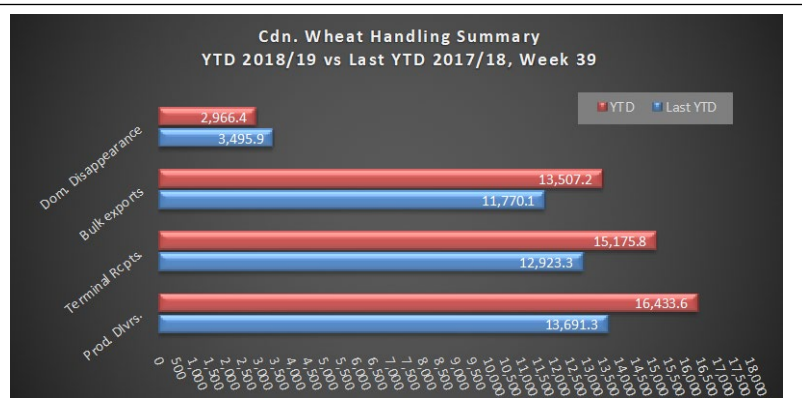
➤ **Global wheat production and trade:**

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.

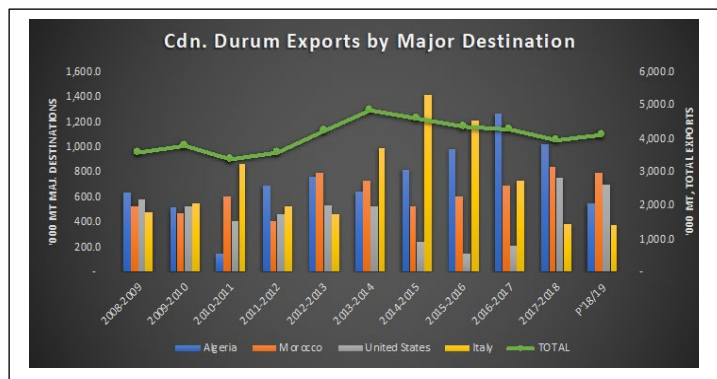
- **Futures:** CBOT and KC wheat futures hit fresh contract lows with KC below \$4 midweek.
- **Matif:** Matif new crop wheat fell to contract lows on spillover selling from the US and an improved (wetter) forecast for the EU.
- **Funds:** The Commitment of Traders report on Friday afternoon showed specs in CBOT wheat futures and options at their largest net short position since Jan. '18 at 84k Ct's. Specs posted a new record net short position in KC wheat futures and options at 59k CT's, extending it by 5k Ct's in the 7 days ending Tuesday.

**Canadian Wheat:**

- Cdn. wheat exports of 301k mt during week 39 result in total of 13.5 mln mt exports crop year to date, still up 15% (+1.74 mln mt) year over year. Canada is on schedule for just around 18.0 mln mt for the crop year; exports will have to speed up to reach AAFC's export target of 18.7 mln mt.
- Canadian durum exports were at an impressive 248k mt for week 39 and at a season total of 3.2 mln mt, now up 5% (+144k mt) from last year for the first time this crop year! This puts us back on track for a 4.2 mln mt export number for the year, higher even than the AAFC's 4.1 mln mt export target. This is a big turn-around from the dismal export performance during the first half of the crop year. **There is more interest for durum in the markets and we expect Canadian prices to improve in the near future.**

