

## Wheat Market Outlook and Price Report: July 22, 2019

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

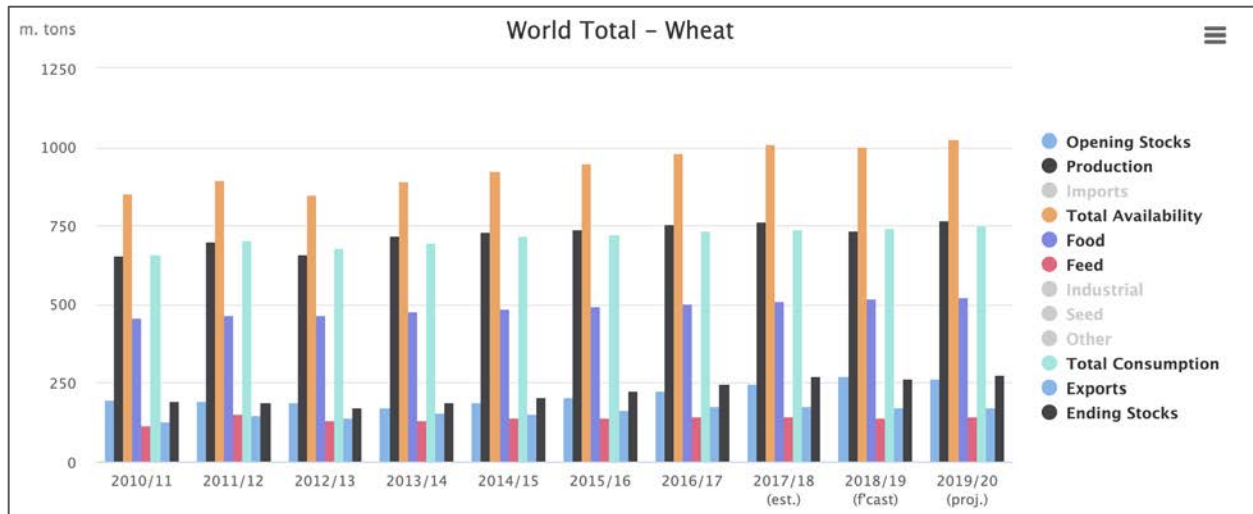
### **i) Background and Rationale for the Report**

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 July 22, 2019**

#### International Grains Council (IGC) View on the Global Wheat Balance Sheet



- The IGC projects the **global 2019/20 wheat availability** to increase by 25 mln mt over last years to 1,028. 5 mln mt.
- IGC projects **global wheat consumption** to rise by 11.9 mln mt to a record 752.6 mln mt.
  - Food wheat consumption should increase by 5.5 mln mt to 524.1 mln mt.
  - Feed wheat consumption should increase by 4 mln mt to 144.8 mln mt. (We think this estimate is too low given what is happening with US corn).
- Given the above, **global ending stocks** should increase by 13.3 mln mt to 276.0 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:** Sept '19 contract **Chicago winter wheat** closed at 502-4, up 9 cents in Friday's trade, but down 20-6 cents for the week.  
Sept '19 contract **Kansas hard red winter wheat** closed up 7-2 cents at 440-0, down 27-2 cents for the week.  
**Minneapolis**, Sept '19 contract **hard red spring wheat** closed at 529-2, up 3-6 cents in today's trade, down 13-4 cents for the week, while Dec '19 hard red spring wheat closed at 542-2, up 4-6 cents for the day, down 14 cents for the week.

○ **Canadian Wheat:**

- Canadian producers delivered 328k mt of wheat (excl. durum) into the grain handling system during week 50, ending July 14<sup>th</sup>. Exports for the week were a very good 365k mt. With just 2 weeks remaining in the crop year, total exports reached 17.5, 1.9 mln mt than last YTD. However, it will be tough to reach the AAFC forecast for '18/19 wheat exports of 19.2 mln mt over the next 2 weeks.

