

Wheat Market Outlook and Price Report: May 27, 2019

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

i) Background and Rationale for the Report

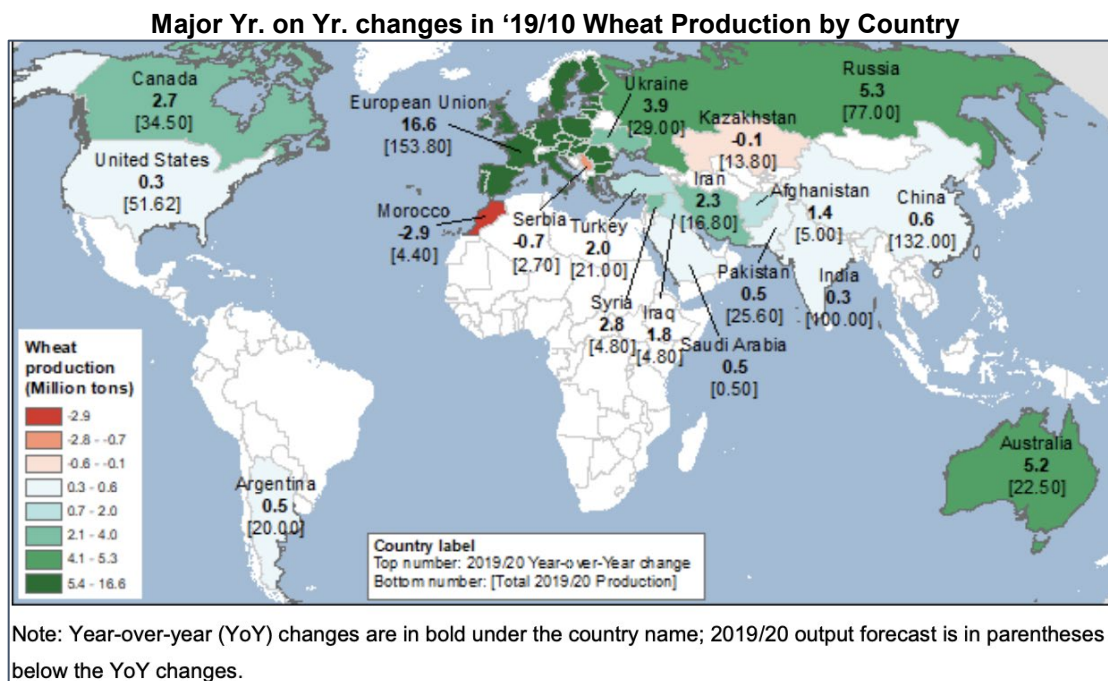
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 27, 2019

Keeping wheat numbers in perspective:

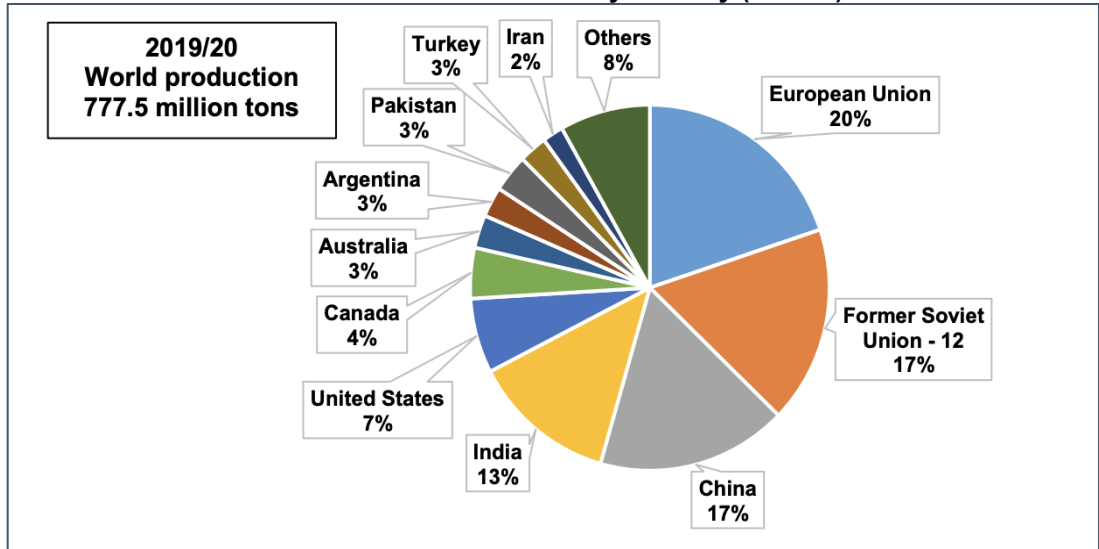
USDA-FAS – Global 2019/20 Wheat Production seen at Record High



