

**Wheat Market Outlook and Price Report: June 17, 2019**  
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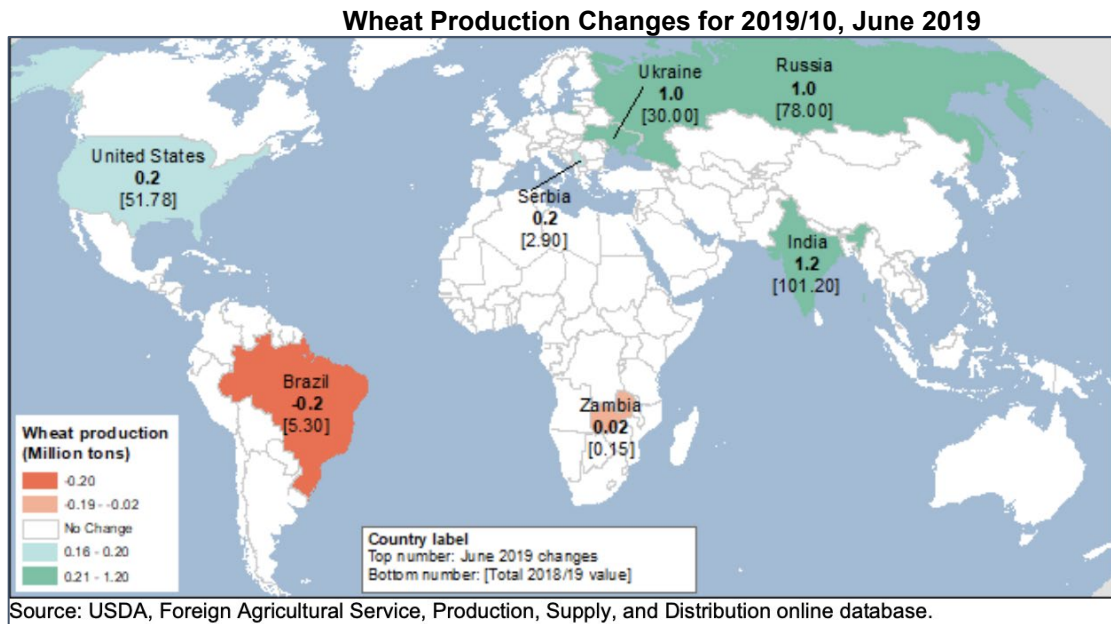
**i) Background and Rationale for the Report**

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 June 17, 2019**

**USDA June Numbers on Wheat – International Outlook:**



- USDA projects **global wheat production** in 2019/20 to reach a new record of 780.8 million mt, up 3.3 million mt this month. *This figure is 49.1 million mt higher than last year and 18.9 million mt above the 2017/18 record.*
- Most of the increase, both monthly and yearly, is in foreign (world minus the U.S.) wheat production. Two major wheat grain exporters—Russia and Ukraine—as well as India, have seen their production prospects increased.
- **Global wheat consumption** was raised 3.6 mln mt on higher feed use for a final (record) carry-out of 294.3 mln mt (+1.3 mln mt from May).

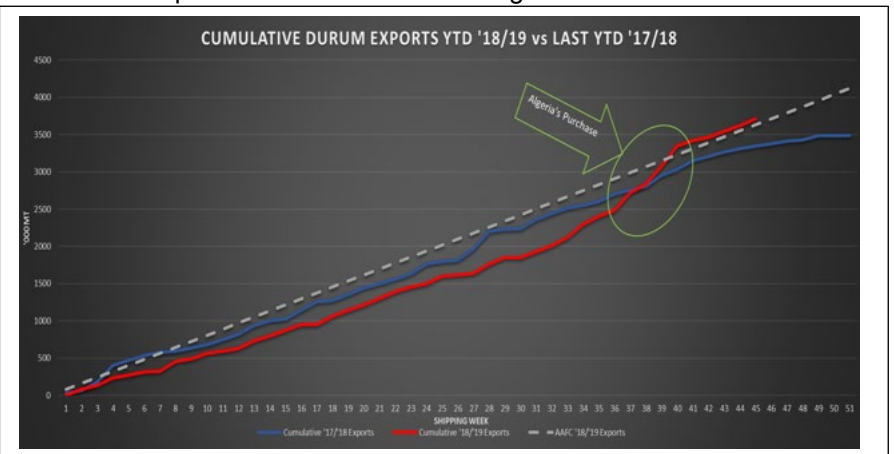
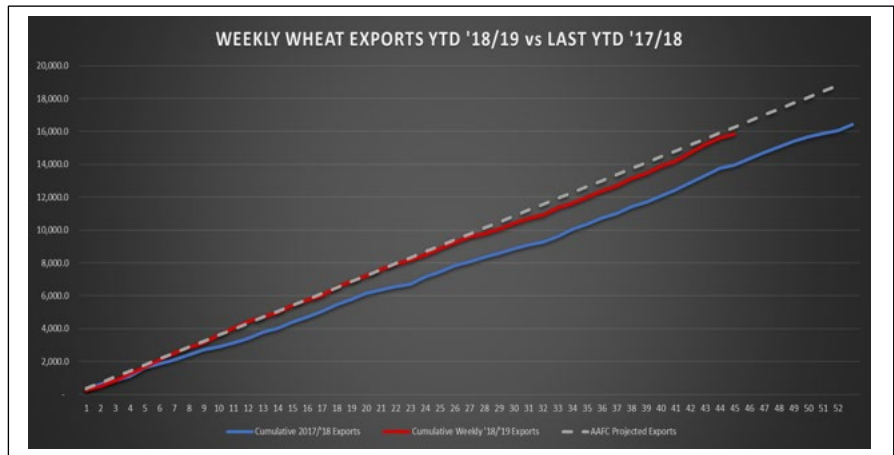
➤ **Global wheat production and trade:**

