

Wheat Market Outlook and Price Report: October 28, 2019
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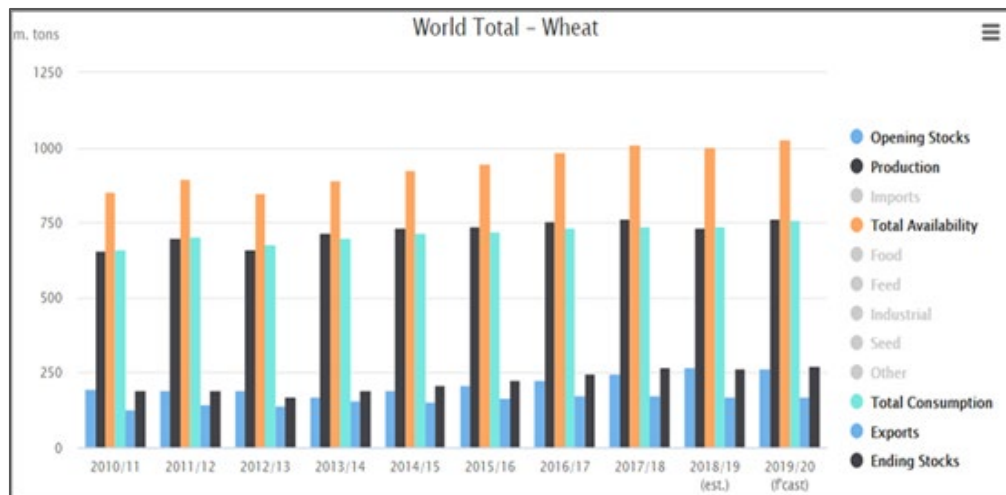
i) Background and Rationale for the Report

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 Oct 28, 2019

International Grains Council (ICG) October World Wheat Supply and Use Estimates



- The International Grains Council (ICG) lowered the **global wheat crop outlook** by 2 mln mt from last month to 762 mln mt, 29 mln mt higher than last year. Most of the reduction was in Australia (-2.1 mln to 17 mln mt) but Argentine production was also reduced 0.9 mln to 19.5 mln mt. EU and Russian wheat production estimates were raised a combined 2.1 mln mt. *We expect to see further cuts be made as we see world production no larger than 756 mln mt.*
- Total **wheat consumption** was seen down 2 mln mt, mostly on lower feed use as the US corn balance sheet continues to be heavy.
- **Wheat trade** was increased 1 mln mt to 173 mln mt because of higher imports by Kazakhstan and Turkey.
- **World stocks** were seen 1 mln mt lower from last month at 271 mln mt, the same as the current 2017/18 record, but most (147.1 mln mt) of these stocks are in China and India.
- **Early 2020/21 predictions** are for a similar-to-last-year's harvested area, acknowledging that the slow seeding progress in many parts of the EU and Black Sea may impact this estimate.

