

**Wheat Market Outlook and Price Report: June 24, 2019**  
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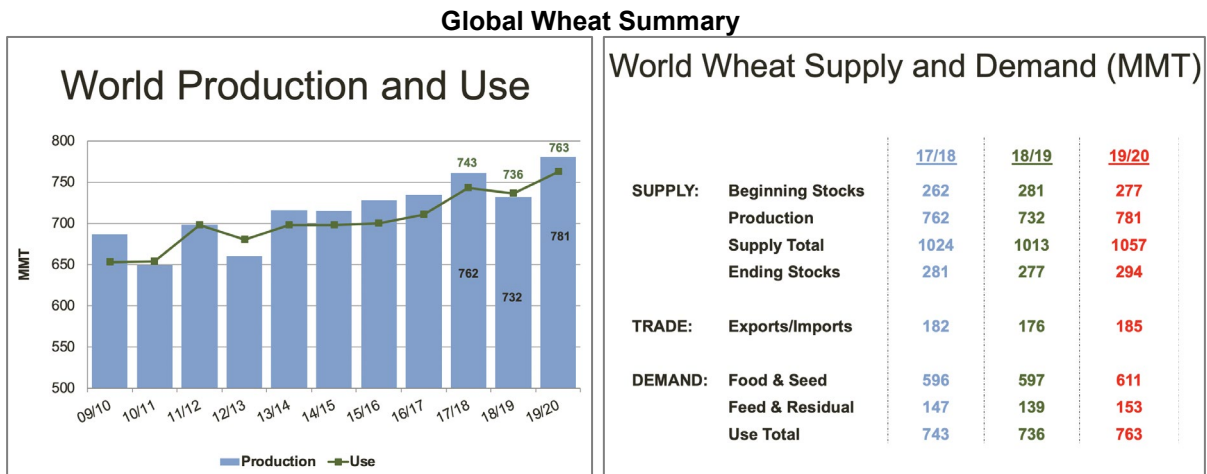
**i) Background and Rationale for the Report**

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 24, 2019**

**Summary of the World Wheat Situation as seen by USDA in June:**



- **2019/20 global wheat production** is expected to jump to a 10-year high of 781 mln mt.
- **Global wheat consumption** is forecast at 763 mln mt, the highest since 2009, but still 18 mln mt smaller than production.
- **World wheat trade** is forecast to jump by 5% year-over-year to 185 mln mt, 4% above the 5-year average of 176 mln mt.
  - Exports from the Ukraine are seen to increase by 17% over last year to 19.5 mln mt in 2019/20.
  - Exports from the EU are expected to rebound by 9% year-over-year to 26.5 mln mt.
  - 2019/20 U.S. exports are projected to fall slightly below 2018/19 levels to 24.5 mln mt.
  - Wheat exports (incl. durum) from Canada are forecast to fall by 500k mt from '18/19 to 24 mln mt in '19/20.

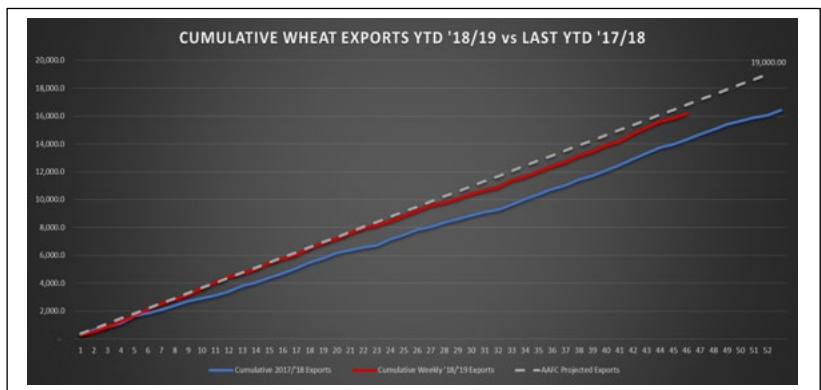
➤ **Global wheat production and trade:**

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.

