

Wheat Market Outlook and Price Report: January 7, 2019

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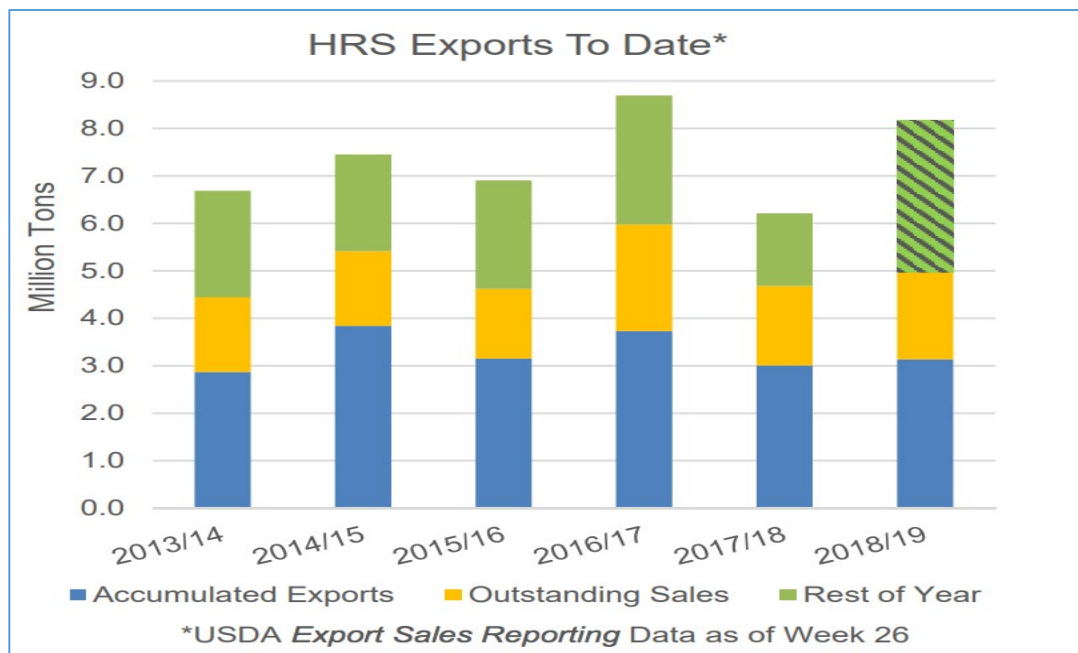
i) Background and Rationale for the Report

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 Jan. 7, 2019

US Wheat Exports By Type of Wheat to Week 26



- U.S. Hard Red Spring Wheat (HRS) **exports** are expected to reach a robust 8.2 million mt (300 million bushels), up 31% from last year and above the 5-year average.
- Total **export commitments** of this class as of Nov. 29 are up 6% from last year.
- This year, HRS exports to China have dropped off completely based on the retaliatory duties placed on U.S. wheat. Exports to Latin America are down from last year based on strong competition from Canada in several key markets. However, demand has been strengthening in other countries such as the Philippines and Bangladesh.
- Typically, the majority of HRS exports go to Asian markets such as the Philippines, Japan, and China.

