

Wheat Market Outlook and Price Report: May 21, 2019

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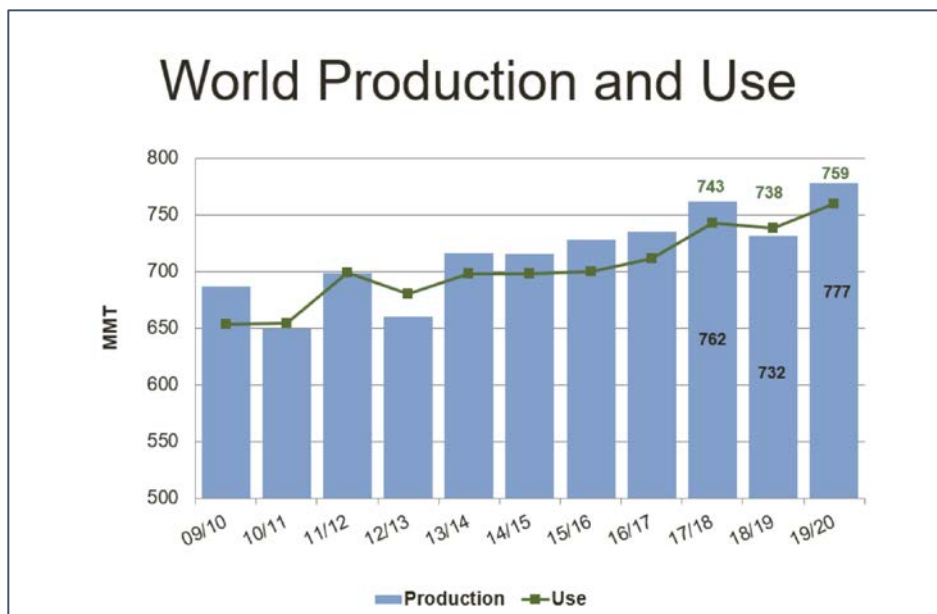
i) Background and Rationale for the Report

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 21, 2019

USDA – World Wheat Balance Sheet:



- USDA issued its first set of forecasts for 2019/20 in its World Agricultural Supply and Demand Estimates (WASDE) report on May 10th. USDA expects global wheat production at a new

record of 777 mln mt and exceeding expected use again as major global suppliers rebound from last year's unfavorable growing conditions.

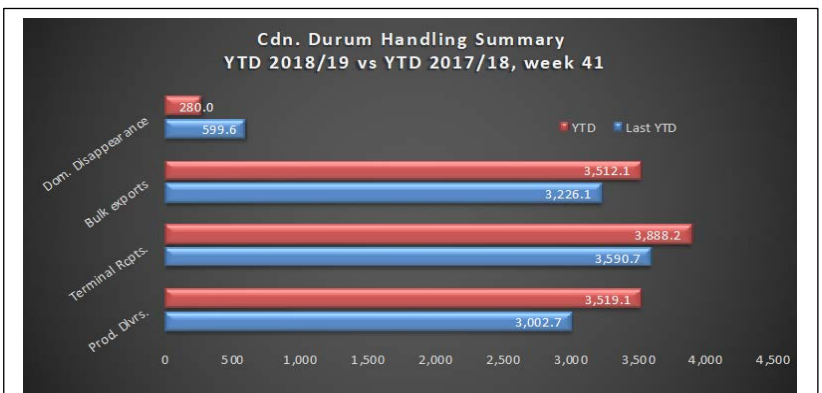
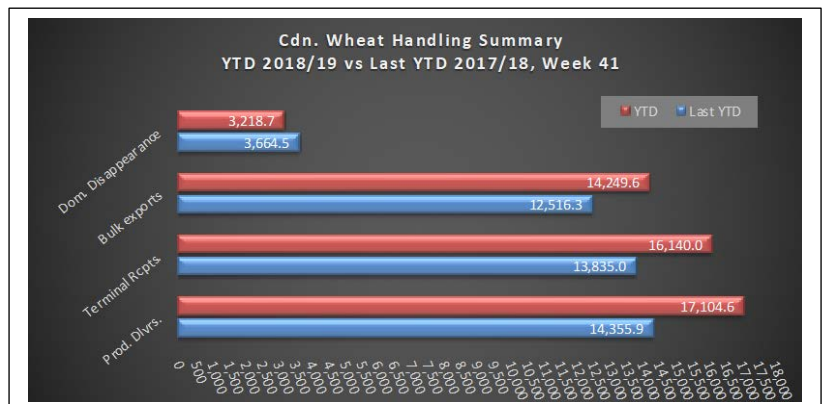
➤ **Global wheat production and trade:**