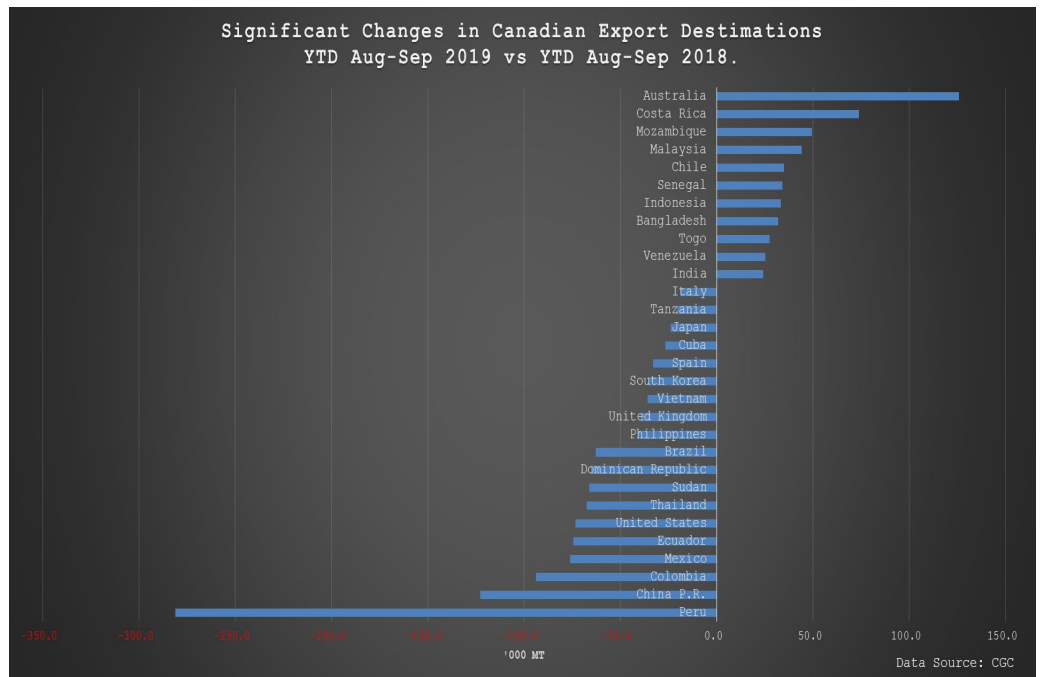
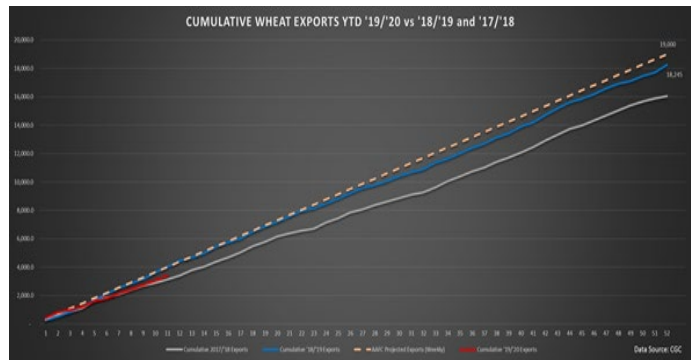
➤ **Global wheat production and trade:**

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:** Dec '19 contract **Chicago** winter wheat closed at 517-6, up 1-6 cents for the day, *down 15-2 cents for the week.*
Dec '19 contract **Kansas** hard red winter wheat closed at 422-6, up 3-2 cents for the day, *down 11-6 cents for the week.*
Minneapolis, Dec '19 contract hard red spring wheat closed at 536-6, down 3-2 cents for the day, *down 7-6 cents for the week,* while March '20 hard red spring wheat closed at 551-2, down 2-4 cents for the day, *down 7-2 cents for the week.*