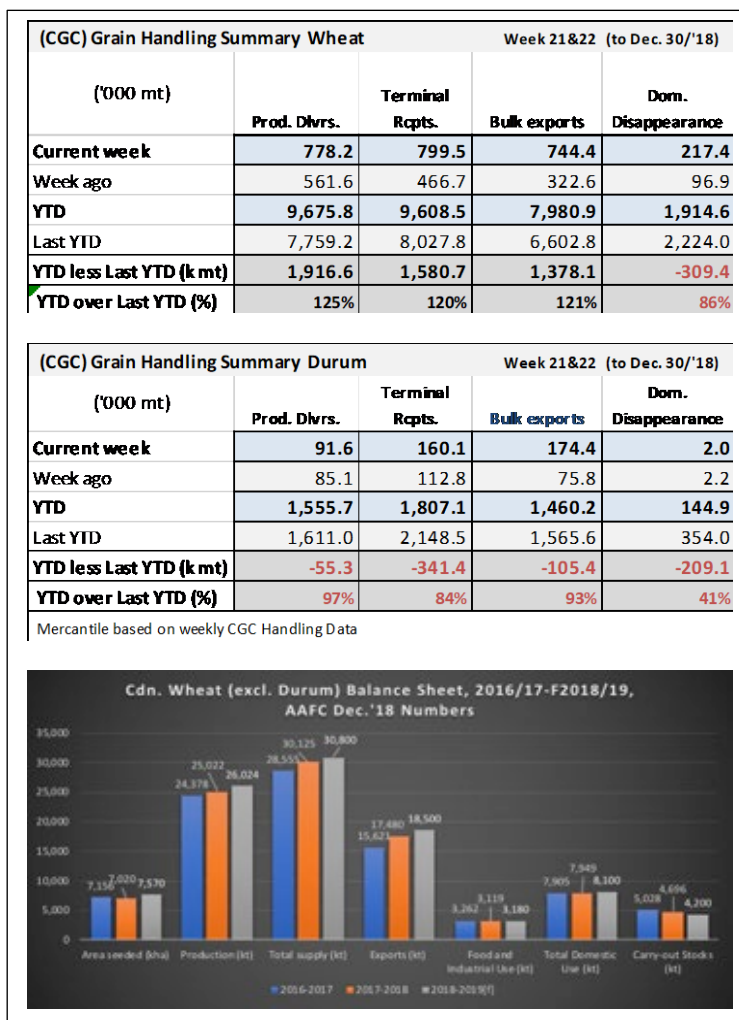
➤ **Global wheat production and trade:**

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:** Mar '19 contract **Chicago** winter wheat closed at 517-0, up 3-2 cents in Friday's trade, up 5-4 cents for the week.
Mar '19 contract **Kansas** hard red winter wheat closed up 2-4 cents at 506-0, up 10-0 cents for the week.
Minneapolis Mar '19 contract hard red spring wheat closed at 570-2, up 5-0 cents for the day, up 18-6 cents for the week, while May '19 hard red spring wheat closed at 574-6, up 5-0 cents for the day and up 18-4 cents for the week.
- **Matif:** Matif wheat rose by €3/mt as Argentine wheat priced itself out of Algeria because of adverse weather causing quality problems.

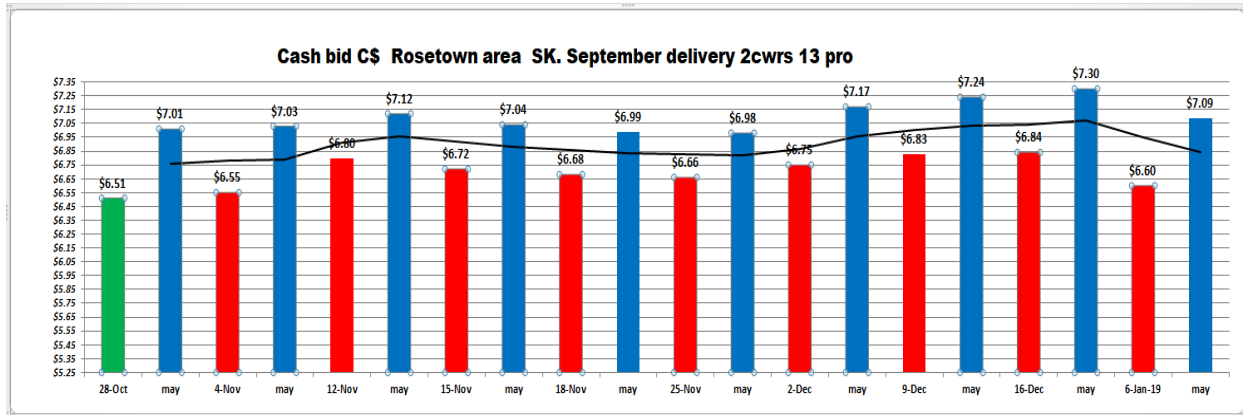
Canadian wheat:

- According to the CGC, Cdn. wheat growers delivered a big 778k mt of wheat (excl. durum) during weeks 21 & 22, domestic disappearance was said to be 217k mt, and exports 744k mt. Commercial wheat stocks amount to almost 3 mln mt. The CGC is still not posting in-transit numbers.
- Cumulatively, YTD wheat deliveries at 9.7 mln mt are 25% ahead of last year's pace (+1.9 mln mt). Terminal receipts at 9.6 mln mt are 20% ahead of last year's pace (+1.6 mln mt). **Wheat exports at 8 mln mt are 21% ahead of last year's pace (+1.4 mln mt).** And domestic use at 1.9 mln mt is 14% below of last year's pace (-309k mt, though we think there was a mistake in last year's domestic CGC numbers).
- In their December report, AAFC increased 2018/19 wheat exports by 500k mt to 18.5 mln mt. This is a step in the right direction and gets close to our export number. YTD exports to week 22 (Dec. 30) have reached 7.98 mln mt, 21% bigger (+1.4 mln mt) than last year. Prorating the YTD pace to the whole crop year would yield wheat exports of 18.9 mln mt.
- Durum handling numbers are lagging for all measures. Exports are down 7% (-105k mt) compared to last years. Outside of the general support seen in the wheat, we do not see much improvement in the durum market. There is an abundance of durum wheat available, and we do not see any significant increases in export destinations anytime soon.
- In their Dec. report, AAFC raised durum production estimates by 390,00 mt to 5.745 mln mt (up 16% y/y) as a higher seeded area was off-set slightly by lower yields. This resulted in total supply

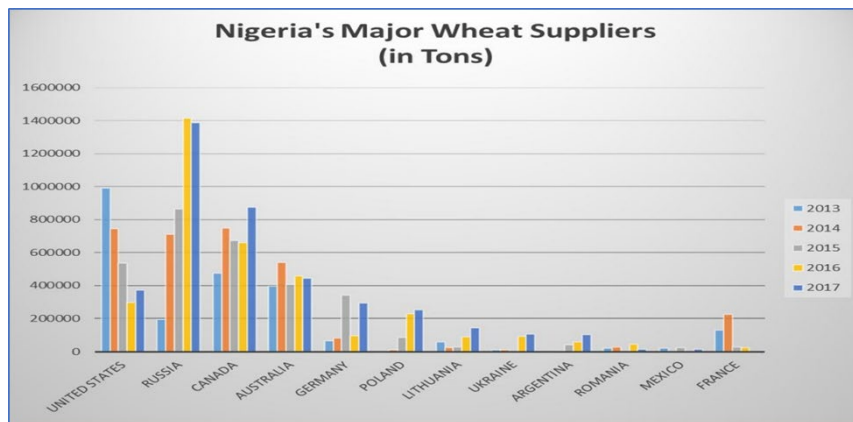


increasing 6% to 7.232 mln mt. Total domestic use was raised 10% from last year (probably too high) as the abundance of durum is expected to translate into more feed use. Carry-out stocks were raised 100,000 mt to 2 mln mt, 35% higher than last year (1.477mln) and 41% higher than the 5-year average.

- Wheat export sales were slow over the holidays, but there is a healthy lineup of upcoming wheat tenders and they should help wheat prices improve particularly if Russian wheat continues to be hard to buy. We expect Canadian bids to improve.



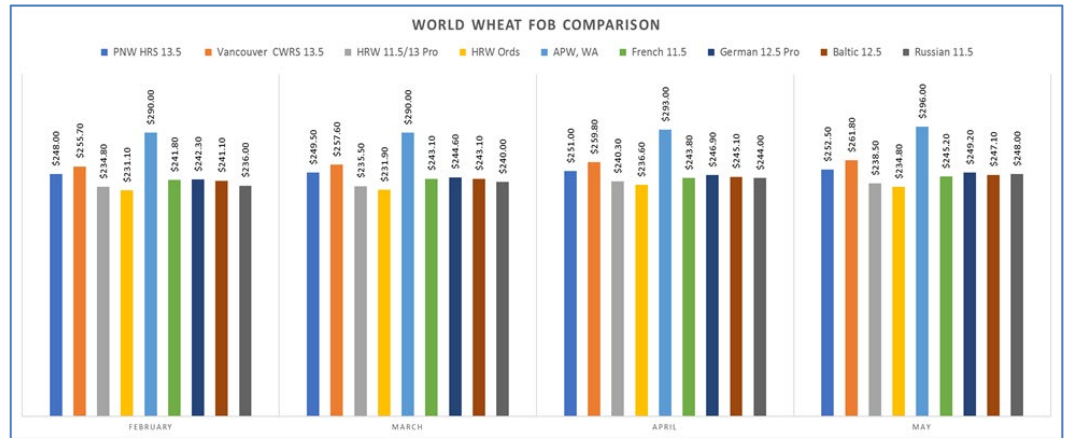
- Focus on Nigeria:** Nigeria is a major wheat importer, with annual purchases ranging from 4.9 to 5.2 mln mt over the past several years. The USDA estimates that Nigeria will buy as much as 5.4 mln mt in 2018/19 (+4% over last year), with zero tonnage coming from the US, although the US shipped 975k mt in '17/18 and 1.6 mln mt in '16/17. Canada generally ranks as Nigeria's third largest supplier of wheat (mostly hard wheat) and has exported 197k mt of wheat to Nigeria this crop year to the end of October '18. This is down slightly from last year's 222k mt to the end of Oct.'17. Last crop year Canada exported 829k mt to Nigeria, and in '16/17, Canada exported 839k mt of wheat to Nigeria.