- Per USDA, at 777.5 million mt, *global wheat production in 2019/20 is projected 45.9 million mt higher than in 2018/19*. It is an increase of 6.3%, and if realized, will be the largest wheat harvest in history.
- World wheat production is dominated by 12 countries that produce almost 90 percent of the world's wheat. This country wheat production structure was stable for many years, but a shift has developed and since 2000 has been changing in favor of the KRU region (Kazakhstan,

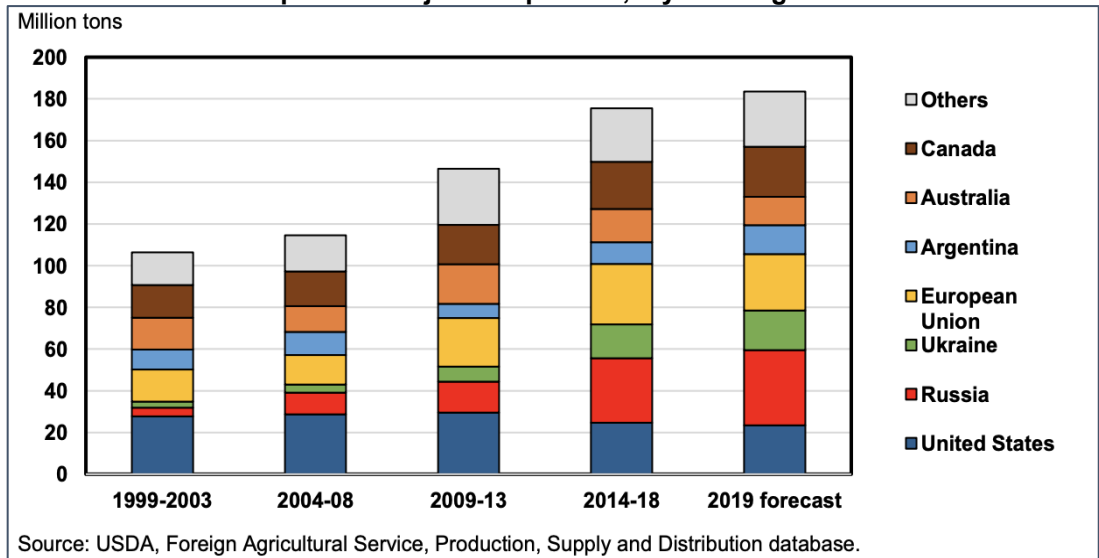
Russia, and Ukraine), mainly at the expense of the United States. Among other consequences, the shift in wheat production has changed global trade, with Russia becoming the top wheat exporter by far as the U.S. share of world wheat exports is trending lower.

Global wheat Production by Country (shares)



- The projected 2019/20 growth in wheat production is mainly driven by the EU recovering from an unfavorable year, but also by other major wheat exporters, as well— Russia, Australia, Ukraine, Canada, and Argentina—with a combined wheat output higher by more than 34.0 million mt compared to a year ago. Partly offsetting is a reduced wheat output forecast for Morocco and several countries in Sub-Saharan Africa.