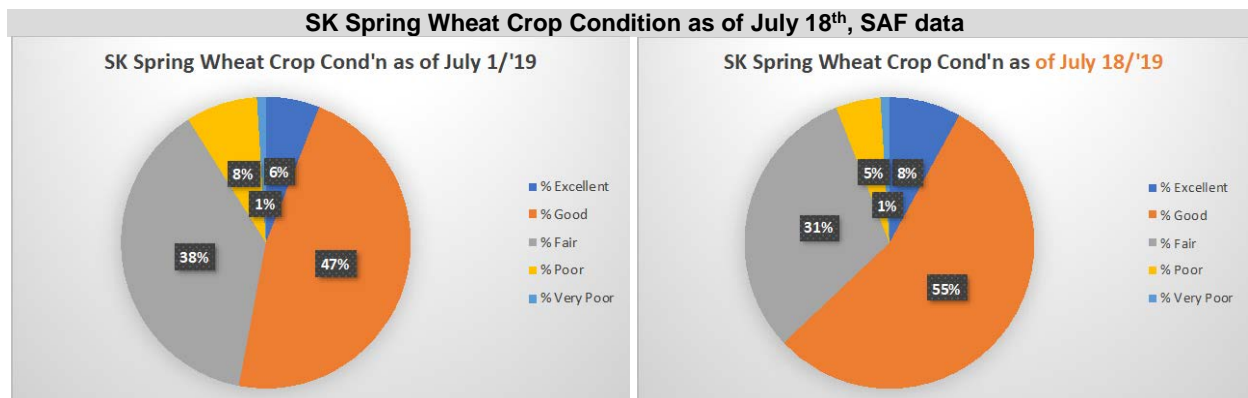
(CGC) Grain Handling Summary Wheat			Week 50	(July 14/'19)
{000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
<b>YTD over Last YTD</b>	327.7	271.6	365.1	95.1
Week ago	281.1	363.6	190.5	67.4
<b>YTD</b>	<b>20,424.1</b>	<b>19,951.2</b>	<b>17,535.3</b>	<b>3,916.3</b>
Last YTD	17,720.8	17,271.6	15,679.7	4,462.7
<b>YTD less Last YTD</b>	<b>2,703.3</b>	<b>2,679.6</b>	<b>1,855.6</b>	<b>-546.4</b>
<b>YTD over Last YTD</b>	<b>115%</b>	<b>116%</b>	<b>112%</b>	<b>88%</b>
Mercantile based on weekly CGC Handling Data				

- Canadian producers delivered 108k mt of durum into the Canadian grain handling system during week 50. Total deliveries are up 16% from last year at 4.38 mln mt. Exports throughout the week were 39k mt for a season total of 4.3 mln mt, up 16% (+582k mt) from last year. AAFC has increased their '18/19 export forecast to 4.5 mln mt, which leaves ~170k mt to shipped to reach the revised forecast over the next 2 weeks.

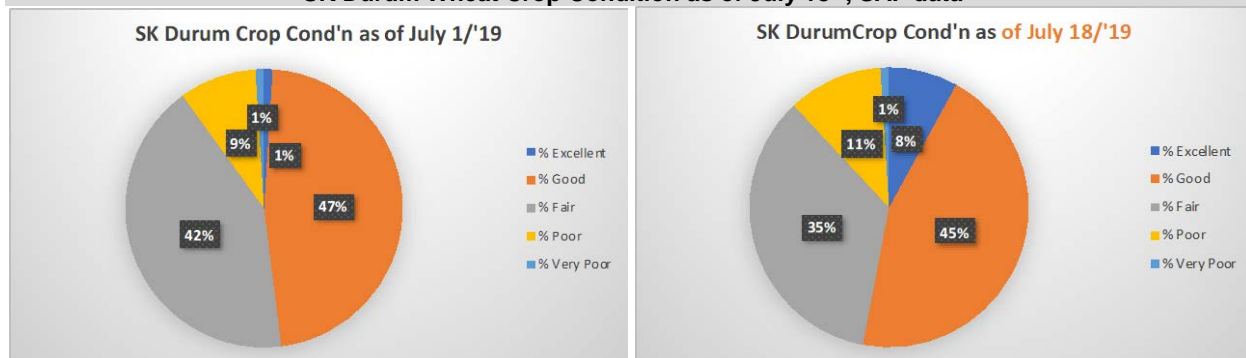
(CGC) Grain Handling Summary Durum			Week 50	(July 14/'19)
{000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
<b>YTD over Last YTD</b>	107.9	33.0	39.0	36.6
Week ago	87.7	72.4	103.3	1.1
<b>YTD</b>	<b>4,487.4</b>	<b>4,943.1</b>	<b>4,339.8</b>	<b>360.0</b>
Last YTD	3,873.3	4,210.0	3,757.4	725.9
<b>YTD less Last YTD</b>	<b>614.1</b>	<b>733.1</b>	<b>582.4</b>	<b>-365.9</b>
<b>YTD over Last YTD</b>	<b>116%</b>	<b>117%</b>	<b>116%</b>	<b>50%</b>
Mercantile based on weekly CGC Handling Data				