US wheat:

- There is no US export sales data due to the Gov't shutdown. Wheat inspections on Monday were put at 376k mt for a season total of 466 mln bu, down 13% from last year.
- The USDA-WASDE reports that were supposed to come out next Friday have been postponed as well because of the government shut down. The important number in this report is the winter wheat area which we expect to be down significantly. Wheat has been finding support as the market is pricing in the expected decline in acres. On Friday, Informa estimated a 1 mln acre decrease in the US winter wheat area.

- The FOB line-up shows US wheat increasingly competitive with other origins, making traders optimistic w.r.t. more exports. Cash sources are saying that importers are not enthusiastic to pay \$236 for the nearby Russian wheat, nor the



\$240 for March. There are large carrying charges in the FSU making US wheat even more competitive in deferred months.

- It will take another week before all players are back in after the holidays, but cash markets will continue to offer support.
- US wheat rose 5-20¢ over the past week with Minneapolis wheat (HRS) the best performer. HRS futures began to price in another expected decline in Plains winter wheat acres.

Australian wheat:

- Harvest is wrapping up and the size of the WA shipping program is causing big logistics problems.
- Aussie Fob values fell sharply from the pre-holiday quotes as the A\$ got pushed to 10-year lows before increasing over 5% to a 5-week high. APW from Western Australia (WA) is quoted at US\$290/mt FOB [US\$305/mt on Dec. 28th].
- Australian wheat futures also fell to 1-month lows but maintained the \$12 Jan-May inverse.

Argentine wheat:

- Rain has persisted in Argentina. Despite this, harvest is 91% complete, in-line with last year. BAGE kept their crop unchanged at 19.5 mln mt (USDA is 19 mln). We are starting to see quality issues showing their head; reports surfaced Friday that Algeria was rejecting an Argentinian wheat vessel because of quality issues. Rumor has it that the cargo was half sprouted at the time of loading.
- Argentine Fob wheat values were unchanged on the 12% protein at US\$232/mt, but some sources said there were no offers of 12.5% protein wheat from farmers due to ongoing quality concerns due to rain.

EU wheat:

- EU shipments are now 5 mln mt down from the USDA's 22 mln mt forecast. Both Brussels and the USDA need to make some major revisions to EU trade numbers. French exports could pick up some, they have vessels set to load for Morocco and Algeria's rejection of Argentina's vessel may see France taking back some of that demand.
- Despite the low shipment report, Matif bounced off a long term up-trend making its highest weekly close since October.

Black Sea wheat:

- Russian exporters who are short January wheat are struggling to cover their position, bidding mid \$230's Fob parity. However, importers are not enthusiastic to pay \$236/mt for the nearby Russian wheat, nor \$240/mt for March.
- July-Dec Russian wheat exports are estimated at a record 24.5 mln mt.
- Ukrainian wheat exports at 10.5 mln mt are down from last year's 11.3 mln mt.
- Black Sea activity will remain limited next week due to the ongoing holidays.

➤ **Significant purchases/ trades:**

The market was quiet ahead during the holidays:

- There was little cash activity during the holidays.
- There was no US export sales data this past week and this could go on for some time with no end in sight to the Government shutdown.