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:** Wheat futures were mixed this week, trading sideways until the USDA report that sent CBOT and KC contracts higher with corn, while Minneapolis futures traded lower on improved weather prospects in the Western Prairies.  
 July '19 contract **Chicago winter wheat** closed at 538-4, up 3-0 cents in today's trade, up 35-0 cents for the week.  
 July '19 contract **Kansas hard red winter wheat** closed up 8-0 cents at 476-2, up 27-2 cents for the week.  
**Minneapolis**, July '19 contract **hard red spring wheat** closed at 560-6, down 3-0 cents in today's trade, down 5-4 cents for the week, while Sept '19 hard red spring wheat closed at 570-4, down 3-2 cents for the day, down 6-6 cents for the week.
- Matif:** Matif hit 2-week lows ahead of the USDA report, but ended up €2 on the week.
- Funds:** Both Spec Funds and Index Funds were heavy buyers following the release of the June WASDE report.

**Canadian Wheat:**

- Canadian producers delivered 487.3k mt of wheat (excl. durum) into the grain handling system during week 45, ending June 9<sup>th</sup>. YTD deliveries are now 18.79 mln mt, up 19% from last year. Exports of 258.5k mt during the week create a total of 15.92 mln mt, up 13% (1.89 mln mt) year over year. Weekly exports will need to be 411k mt to reach AAFC's 18.8 mln mt estimate. At the current pace, final exports will be 18.4 mln mt.
- Minneapolis wheat futures were under pressure this week as widespread rain over the Western Prairies was being forecast for the weekend. The SK crop report showed a further deterioration of soil moisture, now rated 79% short/very short. The rains this weekend were important ones.
- The spread between winter wheat futures and Minneapolis is widening as CBOT and KC wheat is rising with corn but spring wheat has been pressured lower on the strong outlook in North America. The short-term direction of spring wheat will largely depend on the amount and coverage of the weekend's rain and whether the SK crop report shows any improvement in soil moisture.
- Canadian durum producers delivered 144.1k mt of durum into the Canadian grain handling system during

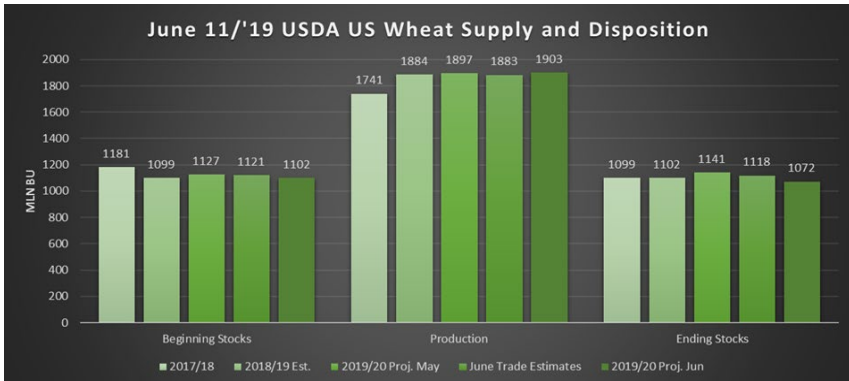


week 45. Total deliveries are up 21% from last year at 3.97 mln mt. Exports through the week were 90.6k mt for a season total of 3.81 mln mt, up 11% (368.5k mt) from last year. Thanks to very strong sales to Algeria during March and April, at the current pace, there should be no trouble achieving the AAFC's estimated 4.2 mln mt worth of exports.