- Canadian crops are progressing well. SAF refreshed their crop condition assessment last Thursday. The Gd./Exc. rating of SK spring wheat moved up by 10 percentage points since early July to 63% Gd./ Exc. The Fair rating dropped by 7% to 31%, and the Poor to Very poor rating dropped by 3% since July 1<sup>st</sup> to 6% as of July 18<sup>th</sup>. There had been numerous reports by farmers during the dry June period that cereals were not stooing well due to lack of moisture, but the SAF report indicates that many crops were still able to recover. Alberta Ag said today that 75% of spring wheat in AB are in Gd./Exc. condition.

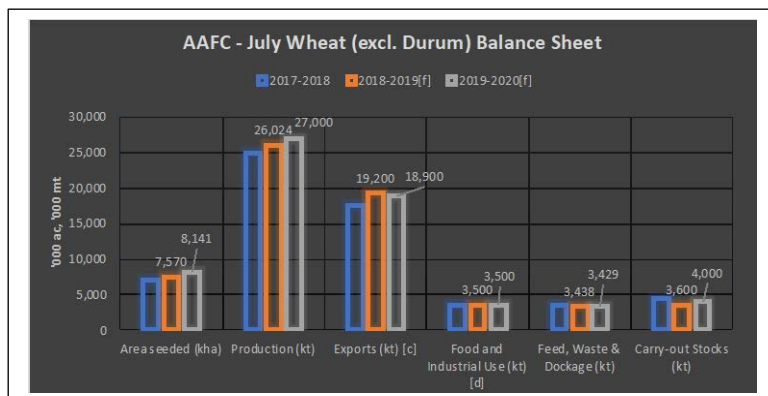
**SK Spring Wheat Crop Condition as of July 18<sup>th</sup>, SAF data**



### SK Durum Wheat Crop Condition as of July 18<sup>th</sup>, SAF data



- The Gd./Exc. rating of SK durum wheat moved up by 5 percentage points since early July to 53% Gd./ Exc. The Fair rating dropped by 7% to 35%, but the Poor to Very poor rating increased by 2% since July 1<sup>st</sup> to 12% as of July 18<sup>th</sup>. *Alberta Ag said today that only 38% of durum wheat in AB is in Gd./Exc. condition.*
- **AAFC issued their July balance sheets for Cdn. crops** last Friday afternoon. There were small changes to the '18/19 wheat balance sheet, and significant changes to the 2019/20 Cdn. wheat numbers from their June report. For 18/19, exports were increased by 200k mt to 19.2 mln mt. F/S/D was lowered somewhat and ending stocks dropped to 3.6 mln mt from 3.7 mln mt last month. For the '19/20 crop, seeded acres were lowered by 615k acres to 20.1 mln acres. Yields were lowered marginally to 3.44 mt/ha (51.15 bu/ac), and production fell to 27 mln mt from 28.7 mln mt last month. Both exports and industrial use came in lower at 4 mln mt in July vs. 5.4 mln mt in June. Given the SK and AB condition ratings last week, the yield number may prove to be too low.



#### o US wheat:

- Last Monday afternoon NASS reported that 57% of the US winter wheat crop was harvested, 14% below the average pace. However, there is no pressure on consumers to raise their buying ideas as there is plenty of wheat on offer as harvest pressure and tight storage pressure brings cash wheat to market. We don't see this changing very much over the next 45 days at harvests ramp up. Early season shipments from both the USA and EU are running ahead of last year, while there is still the perception that the demand side of the equation continues to lag and keep a lid on prices. The weather forecast suggests that Europe has a clear two weeks of harvest weather ahead which will add selling pressure in the short term. We don't see prices going higher in the short term and we will need lower August estimates of corn planting to rally the markets.
- The US spring wheat quality tour is being held this week, and this should contribute to our analysis of the MPLS spring wheat crop.
- Analysts expect to see steady spring wheat ratings at 76% Gd/Exc. this afternoon.
- The winter wheat harvest is seen as progressing to 73% complete.
- *What the USDA does with their review of corn acres will be key to wheat futures prices. Rumours suggest actual corn acres will be down sharply account "prevent planting" claims.*

#### o Australian wheat:

- Once again there are light showers in coastal regions, but inland there is nothing and this continues to raise concerns for Australian crops. – Basically, Australia looks increasingly dry again.