Upcoming wheat tenders:

- Jan 8: **Bangladesh** 50,000 mt of Feb. shipment wheat.
- Jan 9: **Taiwan** 112,000 mt of US wheat for Feb-Mar shipment.
- Jan 9: **Jordan** 120,000 mt of wheat for Apr-May shipment.
- Jan 10: **Morocco** 345,000 mt of US durum.
- Jan 11: **Pakistan** 100,000 mt of bagged wheat.
- Jan 31: **Ethiopia** 400,000 mt wheat.
- US inspections were 376,000 mt (season total 466 mln bushels down 13%).

➤ **Wheat Market Outlook:**

Significant events:

- The Russian wheat export pace is slowing.
- We do not think the EU can reach the USDA's 22 mln mt export target, and the exports will have to be displaced by other exporters.
- There will be no USDA January report. And there will be no US Govt. data on export sales, acreage, fund positions, etc.

➤ **Outlook:**

The lower winter wheat area will offer support, as well as the prospect of increased demand for US wheat. Russian wheat is becoming too expensive and the FOB line-up continues to argue significant re-allocations of world demand. US wheat is competitive in the world market and is even more so in deferred months. Cash markets are expected to continue to remain firm into 2019.

There is a healthy lineup of upcoming tenders and they should help wheat prices improve particularly if Russian wheat continues to be hard to buy.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: January 7, 2019					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May.'19 (bu.)	May '19 (mt.)
1 CWRS 13.5	\$7.04	\$258.68	1 CWRS 13.5	\$7.32	\$268.97
1 CWAD 13.0	\$5.97	\$219.36	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$6.34	\$232.96	1 CPSR 11.5	\$6.62	\$243.25
SW Sask			SW Sask		
1 CWRS 13.5	\$6.93	\$254.64	1 CWRS 13.5	\$7.21	\$264.92
1 CWAD 13.0	\$5.98	\$219.73	1 CWAD 13.0	\$6.29	\$231.12
1 CPSR 11.5	\$6.05	\$222.30	1 CPSR 11.5	\$6.51	\$239.20
NE Sask			NE Sask		
1 CWRS 13.5	\$6.81	\$250.23	1 CWRS 13.5	\$7.05	\$259.05
1 CWAD 13.0	\$6.18	\$227.08	1 CWAD 13.0	\$6.30	\$231.49
1 CPSR 11.5	\$6.05	\$222.30	1 CPSR 11.5	\$6.33	\$232.59
SE Sask			SE Sask		
1 CWRS 13.5	\$6.78	\$249.12	1 CWRS 13.5	\$7.01	\$257.58
1 CWAD 13.0	\$6.24	\$229.28	1 CWAD 13.0	\$6.40	\$235.16
1 CPSR 11.5	\$5.99	\$220.10	1 CPSR 11.5	\$6.29	\$231.12

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.
 - 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

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.”

- 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				January 7, 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	\$338.09	\$314.68			
HRS	\$330.29				
HRW 11.5	\$325.90				
SWW 12.0	\$313.21				
1 CWRS 13.5 ³	\$338.09		\$261.98	\$76.11	
2 CWRS 13.0 ³	\$330.29		\$252.80	\$77.49	
3 CWRS ³	\$325.90		\$230.75	\$95.15	
CPS ³	\$306.38		\$232.59	\$73.79	
1 CWAD ⁴		\$304.92	\$218.63	\$86.29	
Competing wheat:					
	US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$241.00				
French 11.5 (Rouen)	\$242.90				
APW 10.5 (W Coast)	\$290.00				
Argentine 12.0	\$232.00				
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					January 7, 2019
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.02	\$8.80	\$8.68	\$8.34	\$8.34
Parity Track Rosetown	\$7.52	\$7.31	\$7.19	\$6.84	\$6.84
Track Bid Rosetown Area	\$7.13	\$6.88	\$6.28	\$6.33	\$6.33
Gross Margin at Elevator (\$/bu)*	\$0.39	\$0.43	\$0.91	\$0.51	\$0.51
Gross Margin at Elevator (\$/mt)*	\$14.29	\$15.67	\$33.33	\$18.81	\$18.81

* to cover elevation, elevator market risk, margin