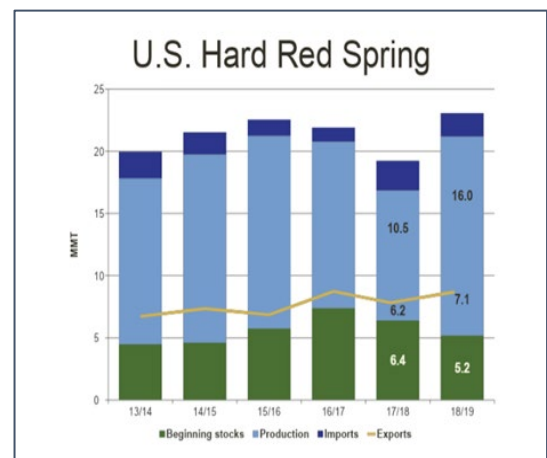
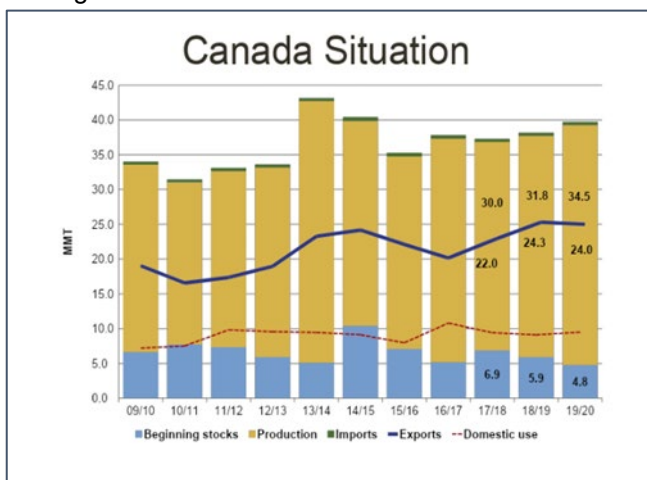
- **Futures:** July '19 contract **Chicago winter wheat** closed at 526-0, down 0-4 cents in today's trade, *down 12-4 cents for the week.*  
July '19 contract **Kansas hard red winter wheat** closed down 8-0 cents at 452-4, *down 23-6 cents for the week.*  
**Minneapolis**, July '19 contract **hard red spring wheat** closed at 536-0, down 2-2 cents in today's trade, down 26-4 cents for the week, while Sept '19 hard red spring wheat closed at 544-0, down 1-4 cents for the day, *down 26-0 cents for the week.*
- **Matif:** Matif wheat in Europe surprisingly ended flat, despite ongoing big premiums over the Black Sea.
- **Funds:** Index Funds did nothing during the week whilst large Specs sold a little corn, wheat and soybeans.

○ **Canadian Wheat:**

- Canadian wheat exports of 329.3k mt during week 46 add to a total of 16.25 mln mt, up 13% (1.86 mln mt) from last year. The AAFC recently raised their '18/19 export forecast another 200k mt to 19 mln mt. We were already finding their 18.8 mln mt forecast high. With 6 weeks remaining in the MY, average weekly exports would need to be 458k mt to reach the AAFC's total 19 mln mt.



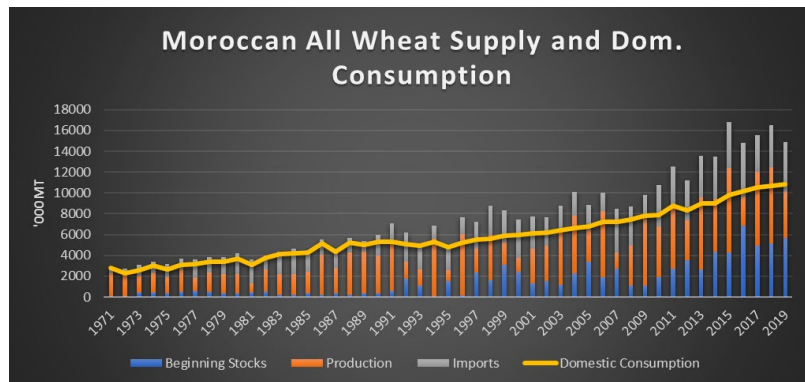
- The SK crop report has spring cereal development 49% behind, but overall soil moisture has improved from 79% to 61% short/very short and this will continue to improve.
- The Reuter's poll on Canadian wheat area ahead of this week's StatsCan report on seeded acreage is in line with StatsCan's April est. of 25.7 mln all wheat acres. Durum area is expected to be slightly larger at 5.1 mln acres, vs StatsCan's 5 mln.
- According the last USDA report, lower beginning stocks in Canada are expected to be well offset by a large, 34.5 mln mt crop. Exports are estimated to be similar to last year at 24 mln mt. Meanwhile, the US HRS crop is also expected to be large at 16 mln mt vs 10.5 mln mt last year. This easily offsets the 1.2 mln mt lower beginning stocks. HRS exports are expected to be 1.1 mln mt higher at 7.1 mln mt.