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.

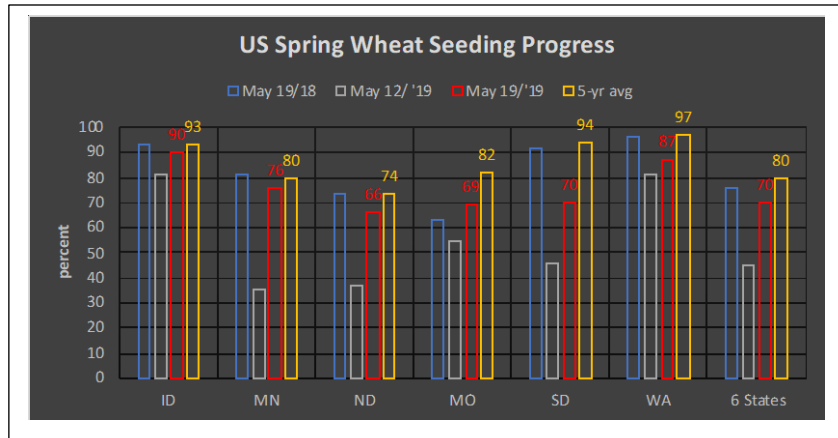
- **Futures:** July '19 contract **Chicago winter wheat** at 465-0, down 2-0 cents in Friday's trade, up 40c on the week.
July '19 contract **Kansas hard red winter wheat** closed up 3-4 cents at 420-2, and up 43c on the week.
Minneapolis, July '19 contract **hard red spring wheat** closed at 527-6, up 1-0 cents in Friday's trade and up 11 cents on the week, while Sept '19 hard red spring wheat closed at 536-6, up 1-0 cent for the day, and up 11 cents for the week.
- **Matif:** Matif hit contract lows early Friday on favorable weather and the German Co-op's 24.3 mln mt crop number (up 4 mln mt on last year).
- **Funds:** Index Funds did nothing to their overall positions. Spec funds were buyers and sellers during the week, finally reducing their corn short because of weather delays in planting.

○ **Canadian Wheat:**

- Cdn. wheat exports (excl. durum) of 289k mt during week 41 were smaller than in recent weeks, and result in total of 14.3 mln mt exports crop year to date, *still up 14% (+1.7 mln mt) year over year*. Canada is on schedule for just around 18.0 mln mt for the crop year; exports will still have to speed up to reach AAFC's export target of 18.7 mln mt.
- Canadian durum exports amounted to a smaller 71k mt for week 41, but at a season total of 3.5 mln mt, are still up 9% (+286k mt) from last year. This keeps sales 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.
- Australia is about to import its first shipment of wheat in more than a decade. Australia's Dep. of Agric. and Water Resources said late on Tuesday that it has approved an **import permit for Cdn. wheat**.