Wheat Exports of Major Competitors, 5-yr. averages and F2010



- Higher export volumes come with changes in countries' export market shares. During the past several years, Russia, Ukraine, and Argentina have expanded their outreach to supplant the United States, Australia, and Canada in several markets. The most striking example is Egypt, one of the world's leading wheat importers. Egypt used to import the majority of its wheat from the United States, but for the past few years has imported virtually no U.S. wheat, shifting its

import sources mainly to Russia and Ukraine. A similar shift is now happening with Nigeria. Ukraine is increasingly displacing Australia and to lesser extent Canada and the United States in the growing markets of Indonesia and Philippines. Both countries are even chipping away some of the Mexican market share from Canada and the United States.

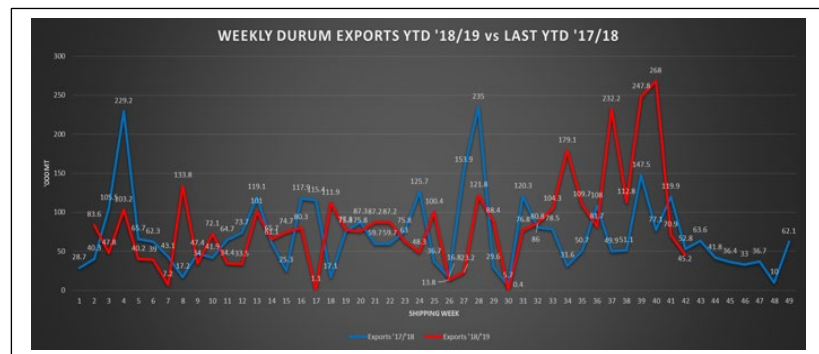
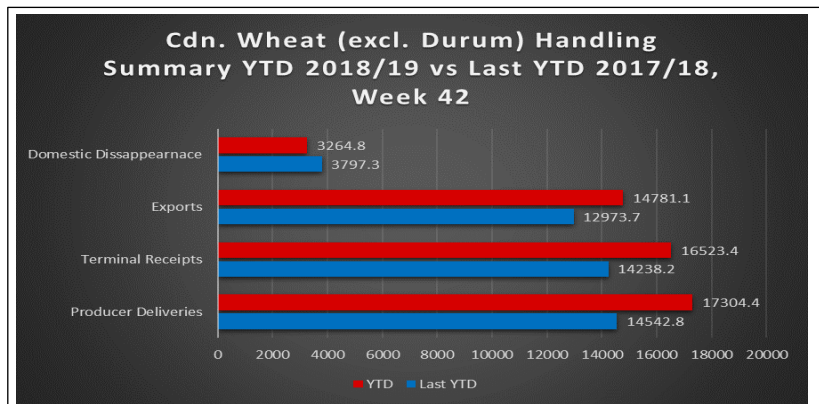
➤ **Global wheat production and trade:**

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** closed at 489-4, up 19-2 cents in today's trade, up 24-4 cents for the week.
July '19 contract **Kansas hard red winter wheat** closed up 16.6 cents at 442-0, up 21-6 cents for the week.
Minneapolis, July '19 contract **hard red spring wheat** closed at 548-2, up 14-0 cents in today's trade, up 20-6 cents for the week, while Sept '19 hard red spring wheat closed at 555-2, up 13-0 cents for the day, and up 18-6 cents for the week.
- **Matif:** Matif tracked the US wheat markets with early 5-week highs and a late week rally to a 3-month high weekly close.
- **Funds:** Overall, funds did little to their overall position through 24 May, but we think they were heavy buyers on Friday as weather conditions did not look good and the markets was talking very large prevent planting corn acres.

○ **Canadian Wheat:**

- Wheat exports of 531.4k mt during the week make a total of 14.781 mln mt, up 14% (+1.81 mln mt) year over year. Weekly exports will need to be 391k mt to reach AAFC's 18.8 mln mt estimate, we will likely fall short of this by ~400k mt.
- We are hearing of \$7.00 specials in SK and \$6.80 targets being hit in MB. This rally will be a good opportunity to sell remaining O/C. One must remember that this rally is weather driven and is led by corn, there will be an abundance of wheat in the world once this weather scare is over and the US is going to struggle to compete. *Still, quality wheat could become tight.*
- *We recommend looking for \$6.00 Minneapolis wheat futures to sell new crop!*
- Canadian durum exports through the week were 45.2k mt for a season total of 3.56 mln mt, up 8% (261k mt) from last year.
- Irregular rainfall in Morocco has hampered harvest during the month of May adding insult to injury as a prolonged Jan-Mar dry period severely damaged crops. The government's preliminary forecasts call for 6.4 mln mt (10.5 mln last year) of cereal production, 25% lower than average. The document also emphasized that cereal imports into Morocco during the 2019/20