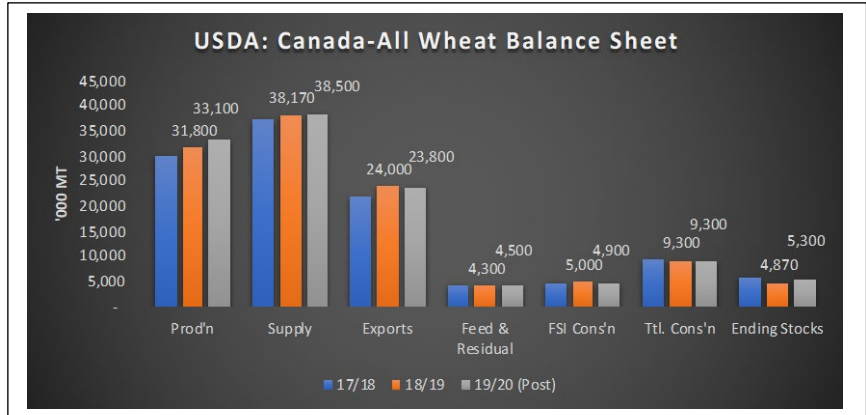


- Moroccan Agriculture and Fisheries Minister Aziz Akhannouch said earlier in April that Morocco's "cereal crop is expected to fall by 19 percent this year due to rainfall shortage". He said that Morocco is "expected to harvest 6.6 million tons of cereal crop, down from 8.2 million tons last year". The harvest includes "3.8 million tons of soft wheat, 1.5 million tons of durum and 1.3 tons of barley". – This is good news for Canada, as Morocco currently is the biggest importer of Cdn. durum wheat, just ahead of the US.
- Here is quick review of Cdn. durum exports to major destinations from 2008/19 to P'181/19. It shows the



decreased importance of Italy, while Morocco, Algeria and the US have developed into the mainstays for durum exports.

- USDA-FAS numbers:** FWIW, here is how the USDA-FAS sees the Cdn. wheat balance sheet for this coming crop year (all wheat combined): USDA expects 24.59 mln acres planted to wheat in Cda., compared to StatsCan's 25.67 mln acres last week. 2019/20 wheat production is projected at 33.1 mln mt, 4.1% higher than last year's, while supply at 38.5 mln mt is 1% higher than last year's. '19/20 exports are shown at 23.8 mln mt, which would be 0.8% smaller than this year's. Importantly, ending stocks are expected to increase by 8.8% to 5.3 mln mt.



#### US wheat:

- NASS assessed the nationwide US spring wheat planting progress as of Apr. 28<sup>th</sup> at 13% compared to 9% last year and the 5-year average progress of 33%. Winter wheat condition came in at 64% Gd/Exc, up 2% from last week and much better than the 33% Gd/Exc assessed one year ago. 19% of US winter wheat is headed compared to 18% last year and the 29% 5-year average.
- Rains are forecast for the Midwest for the next 10-14 days increasing the possibility of delayed planting this spring, and there are currently 9 states from Texas to Illinois that have flood warnings in place as rivers continue to swell. Temperatures remain below normal in Canada with more snow showers.
- The Wheat Quality Council wrapped up their annual KS tour last Thursday. After a total of 469 stops on three routes their avg yield estimate for KS came out at 47.2 bu/ac, 12 bu higher than last year's yield and 7 bu higher than the 5-year avg. Kansas produces about a 1/4 of all U.S. winter wheat, and current conditions are among the best in recent memory. The yield estimate coupled with the excellent winter wheat ratings signal a bigger than expected U.S. wheat supply. Meanwhile, spring wheat planting remains an issue in both the US and Canada.
- The weekly USDA Export Inspections report showed 630k mt for all wheat exports during the week of Apr. 25, down 23% from the prev. week, but 40% larger than the same week last year. USDA showed US wheat export sales on Thursday at a marketing year low of 112k mt for the '18/19 year, and at 297k mt for the '19/20 year. Expectations were for 200k-500k mt for O/C wheat sales, and for 50k-350k mt for N/C, so O/C sales were quite low, but N/C sales were very good. US wheat sales are unlikely to reach the USDA O/C target.
- There is a USDA report this week which will provide US wheat production by class, but balance sheets will not be forthcoming until July.

#### Australian wheat:

- Australian old crop wheat futures fell to 9-month lows, with new crop at 11-month lows due to improving rain prospects and the need to buy some export demand.
- Australian Fob wheat values fell \$5/mt to \$240/mt FOB.