- Planting is nearly complete in the US. Crop conditions have been good although precipitation is needed in some areas: the ND crop is rated as 86% G/E while the MO crop is just 53% G/E.
- US durum sales for the first two weeks of the new MY have been strong vs last year.
- *Acres are down in both Canada and the US and carry-out is lower than initially expected. We expect 2019/20 durum prices to fair better in 2019/20 than the year previous.*

### US wheat:

- US spring wheat planting is 97% complete. Conditions are fair overall, but ND is drying and in need of rain.
- US winter wheat crop ratings were unchanged from last week at 64% G/E. Rain has been hampering winter wheat harvest which is now 4% complete (13% last year). Despite this, there has not been any sprouting reported in HRW areas. There continue to be concerns about drowned out fields in the Central KS and localised fusarium in SE KS. HRW harvest is 32% complete in TX, 18% complete in OK and is beginning in KS. In SRW regions, the crop is 31% harvested in NC, 15% in TX, 46% in TN and 46% in AL. Precip. during heading has caused fusarium pressure in OH. From the small number of HRW and SRW samples received so far, there have not been any quality issues yet.
- US export sales of 325k mt create a season total of 226 mln bu vs 166 mln bu this time last year.
- USDA report-US wheat: The USDA lowered US 2019/20 wheat supplies forecast 19 mln bu as a 25 mln bu decrease in beginning stocks offset a 6 mln bu increase in production. Winter wheat production was up 6 mln bu to 1,274 mln bu as increases in HRW more than offset decreases in SRW and White Winter. Feed and residual were increased 50 mln to 140 mln bu because of lower corn production. Exports were unchanged at 900 mln bu (-50 mln bu y/y). Overall, ending stocks were lowered 69 mln bu. Moving forward, domestic use numbers will be the ones to watch as corn demand gets rationed, and feed wheat fills some of the shortfall in feed grain supply.



- Increased domestic wheat use (currently est'd at 32 mln mt is up 10% from last year) is going to be important, as the US is going to have a large crop and is currently going to be uncompetitive in the world market (where there is going to be an abundance of wheat).

### Australian wheat:

- ABARES lowered Australia's wheat production estimates from 23.9 mln mt to 21.2 mln mt as the Eastern regions suffer from their 3-consecutive drought. The 21.2 mln mt estimate is still 23% higher than last year's production.
- Australian Fob wheat values remained at~ \$245/mt.

### Argentine wheat:

- Rosario raised **Argentina's** grain production number 1.5 mln mt to 22 mln mt.
- There were no quotes for old crop Argentine wheat.
- New crop Fob values for 12.5% protein wheat this week were at \$204.00/mt, down \$1/mt from last week. *The protein discount is -\$4.00/mt per ½ percent protein.*

**EU wheat:**

- The large production number in Ukraine and the uncompetitive price of EU wheat vs Black Sea origin has caused Stratégie Grains to lower **EU** soft wheat export expectations down 1.1 mln mt to 22.1 mln mt.
- The Egypt (GASC) offers showed just how expensive French wheat is, and that German/Baltic business to Saudi Arabia is under threat.
- Matif hit 2-week lows ahead of the USDA report, but ended up €2 on the week.

**Black Sea wheat:**

- The USDA raised both Russian and Ukrainian '19/20 wheat crops by 1 mln mt, raised exports by 1 mln mt and 500k mt respectively, while lowering Russian '18/19 exports by 1 mln mt to 36 mln mt.
- Hot and dry conditions in **Russia** caused SovEcon to cut Russian wheat production forecasts from 82.6 mln mt to 82.2 mln mt (vs USDA's +1 mln mt to 78 mln mt, up 8% from last year).
- **Ukraine's** ProAgro increased 2019 grain production 700k mt to 71.3 mln mt. Of this, 25.9 mln mt is expected to be wheat (+8.4%)
- The Russian 12.5% protein wheat bid-offer is at \$194-198/mt. !!.5% protein wheat is \$12/mt cheaper. Black Sea feed wheat is now at a discount to corn.

➤ **Significant purchases/ trades:**

**Global cash markets** were quiet again last week. Wheat importers have low coverage and will need to return.

- **Egypt** (GASC) bought 120k mt Russian/Romanian wheat at \$209.50 for July 11-21.
- The **Philippines** bought 110kt Jul/Aug arrival feed wheat at \$210-215.
- Cash trade was slow before the WASDED report.
- US export sales were 325k mt for a season total 226 mln bu against 166 mln bu this time last year.

➤ **Wheat Market Outlook:**

**Significant events:**

- **USDA report** last week: USDA projects **global wheat production** in 2019/20 to reach a new record of 780.8 million mt, up 3.3 million mt this month. *This figure is 49.1 million mt higher than last year and 18.9 million mt above the 2017/18 record.* Most of the increase, both monthly and yearly, is in foreign (world minus the U.S.) wheat production. Two major wheat grain exporters—Russia and Ukraine—as well as India, have seen their production prospects increased.
- The **US corn balance sheet** will need further adjustments going forward, *which may have significant implications on feed wheat use in the new crop year.*
- Black Sea wheat is poised to dominate wheat export in the first quarter of the new crop year.