- The market seems to be paying more attention to how the production side of the market is developing, so above is a recap of the seeding progress for spring wheat as of May 19th (latest data). Spring wheat seeding progress at an average of 70% for the six states that grow spring wheat was 10% behind normal as of May 19th. Only 26% of spring

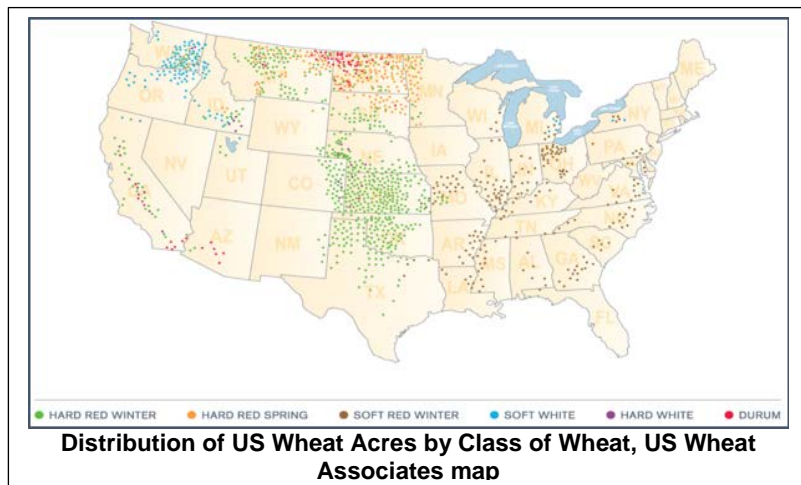


wheat was headed vs. 51% normal. Perhaps equally important is that the wet and cool forecast for the northern areas remains precarious for swift seeding progress and germination. Hence the worry about quality wheat production.

- Canada continues to see warmer temperatures, and is dry; seeding is speeding along here. Concern about dry conditions on the Cdn. Prairies is increasing.

o **US wheat:**

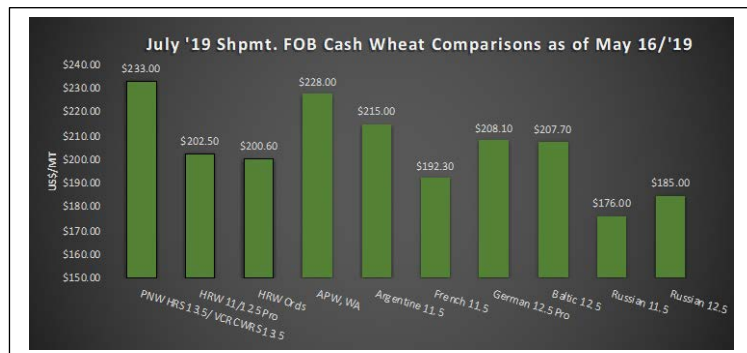
- Weather and planting delays in the USA is the main issue of concern to the market. The USA weather outlook is not promising for a catch up in planting and emergence. The lows seem to be in, how high we go with milling wheat values and milling-feed wheat spreads depends on the weather.



- The **USDA US export sales report** on Thursday showed net sales for '18/19 of 115k mt of wheat vs. 0-250k mt expected. N/C sales were quite good at 419k mt vs. 150-350k mt expected. USDA has now cut O/C US exports 3 times in the last 3 reports, and should be about right now at 26.3 mln mt.

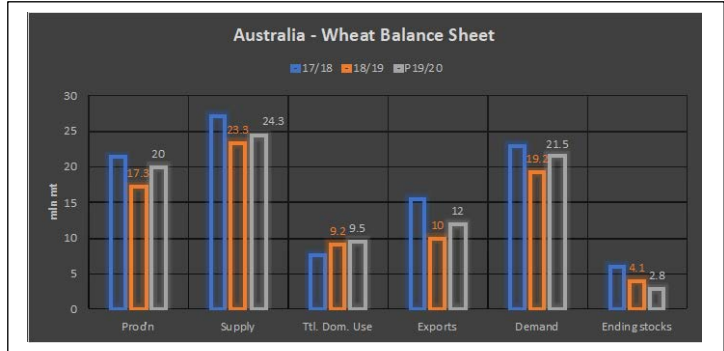
USDA has now cut O/C US exports 3 times in the last 3 reports, and should be about right now at 26.3 mln mt.