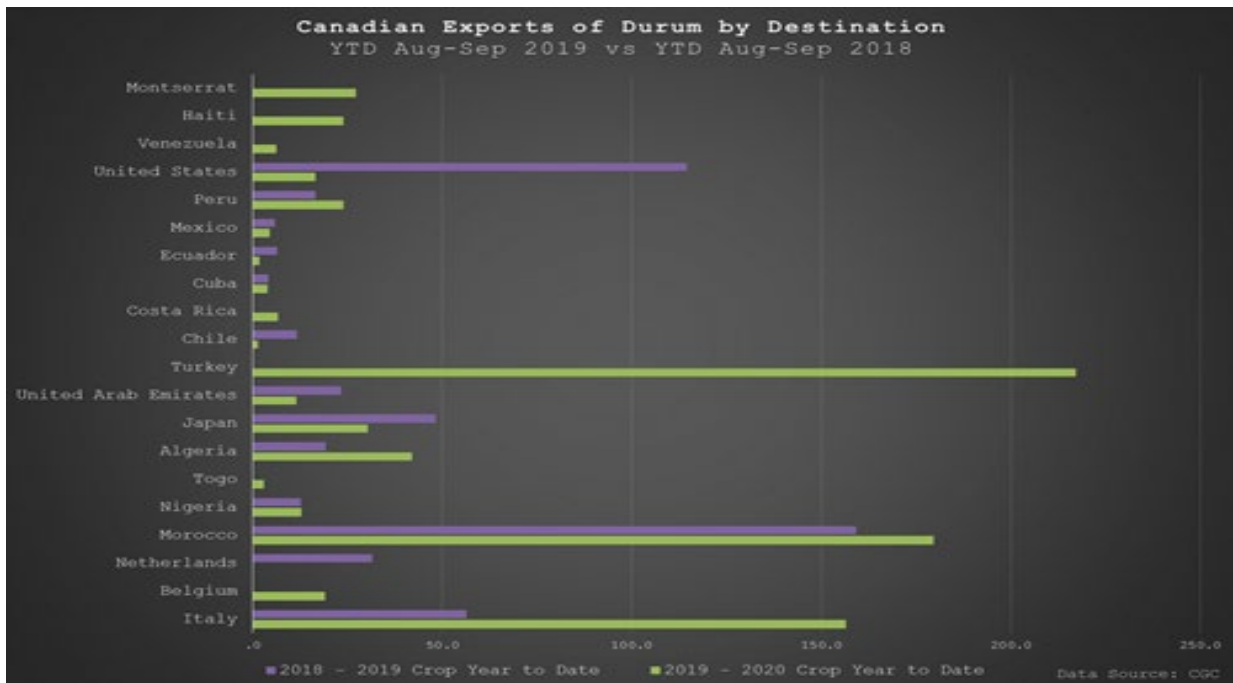
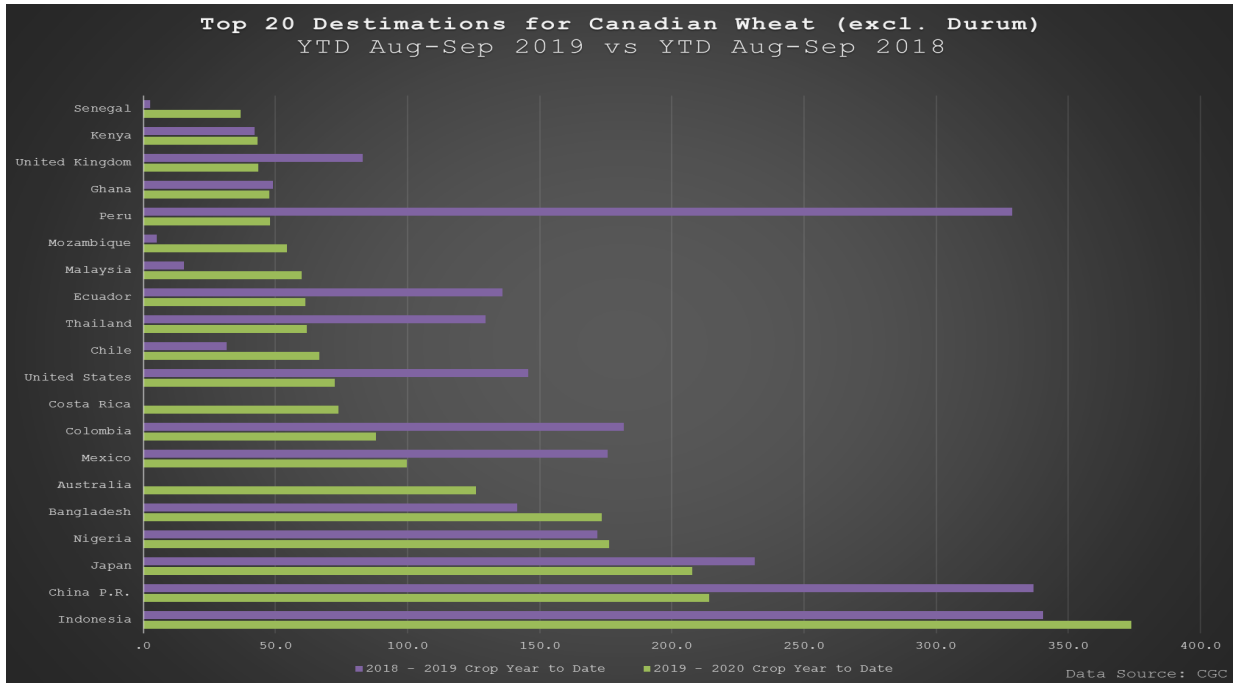
Canadian Wheat:

- The MB crop report showed MB spring wheat unchanged for the second week in a row at 95% harvested. Spring wheat harvest in SK is up 18% from last week to 84% complete. Meanwhile, AB spring wheat harvest is 77% done, up 14% from last week. The forecast for the Cdn. Prairies continues to look promising for harvest progress, but most of the wheat harvested in recent weeks and remaining to be harvested, will not make a #2 CWRS grade.
- Canadian producers delivered 496.6k mt of wheat (excl. durum) into the Canadian grain handling system during week 11 of the 2019/20 marketing year. Exports during the week were 351.4k mt, for a YTD total of 3.437 mln mt, *605.1k mt (15%) less than this time last year.*
- The CGC released their **export** numbers for September 2019, which indicated that YTD 2019 Canadian wheat exports are down 707k mt from last year. According to the CGC, Peru has imported just 48k mt of wheat this MY Aug-Sep, a 281k mt decrease from last year. Although China continues to be the second largest customer of Canadian wheat this MY, they have also decreased imports by a large 123k mt. On the other side, Australia has already imported

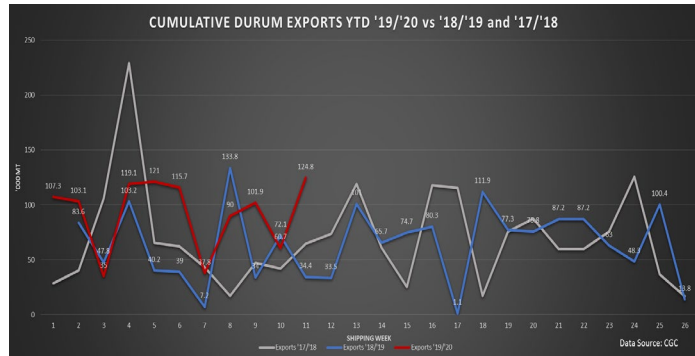


126k mt of Canadian wheat this year, not having imported anything YTD last year. Indonesia is still the largest customer of Canadian wheat, having imported 374k mt, 33.5k more than last year.

Destinations for Canadian Wheat and Durum:



- Last week the Western Producer had an article about the strong **export pace of durum** into Italy, warning that Italian buying would likely start to dwindle, while this seems to be true (Italy imported just 25.1k mt of durum in Sept vs the 131.4k mt they imported in Aug), exports to Morocco and Turkey have stepped up in a huge way. Morocco and Turkey imported 147.1k mt and 157.1k mt of wheat respectively during Sept for a MY total of 179.7k mt and 217.2k mt respectively. Interestingly, 34.9k mt of the durum exported to Turkey was shipped from the Port of Churchill, and as there were reports of another vessel being loaded with durum there last week which we expect will also be bound for Turkey. While the increase in Italian imports has been a nice surprise, increases to Turkey and Morocco were not unexpected as both countries experienced very dry growing seasons and disappointing wheat production
- In SK, 83% of the **durum crop** has been harvested as of Oct 14th having made progress on 17% of the crop. Ninety-seven percent of the AB durum crop has been harvested up 5% from two weeks ago.
- Canadian producers delivered 105.5k mt of **durum** into the grain handling system during week 11 of the marketing year. Exports throughout the week were 124.8k mt for a YTD total of 1.045k mt, 68% (424.9) more than this time last year.
- **Given the values that are being traded internationally, Canada should be participating in more wheat business, particularly in durum and lower grade wheat.**
 - **Turkey bought 128k mt of EU durum for values that back off to ~US\$285/mt parity Thunder Bay. Accounting for the exchange rate and backing off 112 car rail freight rates and actual handling expenditures, calculates to C\$327.95/mt (\$8.93/bu) at the elevators in central SK. The current posted bid is \$8.00, giving a generous \$34.00/mt margin after costs.**
 - **Similarly, global feed wheat values back off to ~US\$200.00/mt parity Vancouver. Using a similar method as above, this backs off the C\$211.87/mt (\$5.77/bu) at the elevator in central SK vs the current posted bid of \$5.77. This is also another healthy \$35.52/mt margin.**



US wheat:

- The US spring wheat harvest seems to be stuck, rising just 2% from last week to 96% complete. Harvest advanced the furthest (4%) in MT where 8% of the crop remains unharvested. MN is up 1% and ND is up 2% from last week at 99% and 95% complete respectively. We estimate there is ~700k mt of production remaining to be harvested in the US.
- US winter wheat planting is 77% complete vs 71% last year and the 75% average.
- The US HRS quality report was released last week, but as it was based on the Sept 30th Small Grains Summary Production numbers and only included crop that was harvested before Oct 11th, we think it paints an overly optimistic picture of US situation. According to NASS, US spring wheat harvest was just 91% complete on Oct 5th, with ~1.37 mln mt of the crop remaining to be harvested, reports indicate that much of this was already damaged severely. A major snowstorm fell over most of the US spring wheat area Oct 10-12th bringing further damage. On the 15th NASS had US spring wheat harvest at 94% which means at least 1.03 mln mt worth of spring wheat got hit by varying amounts of snow. Regardless, here is a summary of the Regional Quality Report:
 - US HRS yields, and protein were both well above average. Excessive rain and the prolonged harvest lead to lower than usual quality, notably in falling number and vitreous kernel count. Overall, the average protein of the 2019 crop was 14.5% (equal to last year), vitreous kernel count was one of the lowest in years at 55% (86% last year), average test weight was 60.7lbs/bu (62.2 lbs/bu last year), DON levels were 0.6 ppm (0.4 ppm last year) and the average falling number was 337 seconds (399 seconds last year).

- US wheat sales for the week were small; 262,000 mt vs the 300-600k mt that trade was expecting. YTD sales remain 12% higher than last year at 14.1 mln mt. US wheat sales are showing signs of slowing but are still on pace to meet the USDA's forecasted 1% increase at 950 mln bu (25.9 mln mt). The USDA is reporting that Iraq, one of the USA's 20 largest importers, is going to have a 60% larger crop than last year which will result in a 22% decline in imported wheat to 3.2 mln mt.

Australian wheat:

- Despite no relief in the Aussie forecast, domestic futures continue to fall as harvest approaches and there are no export sales on the books. Even if NAB's 15.5 mln mt production estimate is correct, the country will still need to export ~9 mln mt of wheat. Which, at current prices, will only trade to the most inelastic. The Philippines reportedly bought 165,000 worth of Aussie feed wheat on Thursday for \$253-\$255 C&F.
- Aussie AWP WA Fob was unchanged from last week at \$234 for December position.

Argentine wheat:

- Argentina got some rain over the week, but wheat in the central and western regions continue to struggle. Uncertainty sparked some farmer selling as farmers and traders anticipate the outcome of the weekend's first round of elections and the implications thereof.
- Over the weekend, left-winged Alberto Fernandez defeated the current right-wing, free market advocate Mauricio Marci. Under Macri's Presidency, farmer optimism was high as they planted record levels under a President who ditched the heavy-handed trade controls and export limits. Now, Cristina Fernandez de Kirchner, who implemented these controls, is back as running mate of the president-elect. Alberto Fernandez has indicated that he would not be as confrontational, but his policies are unclear, and farmers worry about increases in grain export taxes and/or a full return to Fernandez de Kirchner's policies.
- At Friday's close, Argentine 12.5 pro Fob was unchanged from last week at \$195.

EU wheat:

- Matif closed lower despite another big export week in Brussels and strength in the Black Sea. YTD EU wheat exports now total 8.1 mln mt, 51% higher than last year. USDA is currently estimating the EU will export 28 mln mt in 2019/20, up 17% over last year.
- The EU was the focus of many of last week's tenders, optimism that German and Baltic got most of the Turkey and Saudi tenders caused Fob for 12.5 pro to rise \$4.80 from last week to \$204.2 and \$203.1 respectively. Farmer selling has been seasonally low, and this is expected to continue into the new year.

Black Sea wheat:

- The slow export pace and strong production in Russia has all but eliminated the almost 4 mln mt decline in carry-in. Projected Nov 1 wheat stocks are ~11 mln mt more than last year and the fall in exports causes this to continue rising in future months. While today's prices are \$20 less than a year ago, some analysts believe that the fear of an Dec 2019 export embargo has created an artificial market.
- *Black Sea values rose \$3-4 last week as Nov/Dec 12.5 pro was bid at a season high of \$209.50 before falling to \$208.10 to end the week.*
- The pace of the rally is slowing, but price dislocations and transport/fobbing costs prevent any real transparency, as penalties for unused Fobbing are having a negative impact on market function. From an economic standpoint, all forward Russian C&F business should come to a halt with CPT now at RB13,200 (\$207), and strong discounts for German and Baltic wheat.