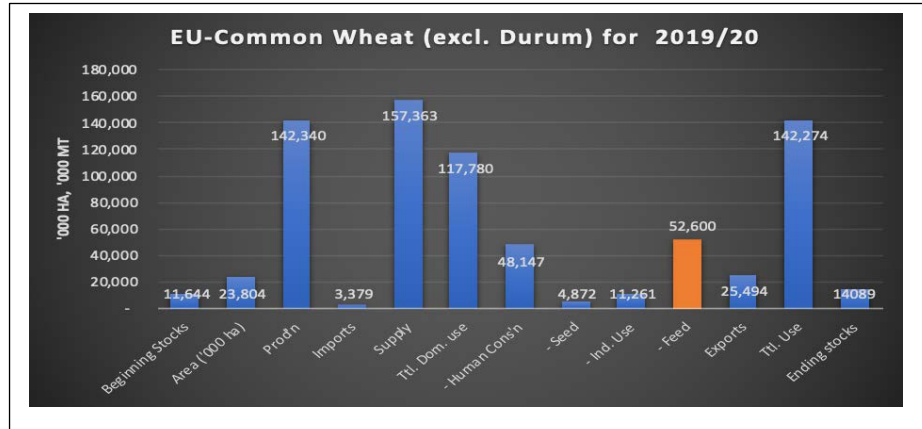
- **Argentine wheat:**

- New crop Dec. Fob values for 12.5% protein wheat were unchanged this week at \$201.00/mt. *The protein discount is -\$4.00/mt per ½ percent protein.*

- **EU wheat:**

- The advancing French harvest continues to show good yields and test weights, but protein remains a mixed bag. The German Co-ops trimmed 900,000 tonnes off their crop number to 23.8 mln mt, but this is still 3.5 mln mt above last year.

- Hot weather in France for next week is expected to prolong drought conditions that have impacted several sectors including nuclear power generation and farming, and led to restrictions on water use in 61 administrative regions. Crops such as corn and



sunflower which are at key development stages, will show the effects of the heat. Wheat crops are less at risk, with harvesting well underway in many parts of France. But livestock farmers will be impacted as dry weather parched pastures used to feed animals for a second consecutive year. This will support demand for feedstuffs, including feed wheat. *Still, Russian/FSU wheat will continue to be the cheapest wheat offered with the EU getting more aggressive in the next 30 days.*

- Acc. to a German trader, The June heatwave meant the loss of about 850,000 mts of German wheat, but despite that the crop is looking good and the loss is not regarded as serious.
- French 11.5% protein wheat closed last week at \$197.00/mt FOB, down @2.56/mt on the week.

- **Black Sea wheat:**

- Acc. to APK-Info on Sunday, Ukrainian grain exports from sea ports in the week of July 13-19 jumped to 819,000 mts from 499,000 mt a week earlier,
- GASC bought 60k mt Russian wheat at \$215.50/mt.
- Russian 12.5 pro replacement was quoted at around \$195/mt for Aug. shipment, down ~\$1.00/mt on the week.

➤ **Significant purchases/ trades:**

It was a very quiet week last week.

- The only trade we heard of was Egypt who was said to have purchased 60,000 mt of Russian wheat at equal to US\$201.50/mt FOB or \$215.50 C&F.
- Net USA wheat sales as of July 11 of 347,000 mt for delivery in 2019/20 were 22% higher than last week's 284,000 mt and in line with trade expectations of 200,000 to 400,000 mt. Year-to-date commercial sales of 7.86 mln mt are 22% ahead of last year's pace. USDA forecasts 2019/20 U.S. wheat exports will total 25.9 mln mt, 6% higher than 2018/19 if realized.