- There have been a number of price adjustments since we last looked at global wheat **FOB value comparisons**. July is a N/C position for most origins, except N American spring wheat. Australian wheat remains expensive, and Russian wheat is still cheapest, and the N/C outlook for Russian wheat is for ample supplies. French wheat supplies should also recover and is priced accordingly. N American will likely face a lot of competition during the fall, *although disease and quality are increasingly an issue in the US and millers around the world should be watching developments closely.*



- **Australian wheat:**

- Weather is increasingly the key to any changes in the market, so we continued our series on the wheat production forecasts for major players in the export markets. Australian wheat production declined last year to 17.3 mln mt (from 21.3 mln mt the prev. yr.) due drought conditions. Wheat production is expected to rebound to 20 mln mt this year, with supply to 24.3 mln mt. '18/19 exports last year were curtailed by 1/3 to 10 mln mt (from 15.5 mln mt the prev. yr.), and are expected to recover to 12 mln mt in '19/20. The major wheat export destinations for Australian wheat are Indonesia (up to 5.2 mln mt annually), China (up to 2.3 mln mt), Vietnam (up to 2.4 mln mt), and the Philippines (up to 1.9 mln mt). Ending stocks of Australian wheat should fall to 4.1 mln mt this crop year, and could fall further to 2.8 mln mt in '19/20.



- The planting window for Australian wheat is May through July, the long-term forecast is for dry conditions, and the trade figures the USDA crop of 22.5 mln mt will likely prove 2-3 mln mt too high.
- Australian wheat futures increased by A\$15/mt during the week. Australian Fob wheat values remained at \$228/mt FOB.

- **Argentine wheat:**

- USDA expects '19/20 Argentine wheat production at 20 mln mt.
- Argentine old crop Fob values for 12.5% protein wheat this week were offered at \$220.00/mt, up \$5/t from last week. *New crop wheat remained at \$186/mt.*

- **EU wheat:**

- **Germany's** country's association of farm cooperatives (DRV) thinks the 2019 wheat harvest will increase by 19.8% on the year to 24.28 mln mt as conditions point to a recovery after drought caused massive harvest damage last year. Their prev. estimate was at 24.44 mln mt.
- Europe again has widespread rain with the heaviest amounts in the center and south-east. France AgriMer estimates that 79% of the French soft wheat crops was in Gd/Exc condition as of May 13th, unchanged from last week. Stratégie Grains has reduced its forecast again for this year's wheat production in the EU, due to drought in Hungary. Stratégie Grains reduced its projection for EU soft wheat production for '19/20 season to 143.9 mln mt vs. 144.8 million forecast in April.
- EU cash wheat is already at a sizeable premium to Russian/Black Sea values [see FPB price graph previous page] and is starting to lose export demand.

- **Black Sea wheat:**

- Russia and Ukraine remain dry. *Russian spring wheat areas look very wet for the week after next with temperatures well below average.* The USDA crop number of 77 mln mt might well bear out.
- Russian old crop domestic prices remained close to the season highs. Weather models show rain in the Ukraine and W Russia in the 11-15 day time frame bringing relief to current hot dry conditions, but the Volga area crop is now estimated at 11 mln mt, well below the 18 mln mt produced during the 2017 record year.
- Russian old crop 12.5 protein wheat buyable at \$205.00/mt. The N/C Jul-Aug 12.5 pro bid-offer spread is at \$184-187 less \$10 for 11.5 protein wheat.