- The only things supporting US wheat is corn and increased wheat feed demand. Otherwise, Canada and Australia have both received rain, improving their situations. US winter wheat yields have been pushing record levels, the Black Sea harvest is about to begin, and conditions in the EU are good overall.
- Our first objective on spring wheat remains \$7.25 per bushel.
- Durum exports through the week were 90.3k mt for a season total of 3.9 mln mt, up 12% (419.3k mt) from last year. The AAFC raised durum export expectations another 200k mt to 4.4 mln mt. Thanks to the strong sales to Algeria, we should have no problem reaching this.
- The AAFC expects 2019/20 durum exports to be higher at 4.7 mln mt. The ICG is forecasting that global durum production this year will fall 1.5 mln mt to 36.6 mln mt for a 1.1 mln mt decrease in supply at 46.2 mln mt. Important for Canadian durum producers is the drought occurring in Morocco, where wheat and barley crops have finished under poor conditions. Weather has been very dry with no rain Feb-Jun. Vegetation indices have been low and peaked the earliest since the 2000/01 crop year. The Moroccan AgMin is estimated their wheat crop will be 4.8 mln mt (3.5 mln common wheat + 1.3 mln mt durum) while the USDA's estimate is 400k mt lower at 4.4 mln mt. In May, the Gov't announced a 135% (+105%) import duty on common wheat (not durum) imports. Morocco is a strong customer of Canadian durum, importing 18% (613k mt) of all Canadian durum exports this YTD (Aug-Apr). We expect they will be strong customers in 2019/20.
- *Durum 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.*

(CGC) Grain Handling Summary Amber Durum				46 (to June 16/19)	
('000 mt)	Producer Deliveries	Terminal Receipts	Exports	Domestic	
				Disappearance	
Current Week	130.4	122	90.3	13	
Week Ago	144.1	105.7	90.6	2.4	
YTD	4100.8	4497.7	3900.2	317.2	
Last YTD	3403.8	3843.8	3480.9	643.2	
YTD less Last YTD (k mt)	697	653.9	419.3	-326	
YTD over Last YTD (%)	20%	17%	12%	-51%	

Based on weekly CGC Handling Data



### ○ US wheat:

- As the rally in the corn and winter wheat markets slowed, HRS futures continued to receive pressure on widespread rain last weekend and scattered rain through the week falling over the Western Prairies and the N Plains. And despite a late seeding, spring wheat in the US is 95% emerged (+2% y/y), 2% headed (-6% y/y) and rated as 77% G/E, down 4% from last week (-1% y/y).
- The HRW harvest has been slow because of rain, but rumour has it that yields are pushing record levels. Early samples show no quality issues: average HRW samples have been 10.9 pro #2HRW, similarly, SRW samples have an average protein of 9.7% and an overall grade of #2SRW.
- There is still the issue of US feed demand and the fact that we think the USDA's 50 mln bu increase in wheat feed demand is not enough. The USDA lowered corn feed demand 300 mln bu while only raising wheat feed demand 50 mln bu, implying that other feed grains are going to pick up the remaining 250 mln bu. We think this is unreasonable and that wheat feed demand will be higher than the current 140 mln bu estimate.