season will increase almost 30% y/y to 8.2 mln mt, and wheat imports are supposed to account for 4.7 mln mt (+1.4 mln mt y/y) on this. While the Black Sea supplies most of the wheat demand, durum imports are usually 15-20% of the total wheat amount, most of which is sourced from Canada. We could export upwards of 1 mln mt of durum to Morocco in 2019/20.

- *With acres down in both Canada and the US, and a lower carry-out than initially expected, we expect 2019/20 durum prices to fare better in 2019/20 than the year previous.*

- **US wheat:**

- NASS was showing US spring wheat 70% planted as of May 19th (in line with estimates), with 26% of acres emerged. This compares to 76% planted last year on May 19th and an 80% average, so planting has caught up somewhat. But emergence was 34% last year and shows a 51% average. Weather and planting delays in the USA is the main concern to the market. – There will be an updated report later on Monday.
- Wheat continues to follow corn, trading higher on planting concerns, stalling on Wednesday on profit taking, falling on Thursday over confusion of the US Aid Programs, before closing sharply higher on Friday when more information was known about the aid programs.
- Where the markets go very much depend on weather and North American plantings. There basically is no change to the US weather outlook with rain expected to persist into June and temperatures remaining below normal in the N Plains. There are forecasts for significant hot and dry conditions not only in Russian winter wheat regions, but also in the spring wheat regions of Russia and Kazakhstan. Planting in Russia is about 40% complete.

- **Australian wheat:**

- Australian new crop wheat futures ended up A\$20/mt. Farmers are not selling, feed demand remains strong, dryness persists particularly in WA, and there is considerable debate as to what the final acreage will be, with the USDA's 18% rise in acres increasingly being called into question.
- Australian Fob wheat values increased by \$2.00/mt to \$230/mt FOB.

- **Argentine wheat:**

- It was hard to find offers, but Argentine old crop Fob values for 12% protein wheat this week were at \$225.00/mt, up \$9/mt from last week. *New crop wheat went up \$2/mt at \$188/mt.*

- **EU wheat:**

- Cocal raised their all-wheat EU production estimate to 148.4 mln mt (136 mln mt last year).
- Algeria announced a review of its import system aimed at further regulation and saving foreign exchange. This may reduce French wheat exports to the destination.
- Saudi Arabia was reportedly pleased with the quality of recent Russian test shipments, and a decision on Russia as an acceptable origin for Saudi Arabia could be taken next month. This could impact German/Baltic wheat which is \$10-15/mt higher priced than Russian 12.5 pro wheat.

- **Black Sea wheat:**

- There was a forecast for significant heat over the next weeks, not only for Russian winter wheat but also in the spring wheat regions in Russia and Kazakhstan.
- Domestic wheat and flour prices in Russia remained close to their highs, and Fob values are creeping higher due both to higher replacement costs and the still large discounts to competing origins.
- The N/C Jul-Aug 12.5 pro bid-offer spread for Russian 12.5 protein wheat is at \$186-190/mt (+\$3/mt on the week) less \$10 for 11.5 protein wheat. Feed wheat was put at ~\$175/mt.

➤ **Significant purchases/ trades:**

There was significant business done last week:

- **Ethiopia** confirmed that they bought buying 600k mt wheat steaming from their Apr 30th tender, adding to the 400k mt bought from the Apr 19th tender, for a total of 1 mln mt.