➤ **Significant purchases/ trades:**

There was significant business done last week:

- **Algeria** purchased 120,000 mt wheat for July 1-15 at around \$211/mt, plus 380,000 mt for July 15-31 at \$210-208/mt.
- **Tunisia** bought 3x25,000 mt wheat for Jul5 -Aug 5 at \$200/mt, \$199.50/mt and \$195/mt.
- **Ethiopia** bought 400,000 mt wheat from the Apr 19th tender at around \$245/mt.
- **Australia** authorized the import of one cargo of **Canadian wheat**.
- **US inspections** were 842,000 mt (season total 837 mln bushels, unchanged from last year), export sales were 114,000 mt for a season total 943 mln bushels against the USDA's 925 mln bushels annual projection. However, undelivered sales remain high at 129 mln bushels. New crop sales were 419,000 mt for a cumulative 109 mln bushels.

➤ **Wheat Market Outlook:**

Significant events:

- There clearly are some weather issues developing around the world. *Problems in N America could affect the availability of quality wheat.*
- Russian wheat is once again the cheapest wheat in the world and trading very close to what would appear to be the intervention parity announced 10 days ago.

➤ **Outlook:**

Weather and planting delays in the US is the main issue of concern to the market. At the same time, there is a very cold & wet outlook for Russian spring wheat, while Kazakhstan is turning hot and dry. At the moment, Russian wheat is the cheapest in the world and is trading very close to what would appear to be the intervention parity announced 10 days ago. ***The USA weather outlook is not promising for a catch up in planting.***

We are still looking for the \$6.00/bu level for December wheat in Minneapolis, and are getting closer. - We would sell Mpls. Dec. futures at that level.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: May 21, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '19 (bu.)	Sept.'19 (mt.)
1 CWRS 13.5	\$6.69	\$245.82	1 CWRS 13.5	\$6.35	\$233.32
1 CWAD 13.0	\$6.44	\$236.63	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$6.03	\$221.57	1 CPSR 11.5	\$5.15	\$189.23
SW Sask			SW Sask		
1 CWRS 13.5	\$6.59	\$242.14	1 CWRS 13.5	\$6.24	\$229.28
1 CWAD 13.0	\$6.46	\$237.37	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$5.96	\$218.99	1 CPSR 11.5	\$5.15	\$189.23
NE Sask			NE Sask		
1 CWRS 13.5	\$6.44	\$236.63	1 CWRS 13.5	\$6.10	\$224.14
1 CWAD 13.0	\$6.49	\$238.47	1 CWAD 13.0	\$6.22	\$228.55
1 CPSR 11.5	\$5.88	\$216.05	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$6.43	\$236.34	1 CWRS 13.5	\$6.07	\$223.04
1 CWAD 13.0	\$6.58	\$241.78	1 CWAD 13.0	\$6.33	\$232.59
1 CPSR 11.5	\$5.86	\$215.32	1 CPSR 11.5	\$4.93	\$181.15

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 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.

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.”

- 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 21, 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	\$319.21	\$288.67		
HRS	\$311.82			
HRW 11.5	\$301.48			
SWW 12.0	\$302.46			
1 CWRS 13.53	\$319.21		\$241.78	\$77.44
2 CWRS 13.03	\$311.82		\$231.85	\$79.97
3 CWRS3	\$301.48		\$218.99	\$82.48
CPS3	\$295.57		\$222.30	\$73.27
1 CWAD4		\$308.38	\$225.61	\$82.77
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$205.00	Jne.		
French 11.5 (Rouen)	\$209.88	Jne.		
APW 10.5 (W Coast)	\$228.00	Jne.		
Argentine 12.0	\$215.00	Jne.		

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 21, 2019
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.50	\$8.30	\$8.02	\$8.04	\$8.04
Parity Track Rosetown	\$7.00	\$6.80	\$6.52	\$6.55	\$6.55
Track Bid Rosetown Area	\$6.58	\$6.31	\$5.96	\$6.05	\$6.05
Gross Margin at Elevator (\$/bu)*	\$0.42	\$0.49	\$0.56	\$0.50	\$0.50
Gross Margin at Elevator (\$/mt)*	\$15.56	\$18.09	\$20.60	\$18.28	\$18.28

* to cover elevation, elevator market risk, margin