- US wheat futures traded lower through the week following corn. Losses were mainly because of profit taking, a drier/warmer forecast, and US wheat being entirely uncompetitive in the export market. The problem is that when US futures fall, competing wheat markets tend to follow, maintaining the spread and stopping the US from gaining competitiveness. At the beginning of the week, Black Sea wheat was \$50 cheaper than SRW and French wheat looked like it could work into Mexico. US wheat sales of 187k mt were below the 300k mt expected, but total sales of 233 mln bu remain ahead of last year's 183 mln bu.
- The poor competitiveness of US/N Am. wheat will continue, but the current wheat-corn spread has traders increasing ideas of wheat used for feed wheat. The debate continues about US corn planted acres, and we think the market has misinterpreted the last NASS report, but it is anyone's guess if the USDA will reflect this in Friday's acreage report. The bulk of Q1 demand will be covered by the Black Sea.
  - **Australian wheat:**
  - Our contacts in Australia tell us that E Australia has been receiving very good rains in June, improving the crop conditions significantly.
  - Still, after last week's 1.7 mln mt wheat production cut to 21.2 mln mt, ABARES decreased export to 11.7 mln mt (-2.5 mln mt) vs USDA's 13.5 mln mt.
  - Old crop FOB values fell by \$3-5/mt, and W Australian Fob wheat values fell to \$234/mt, with \$10/mt less for ASW wheat.
  - **Argentine wheat:**
  - The Buenos Aires Grain Exchange (BAGE) put wheat planting in the country at 50% complete, surprising given the heavy rains.
  - There were no quotes for old crop Argentine wheat.
  - New crop Fob values for 12.5% protein wheat this week fell by \$2/mt to \$202.00/mt. *The protein discount is -\$4.00/mt per ½ percent protein.*
  - **EU wheat:**
  - MARS, the European Union's (EU) crop monitoring service, increased its soft (non-durum) wheat yield forecast from 6.05 mln mt/hectare (90.0 bushels/acre) last month to 6.10 mln mt/hectare (90.8 bushels/acre) this month due to beneficial rains across most wheat-producing regions in the EU. The new yield forecast for 2019/20 is 9% higher than the average yield in 2018/19 and 3% higher than the five-year average.
  - Had there been any offers of French wheat to Egypt (GASC), it would likely have been \$15/mt higher than Black Sea offers; Russian wheat is increasingly taking W African demand away from France!
  - *Black Sea 11.5% protein wheat ended the week \$45/mt cheaper than SRW and \$18/mt below French wheat, while Russian 12.5% protein wheat is \$10/mt below German and \$20/mt below US HRW wheat.*
  - Crop concerns remain limited, and final EU 18/19 exports should be close to the European Commission's (EC) 22 mln mt.
  - **Black Sea wheat:**
  - On June 20, Russian agriculture consultancies, IKAR and SovEcon, reduced their forecasts for 2019/20 wheat production and exports on hot, dry growing conditions. Both expect production to reach 80.0 mln mt compared to previous estimates of 80.2 mln mt, still 11% higher than the 72.0 mln mt produced in 2018/19. IKAR expects Russian exports to total 36.5 mln mt, down from its previous estimate of 37.0 mln mt. SovEcon reduced its export forecast from 38.2 mln mt to 37.6 mln mt.
  - Early wheat harvest results show proteins over 13% with good test weights and gluten.
  - The heat in Russia is expected to dissipate next week as it exits the Black Sea and moves westwards into the EU where there will be some extreme temperatures this week.
  - The Russian 12.5% protein wheat bid-offer is at \$196/mt, virtually unchanged from last week. 11.5% protein wheat is \$8/mt cheaper at \$188/mt.

➤ **Significant purchases/ trades:**

**Global cash markets** were quiet again last week.

- **Egypt** (GASC) bought 290k mt Russian/Romanian wheat at \$210-\$211.20/mt for July 22-31.
- **Korea** bought 190k mt of feed wheat for Aug-Oct at \$215-218/mt.
- US wheat inspections were 375k mt (season total 29 mln bushels and equal to last year), export sales were 188k mt (season total 233 mln bushels against last year's 183 mln bushels).

➤ **Wheat Market Outlook:**

**Significant events:**

- Black Sea 11.5% protein wheat ended the week \$45/mt cheaper than SRW and \$18/mt below French wheat, while Russian 12.5% protein wheat is \$10/mt below German and \$20/mt below US HRW wheat. - *The bulk of Q1 demand will be covered by Black Sea wheat.*
- The heat in Russia is expected to dissipate next week as it exits the Black Sea and moves westwards into the EU where there will be some extreme temperatures this week.
- The US HRW harvest has been slow because of rain, but rumour has it that yields are pushing record levels. Early samples show no quality issues: average HRW samples have been 10.9 pro #2HRW, similarly, SRW samples have an average protein of 9.7% and an overall grade of #2SRW.
- The SK crop report has spring cereal development 49% behind, but overall soil moisture has improved from 79% to 61% short/very short and this will continue to improve.
- The only things supporting US wheat is corn and increased wheat feed demand. Otherwise, Canada and Australia have both received rain, improving their situations. US winter wheat yields have been pushing record levels, the Black Sea harvest is about to begin, and conditions in the EU are good overall.