- **Taiwan** purchased 111k mt of US wheat in their tender that closed on Tuesday.
- **The Philippines** reportedly bought 45k mt feed wheat for Sept arrival at \$240-244/mt. We suspect it was ASW, not feed wheat.
- **Japan's** weekly wheat tender was for 123k mt of US, and Canadian wheat, with 90k mt US specific.
- **Bangladesh** bought 50,000 tonnes at \$268/mt.
- **Morocco** announced the usual duty increase from 30% to 135% on soft wheat imports, which are expected to rise 400,000 tonnes to 3 mln tonnes following a 40% decline in their overall grain crop.
- **USA inspections** were 758,000 tonnes (season total 866 myn bushels against the USDA's 925 myn bushels), **US export sales** were 48,000 tonnes old crop and 345,000 tonnes of new crop (season totals of 945 myn bushels and 122 myn bushels respectively).

➤ **Wheat Market Outlook:**

Significant events:

- The **US farm aid programs** appear to be bullish corn and thus wheat and feed grains as it looks like the optimal decision for farmers is to take the crop insurance for prevent plant. - Wheat will continue to follow corn for now.
- **Weather** in the US will offer support in the short-term and quality wheat supply may be tight this year, but overall there will be an abundance of wheat in the world, and the US will again struggle to be competitive.
- Heat and lack of moisture issues are arising in the wheat and spring wheat areas of **Russia** and **Kazakhstan**. The Russian AgMin issued a conservative 75 mln mt 2019 production number.

➤ **Outlook:**

The **US farm aid programs** appear to be bullish corn and thus wheat and feed grains as it looks like the optimal decision for farmers is to take the crop insurance for prevent plant. The funds will continue working on their corn sort and are still short ~70,000 wheat contracts on the CBOT. Unless the forecast improves drastically, this market will continue to have legs. Weather in the US will offer support in the short-term and quality wheat supply may be tight this year, but overall there will be an abundance of wheat in the world, and the US will again struggle to be competitive.

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 27, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '19 (bu.)	Sept.'19 (mt.)
1 CWRS 13.5	\$6.74	\$247.65	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$6.45	\$237.00	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$6.10	\$224.14	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	\$6.30	\$231.49
1 CWAD 13.0	\$6.49	\$238.47	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$5.54	\$203.56	1 CPSR 11.5	\$5.26	\$193.27
NE Sask			NE Sask		
1 CWRS 13.5	\$6.48	\$238.10	1 CWRS 13.5	\$6.19	\$227.45
1 CWAD 13.0	\$6.54	\$240.31	1 CWAD 13.0	\$6.22	\$228.55
1 CPSR 11.5	\$5.96	\$218.99	1 CPSR 11.5	\$5.16	\$189.60
SE Sask			SE Sask		
1 CWRS 13.5	\$6.47	\$237.73	1 CWRS 13.5	\$6.15	\$225.98
1 CWAD 13.0	\$6.63	\$243.61	1 CWAD 13.0	\$6.33	\$232.59
1 CPSR 11.5	\$5.79	\$212.75	1 CPSR 11.5	\$5.16	\$189.60

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.

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.”

- 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 27, 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	\$321.87	\$302.13		
HRS	\$314.47			
HRW 11.5	\$304.60			
SWW 12.0	\$305.58			
1 CWRS 13.53	\$321.87		\$242.88	\$79.00
2 CWRS 13.03	\$314.47		\$239.20	\$75.27
3 CWRS3	\$304.60		\$220.83	\$83.76
CPS3	\$298.67		\$224.14	\$74.53
1 CWAD4		\$309.04	\$225.61	\$83.43
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$188.00	Jly.		
French 11.5 (Rouen)	\$197.64	Jly.		
APW 10.5 (W Coast)	\$230.00	Jly.		
Argentine 12.0	\$225.00	Jly.		

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 27, 2019				
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.57	\$8.37	\$8.10	\$8.13	\$8.13
Parity Track Rosetown	\$7.08	\$6.87	\$6.61	\$6.63	\$6.63
Track Bid Rosetown Area	\$6.61	\$6.51	\$6.01	\$6.10	\$6.10
Gross Margin at Elevator (\$/bu)*	\$0.47	\$0.36	\$0.60	\$0.53	\$0.53
Gross Margin at Elevator (\$/mt)*	\$17.10	\$13.37	\$21.87	\$19.55	\$19.55
* to cover elevation, elevator market risk, margin					