➤ **Significant purchases/ trades:**

- **Saudi Arabia** confirmed to have bought 605,000 mt of wheat for Jan-Feb arrival at \$240/mt basis Jeddah.
- **Turkey** bought 190,000 mt Nov-Dec 13.5 pro EU wheat at \$228-234, plus 128,000 mt of EU *durum* (lowest price \$339).
- **Algeria** bought 600,000 mt wheat at \$229.
- **Tunisia** bought 75,000 mt at \$226-230.
- **The Philippines** bought 165,000 tonnes of feed wheat at \$253-\$255.00.
- **Ethiopia** postponed its 400,000 mt tender to Nov 5th.
- **USA** inspections were 565,000 mt (season total 370 mln bu, up 23%), sales were 262,000 mt (season total 518 mln bu, up 13%).

➤ **Wheat Market Outlook:**

Significant events:

- **India will raise farm prices 4.6% to 1,925 Rupees (\$270).** As exports have already been struggling to make sales, this will effectively exclude them from the export market.
- **Iran said it officially plans to buy 3 mln mt of wheat imports.** However, there are 20 vessels stuck in the ports with ongoing payment problems that need to be solved before traders will offer additional tonnage.
- **Libya wants to sign a “letter of intentions” with Russia for 1 mln tonnes of wheat per year** (they bought 300,000 tonnes of Russian last year and 3 200,000 tonnes in 17/18).
- Despite end-of-week strength in both **winter wheat futures contracts**, all wheat futures contracts ended down week-over-week. Moderate progress in the Canadian spring wheat harvest pressured hard red spring (HRS) futures prices below last week’s close. December soft red winter (SRW) futures lost 14 cents to close at \$5.18/bu. December hard red winter (HRW) futures fell 11 from to close at \$4.23/bu. December HRS futures lost 8 cents to end at \$5.37/bu. CBOT December corn futures lost 4 cents to close at \$3.87/bu. CBOT January soybean futures lost 13 cents to end at \$9.34/bu.
- **Minimal farmer selling supported Gulf HRS and HRW export basis** for November and December deliveries. Minimal farmer selling also supported Pacific Northwest (PNW) HRS basis for November delivery. Tight ending stocks and crop quality concerns supported SRW export basis week-over-week for nearby and deferred deliveries. Crop quality concerns significantly increased durum export prices. This should provide good opportunities to Canada provided railcars are available.
- **Weather around the world:**
 - Cold temperatures cover the **USA** Plains and Midwest this week with widespread snowstorms. There is no let-up to the dryness in central and northern **Brazil**, temperatures are moving above normal and soil moisture levels are in retreat. Rain in **Argentina** this week will remain essentially in the north and east, and mostly missing the driest regions of the west and south. **Australia** has some needed showers in northern New South Wales and Queensland this week but elsewhere it remains dry. Temperatures across **Europe** remain above normal with generally dry conditions except for France and the UK.

➤ **Outlook:**

Year to date exports by the EU are 8.5 million mt of wheat, a 39% (3.3 million mt) increase. World wheat continues to trade in good volume, but it remains a complicated picture with the USA still looking somewhat expensive, Australia out of the picture, Russia's volume seemingly structurally unsustainable, and the Canadian trade seemingly unresponsive to sales levels which look to be at good prices. (Note the Turkish durum trade and the Philippine feed wheat trade).

Market variables: The Southern Hemisphere crop is still an unknown. We think the USDA will need to increase their usage estimates and possibly reduce their production estimates in future WASDE estimates. China remains the big unknown in so far as demand goes. For now demand looks good, but we expect to see some slowdown in demand in coming weeks. However, we need some clarity on the variables before getting negative. Canadian exporters need to get more in line with the markets.