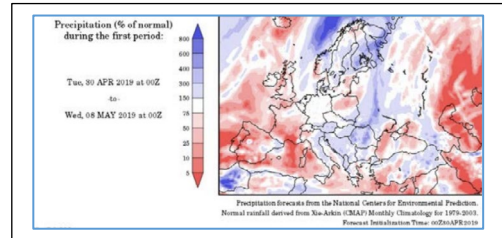
#### Argentine wheat:

- Argentine Fob wheat values remain hard to define for both old and new crop as the currency and export tax issues continue to create uncertainty.
- The Argentine Peso collapsed keeping domestic sales activity limited.

- Argentine old crop Fob values for 12.5% protein wheat this week were offered at \$220.00/mt, with 11.5% protein wheat at ~\$214/mt.

#### EU wheat:

- Europe is getting significant rain in all regions except Spain and E Ukraine, but forecast cold temperatures and frost in central regions could be detrimental.
- Stratégie Grains in Europe just dropped its estimate for the '19/20 EU durum production to just under 7.9 mln mt, which would be the smallest durum production for Europe since '14/15, due to a smaller acreage base and due to dry conditions spreading across major producing areas of France, Italy, and Spain. Soil moisture conditions in Germany are also relatively dry to severely dry. Last year's summer dryness is carrying over into this year's crop conditions. However, most of the trade has been ignoring this dryness as good weather in the Black Sea gives a positive outlook for that region.
- Old crop EU shipments remain 2-4% below last years.
- Focus this week will be on the frost event across eastern France and much of Germany over the weekend, followed by similar risks of frost to Romania and W Ukraine early next week.



#### Black Sea wheat:

- The Black Sea markets were mostly closed last week due to may holidays, but nominal process fell by ~\$4/mt over the week.
- The Vegetation Health maps suggest there is little reason to assume above trend yields for now.
- Russian old crop 12.5 protein wheat fell by ~ \$4/mt and was buyable at \$212/mt.

#### ➤ Significant purchases/ trades:

There was significant business done last week:

- **Saudi Arabia** purchased 625,000 mt of wheat for Jul-Aug-Sep arrival, mostly EU but with some HRW included.
- **Algeria** bought 200,000 mt of durum wheat at \$268-270/mt.
- The **Moroccan** tender for 346,000 mt of EU soft wheat received no offers.
- **USA inspections** for wheat were 630,000 mt (season total 786 mln bushels, down 2.5%), sales were 122,000 mt (season total 936 mln bushels up 8%).

#### ➤ Wheat Market Outlook:

##### Significant events:

- **Funds:** The Commitment of Traders report on Friday afternoon showed specs in CBOT wheat futures and options at their largest net short position since Jan. '18 at 84k Ct's. Specs posted a new record net short position in KC wheat futures and options at 59k CT's, extending it by 5k Ct's in the 7 days ending Tuesday.
- **Crop concerns** are increasing for US SRW, a potential frost/freeze over the next few days in Europe will be closely watched as crop development is advanced for early May, and US/Canadian spring wheat seeding's are expected to struggle in cold wet conditions. The alarm bells are not yet ringing, but there are some yellow flags being raised.
- **Weather forecasts** are still calling for a cool wet week for the Northern Plains, Midwest, much of the corn belt and for Canada. The trade will be looking for an update in US seeding progress this afternoon.
- Canadian **durum exports** were at an impressive 248k mt for week 39 and at a season total of 3.2 mln mt, now up 5% (+144k mt) from last year for the first time this crop year. This is a big turn-

around from the dismal export performance during the first half of the crop year. *There is more interest for durum in the markets and we expect Canadian prices to improve in the near future.*

➤ **Outlook:**

Crop concerns are increasing for US SRW, a potential frost/freeze over the next few days in Europe will be closely watched as crop development is advanced for early May, and US/Canadian spring wheat seeding's are expected to struggle in cold wet conditions. There are some yellow flags being raised.