➤ **Wheat Market Outlook:**

**Significant events:**

- The weather forecast suggests that **Europe** has a clear two weeks of harvest weather ahead which will add selling pressure in the short term. *We don't see prices going higher in the short term and we will need lower August estimates of corn planting to rally the markets.*
- *What the **USDA** does with their review of corn acres will be key to wheat futures prices. Rumours suggest actual corn acres will be down sharply account "prevent planting" claims.*
- **Weather** around the world: Rain in the USA is centered on the Lakes, Southern Midwest and Delta, while the Plains stay dry. Temperatures remain above normal into next week before cooling occurs. Canada has near normal temps and rainfall, Europe remains overall dry with the return of heat later this/next week, the Black Sea has near normal temps and precipitation. Significant heat could hit Russian spring wheat regions next week. Argentina has some light rain in the east but remains predominantly dry, Australia still has light showers in the SE and SW corners but is dry elsewhere. The Indian monsoon looks nearer normal this week but the north-west remains dry.

➤ **Outlook:**

Russian/FSU wheat will continue to be the cheapest wheat offered with the EU becoming more aggressive over the next 30 days. We don't expect any pressure from North America until the US corn estimate is released.

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

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

Date: 22-07-2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '19 (bu.)	Oct.19 (mt)
<b>1 CWRS 13.5</b>	\$6.22	\$228.55	<b>1 CWRS 13.5</b>	5.99	\$220.10
<b>1 CWAD 13.0</b>	\$6.55	\$240.67	<b>1 CWAD 13.0</b>	6.20	\$227.81
<b>1 CPSR 11.5</b>	\$5.73	\$210.54	<b>1 CPSR 11.5</b>	5.11	\$187.76
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$6.10	\$224.14	<b>1 CWRS 13.5</b>	5.92	\$217.52
<b>1 CWAD 13.0</b>	\$6.59	\$242.14	<b>1 CWAD 13.0</b>	6.27	\$230.38
<b>1 CPSR 11.5</b>	\$5.23	\$192.17	<b>1 CPSR 11.5</b>	5.01	\$184.09
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$5.96	\$218.99	<b>1 CWRS 13.5</b>	5.72	\$210.18
<b>1 CWAD 13.0</b>	\$6.72	\$246.92	<b>1 CWAD 13.0</b>	6.33	\$232.59
<b>1 CPSR 11.5</b>	\$5.54	\$203.56	<b>1 CPSR 11.5</b>	4.88	\$179.31
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$5.97	\$219.36	<b>1 CWRS 13.5</b>	5.74	\$210.91
<b>1 CWAD 13.0</b>	\$6.71	\$246.55	<b>1 CWAD 13.0</b>	6.41	\$235.53
<b>1 CPSR 11.5</b>	\$5.40	\$198.42	<b>1 CPSR 11.5</b>	4.86	\$178.58

**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 Basis<sup>1</sup> (see *Export Basis*

<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.”

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.
  - 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				22-07-2019
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
<b>DNS 14.0</b>	\$294.96	\$319.86		
<b>HRS</b>	\$287.78			
<b>HRW 11.5</b>	\$274.85			
<b>SWW 12.0</b>	\$299.75			
<b>1 CWRS 13.5<sup>3</sup></b>	\$294.96		\$222.30	\$72.66
<b>2 CWRS 13.0<sup>3</sup></b>	\$287.78		\$211.28	\$76.50
<b>3 CWRS<sup>3</sup></b>	\$274.85		\$203.93	\$70.92
<b>CPS<sup>3</sup></b>	\$293.05		\$200.62	\$92.43
<b>1 CWAD<sup>4</sup></b>		\$313.16	\$257.21	\$55.95
<b>Competing wheat:</b>	<b>US\$/mt</b>			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	\$195.00	Aug.		
<b>French 11.5 (Rouen)</b>	\$197.00	Aug.		
<b>ASW 10.5 (W Coast)</b>	\$232.00	Aug.		
<b>Argentine 12.0</b>	n/a	Aug.		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB



## ADDENDUM

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

Canadian Wheat - World Price Parities				
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$7.65	\$7.30	\$6.12	\$6.12
Parity Track Rosetown	\$6.15	\$5.80	\$6.48	\$6.48
Track Bid Rosetown Area	\$5.75	\$5.55	\$5.46	\$5.46
Gross Margin at Elevator (\$/bu)*	\$0.40	\$0.25	\$1.02	\$1.02
Gross Margin at Elevator (\$/mt)*	\$14.81	\$9.23	\$37.44	\$37.44
* to cover elevation, elevator market risk, margin				