- We would be looking for \$5.25/bu on feed wheat and would sell some #2 CWRS for \$7.00/bu or better.

iii) Primary Elevator Price Tables and Grade Spreads

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

| NW Sask | Spot | | NW Sask | Deferred | |
|----------------|--------|----------|----------------|----------------|----------------|
| | (bu.) | (mt) | | Dec. '19 (bu.) | Dec. '19 (mt.) |
| 1 CWRS 13.5 | \$6.17 | \$226.71 | 1 CWRS 13.5 | \$6.27 | \$230.38 |
| 1 CWAD 13.0 | \$7.27 | \$267.13 | 1 CWAD 13.0 | \$7.32 | \$268.97 |
| 1 CPSR 11.5 | \$5.13 | \$188.50 | 1 CPSR 11.5 | \$5.20 | \$191.07 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$6.10 | \$224.14 | 1 CWRS 13.5 | \$6.11 | \$224.51 |
| 1 CWAD 13.0 | \$7.27 | \$267.13 | 1 CWAD 13.0 | \$7.32 | \$268.97 |
| 1 CPSR 11.5 | \$4.84 | \$177.84 | 1 CPSR 11.5 | \$5.13 | \$188.50 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$5.92 | \$217.52 | 1 CWRS 13.5 | \$6.01 | \$220.83 |
| 1 CWAD 13.0 | \$7.68 | \$282.19 | 1 CWAD 13.0 | \$7.76 | \$285.13 |
| 1 CPSR 11.5 | \$4.86 | \$178.58 | 1 CPSR 11.5 | \$4.94 | \$181.52 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$6.01 | \$220.83 | 1 CWRS 13.5 | \$6.04 | \$221.93 |
| 1 CWAD 13.0 | \$7.63 | \$280.36 | 1 CWAD 13.0 | \$7.73 | \$284.03 |
| 1 CPSR 11.5 | \$4.85 | \$178.21 | 1 CPSR 11.5 | \$5.00 | \$183.72 |

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

| Avg. Grade Spread/ Pro Discounts | Cdn\$/bu. | Cdn.\$/mt |
|----------------------------------|------------|------------|
| 1 CWRS 14.0 | 0.05 | 1.89 |
| 1 CWRS 13.5 | Base Grade | Base Grade |
| 2 CWRS 13.5 | (0.10) | -3.67 |
| 1 CWRS 12.5 | (0.25) | -9.19 |
| 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

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.”

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 | | | | October 28, 2019 |
|---|--|-------------------------|----------------------|--|
| Type of Wheat | FOB Prices CDA ¹ (calculated) | | Street Prices | Export Basis ² |
| | West Coast (Cdn./mt\$) | Great Lakes (Cdn.\$/mt) | Rosetown (Cdn.\$/mt) | Basis: West Coast-Centr. SK (Cdn\$/mt) |
| DNS 14.0 | \$339.05 | \$321.79 | | |
| HRS | \$334.25 | | | |
| HRW 11.5 | \$284.38 | | | |
| SWW 12.0 | \$294.45 | | | |
| 1 CWRS 13.5 ³ | \$339.05 | | \$219.73 | \$119.32 |
| 2 CWRS 13.0 ³ | \$334.25 | | \$197.68 | \$136.57 |
| 3 CWRS ³ | \$284.38 | | \$149.92 | \$134.46 |
| CPS ³ | \$287.74 | | \$177.11 | \$110.63 |
| 1 CWAD ⁴ | | \$375.02 | \$0.00 | \$375.02 |
| Competing wheat: | | | | |
| | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$208.10 | | | |
| French 11.5 (Rouen) | \$201.00 | | | |
| APW 10.5 (W Coast) | \$234.00 | | | |
| Argentine 12.5 | \$195.00 | | | |
| 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 | | | | | October 28, 2019 |
|--|----------------|----------------|----------------|----------------|------------------|
| Canadian Funds | | Grade | | | |
| PNW value/Vancouver | 1CWRS13.5 | 2CWRS | 3CWRS | Winter wht. | CPS |
| May/June delivery | \$9.04 | \$8.91 | \$7.56 | \$7.83 | \$7.83 |
| Parity Track Rosetown | \$7.55 | \$7.42 | \$6.06 | \$6.33 | \$6.33 |
| Track Bid Rosetown Area | \$5.98 | \$5.38 | \$4.08 | \$4.82 | \$4.82 |
| Gross Margin at Elevator (\$/bu)* | \$1.57 | \$2.04 | \$1.98 | \$1.51 | \$1.51 |
| Gross Margin at Elevator (\$/mt)* | \$57.62 | \$74.87 | \$72.77 | \$55.65 | \$55.65 |

* to cover elevation, elevator market risk, margin