Next week's USDA report will give US wheat production by class, but the S&D's will not be issued until July. A US-China trade deal, the WTO ruling on Chinese TRQ's (9.6 mln mt annually) plus a record fund short all argue for caution as the futures markets approach new lows.

**iii) Primary Elevator Price Tables and Grade Spreads**

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

Date: May 6, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '19 (bu.)	Sept.'19 (mt.)
<b>1 CWRS 13.5</b>	\$6.38	\$234.43	<b>1 CWRS 13.5</b>	\$5.98	\$219.73
<b>1 CWAD 13.0</b>	\$6.44	\$236.63	<b>1 CWAD 13.0</b>	\$6.26	\$230.02
<b>1 CPSR 11.5</b>	\$5.59	\$205.40	<b>1 CPSR 11.5</b>	\$4.77	\$175.27
SW Sask			SW Sask		
<b>1 CWRS 13.5</b>	\$6.23	\$228.92	<b>1 CWRS 13.5</b>	\$5.91	\$217.16
<b>1 CWAD 13.0</b>	\$6.47	\$237.73	<b>1 CWAD 13.0</b>	\$6.26	\$230.02
<b>1 CPSR 11.5</b>	\$5.04	\$185.19	<b>1 CPSR 11.5</b>	\$4.80	\$176.37
NE Sask			NE Sask		
<b>1 CWRS 13.5</b>	\$6.14	\$225.61	<b>1 CWRS 13.5</b>	\$5.72	\$210.18
<b>1 CWAD 13.0</b>	\$6.52	\$239.57	<b>1 CWAD 13.0</b>	\$6.22	\$228.55
<b>1 CPSR 11.5</b>	\$5.44	\$199.89	<b>1 CPSR 11.5</b>	\$4.51	\$165.72
SE Sask			SE Sask		
<b>1 CWRS 13.5</b>	\$6.13	\$225.24	<b>1 CWRS 13.5</b>	\$5.72	\$210.18
<b>1 CWAD 13.0</b>	\$6.62	\$243.25	<b>1 CWAD 13.0</b>	\$6.34	\$232.96
<b>1 CPSR 11.5</b>	\$5.27	\$193.64	<b>1 CPSR 11.5</b>	\$4.56	\$167.55

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.01)	(0.37)
<b>1 CWRS 12.5</b>	(0.15)	(5.51)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.00	0.00
<b>2 CWAD 13.0</b>	(0.10)	(3.67)
<b>2 CWAD 12.5</b>	(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 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)

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<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.”

- 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				
May 6, 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	\$309.64	\$280.99		
HRS	\$302.23			
HRW 11.5	\$290.38			
SWW 12.0	\$288.40			
1 CWRS 13.53	\$309.64		\$231.49	\$78.15
2 CWRS 13.03	\$302.23		\$222.30	\$79.93
3 CWRS3	\$290.38		\$205.77	\$84.61
CPS3	\$281.49		\$209.07	\$72.41
1 CWAD4		\$309.14	\$225.61	\$83.53
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$212.00	Ine.		
French 11.5 (Rouen)	\$215.02	Ine.		
APW 10.5 (W Coast)	\$254.00	Ine.		
Argentine 12.0	\$215.00	Ine.		

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					
May 6, 2019					
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.24	\$8.04	\$7.71	\$7.66	\$7.66
Parity Track Rosetown	\$6.74	\$6.54	\$6.22	\$6.16	\$6.16
Track Bid Rosetown Area	\$6.30	\$6.05	\$5.60	\$5.69	\$5.69
Gross Margin at Elevator (\$/bu)*	\$0.44	\$0.49	\$0.62	\$0.47	\$0.47
Gross Margin at Elevator (\$/mt)*	\$16.25	\$18.03	\$22.71	\$17.43	\$17.43

\* to cover elevation, elevator market risk, margin