➤ **Outlook:**

Overall, the wheat market needs some demand and the big picture has not changed: There is plenty of wheat worldwide and a Northern Hemisphere harvest that is about to start in earnest. At today's prices, USA exports will not make the USDA's projection and will be limited strictly to captive demand. But at current spreads against corn, wheat feeding will increase both in the USA and worldwide.

We see no reason to sell new crop at present. Futures may go a little lower in the next few days, however, further forward prices will rally and the Canadian dollar will weaken. Our first objective on spring wheat remains \$7.25 per bushel.



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

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

Date: June 24, 2019

NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Oct. '19 {bu.}	Oct.'19 {mt.}
<b>1 CWRS 13.5</b>	\$6.41	\$235.53	<b>1 CWRS 13.5</b>	\$6.28	\$230.75
<b>1 CWAD 13.0</b>	\$6.52	\$239.57	<b>1 CWAD 13.0</b>	\$6.21	\$228.18
<b>1 CPSR 11.5</b>	\$5.97	\$219.36	<b>1 CPSR 11.5</b>	\$5.54	\$203.56
SW Sask			SW Sask		
<b>1 CWRS 13.5</b>	\$6.31	\$231.85	<b>1 CWRS 13.5</b>	\$6.22	\$228.55
<b>1 CWAD 13.0</b>	\$6.57	\$241.41	<b>1 CWAD 13.0</b>	\$6.27	\$230.38
<b>1 CPSR 11.5</b>	\$5.44	\$199.89	<b>1 CPSR 11.5</b>	\$5.33	\$195.85
NE Sask			NE Sask		
<b>1 CWRS 13.5</b>	\$6.13	\$225.24	<b>1 CWRS 13.5</b>	\$6.00	\$220.46
<b>1 CWAD 13.0</b>	\$6.73	\$247.29	<b>1 CWAD 13.0</b>	\$6.34	\$232.96
<b>1 CPSR 11.5</b>	\$5.75	\$211.28	<b>1 CPSR 11.5</b>	\$5.26	\$193.27
SE Sask			SE Sask		
<b>1 CWRS 13.5</b>	\$6.14	\$225.61	<b>1 CWRS 13.5</b>	\$6.03	\$221.57
<b>1 CWAD 13.0</b>	\$6.80	\$249.86	<b>1 CWAD 13.0</b>	\$6.42	\$235.90
<b>1 CPSR 11.5</b>	\$5.58	\$205.03	<b>1 CPSR 11.5</b>	\$5.20	\$191.07

**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 24, 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	\$311.26	\$292.87		
HRS	\$304.00			
HRW 11.5	\$293.84			
SWW 12.0	\$304.49			
1 CWRS 13.53	\$311.26		\$239.94	\$71.32
2 CWRS 13.03	\$304.00		\$231.49	\$72.51
3 CWRS3	\$293.84		\$224.14	\$69.70
CPS3	\$297.71		\$228.92	\$68.79
1 CWAD4		\$303.03	\$233.32	\$69.71
<b>Competing wheat: US\$/mt</b>				
Russia 12.5 (Black Sea, 25k mt)	\$196.00	Jly.		
French 11.5 (Rouen)	\$202.55	Jly.		
APW 10.5 (W Coast)	\$240.00	Jly.		
Argentine 12.0	n/a	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						June 24, 2019
Canadian Funds	Grade					
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$8.29	\$8.09	\$7.81	\$8.10	\$8.10	
Parity Track Rosetown	\$6.79	\$6.59	\$6.32	\$6.61	\$6.61	
Track Bid Rosetown Area	\$6.53	\$6.30	\$6.10	\$6.23	\$6.23	
Gross Margin at Elevator (\$/bu)*	\$0.26	\$0.29	\$0.22	\$0.38	\$0.38	
Gross Margin at Elevator (\$/mt)*	\$9.56	\$10.75	\$7.94	\$13.81	\$13.81	

\* to cover elevation, elevator market risk, margin