➤ **Outlook:**

The USDA's world wheat numbers maintained an artificially heavy tone with world stocks (non-China) and major exporter's stocks up by 1.3 mln tonnes from last month and up 12 mln tonnes on the year. *The USDA where too high on corn acres and did not show the extent of wheat to be used as a substitute for corn as feed.* Nearby other origin wheat is cheap and will be used as feed, which will change the wheat balance sheet.

**Canadian prices have improved since the rally in US futures. We hear Durum prices have improved dramatically. We suggest growers hold sales for now until the situation in the USA is clearer.**

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

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

Date: June 17, 2019

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '19 (bu.)	Sept.'19 (mt.)
<b>1 CWRS 13.5</b>	\$6.82	\$250.59	<b>1 CWRS 13.5</b>	\$6.66	\$244.72
<b>1 CWAD 13.0</b>	\$6.86	\$252.06	<b>1 CWAD 13.0</b>	\$6.38	\$234.43
<b>1 CPSR 11.5</b>	\$6.37	\$234.06	<b>1 CPSR 11.5</b>	\$5.86	\$215.32
SW Sask			SW Sask		
<b>1 CWRS 13.5</b>	\$6.74	\$247.65	<b>1 CWRS 13.5</b>	\$6.50	\$238.84
<b>1 CWAD 13.0</b>	\$6.55	\$240.67	<b>1 CWAD 13.0</b>	\$6.26	\$230.02
<b>1 CPSR 11.5</b>	\$5.85	\$214.95	<b>1 CPSR 11.5</b>	\$5.80	\$213.12
NE Sask			NE Sask		
<b>1 CWRS 13.5</b>	\$6.55	\$240.67	<b>1 CWRS 13.5</b>	\$6.43	\$236.26
<b>1 CWAD 13.0</b>	\$6.70	\$246.18	<b>1 CWAD 13.0</b>	\$6.43	\$236.26
<b>1 CPSR 11.5</b>	\$6.21	\$228.18	<b>1 CPSR 11.5</b>	\$5.64	\$207.24
SE Sask			SE Sask		
<b>1 CWRS 13.5</b>	\$6.57	\$241.41	<b>1 CWRS 13.5</b>	\$6.42	\$235.90
<b>1 CWAD 13.0</b>	\$6.77	\$248.76	<b>1 CWAD 13.0</b>	\$6.53	\$239.94
<b>1 CPSR 11.5</b>	\$6.03	\$221.57	<b>1 CPSR 11.5</b>	\$5.64	\$207.24

**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)
    - 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.

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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.”

- 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				
June 17, 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>	\$323.49	\$310.71		
<b>HRS</b>	\$316.11			
<b>HRW 11.5</b>	\$303.33			
<b>SWW 12.0</b>	\$312.67			
<b>1 CWRS 13.53</b>	\$323.49		\$248.02	\$75.47
<b>2 CWRS 13.03</b>	\$316.11		\$244.72	\$71.40
<b>3 CWRS3</b>	\$303.33		\$233.32	\$70.01
<b>CPS3</b>	\$305.79		\$236.26	\$69.53
<b>1 CWAD4</b>		\$307.76	\$225.61	\$82.15
<b>Competing wheat:</b>	<b>US\$/mt</b>			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	<b>\$196.00</b>	Jly.		
<b>French 11.5 (Rouen)</b>	<b>\$199.98</b>	Jly.		
<b>APW 10.5 (W Coast)</b>	<b>\$245.00</b>	Jly.		
<b>Argentine 12.0</b>	<b>n/a</b>	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 CRWS 13.0%; HRW ≈ 3CRWS; SWW ≈ CPS  
 4 Values derived to Lakehead FOB

## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

<b>Canadian Wheat - World Price Parities</b>					
	June 17, 2019				
<b>Canadian Funds</b>	<b>Grade</b>				
<b>PNW value/Vancouver</b>	<b>1CWRS13.</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>May/June delivery</b>	\$8.62	\$8.42	\$8.07	\$8.32	\$8.32
<b>Parity Track Rosetown</b>	\$7.12	\$6.92	\$6.57	\$6.83	\$6.83
<b>Track Bid Rosetown Area</b>	<b>\$6.75</b>	<b>\$6.66</b>	<b>\$6.35</b>	<b>\$6.43</b>	<b>\$6.43</b>
<b>Gross Margin at Elevator (\$/bu)*</b>	\$0.37	\$0.26	\$0.22	\$0.40	\$0.40
<b>Gross Margin at Elevator (\$/mt)*</b>	\$13.60	\$9.53	\$8.14	\$14.54	\$14.54

\* to cover elevation, elevator market risk, margin