

Wheat Market Outlook and Price Report: May 13, 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 May 13, 2019

AMIS¹ – World Wheat balance Sheets May '19:

Wheat	FAO-AMIS		USDA		IGC	
	2018/19 est	2019/20 f'cast 9 May	2017/18 est	2018/19 f'cast 9 Apr	2018/19 f'cast	2019/20 proj. 25 Apr
Prod.	730.2	767.0	763.2	732.9	735.0	761.5
	598.8	635.0	628.9	601.4	603.6	631.4
Supply	1,012.5	1,035.2	1,025.5	1,014.8	1,005.6	1,025.9
	769.3	783.5	776.2	752.1	760.0	775.5
Utiliz.	747.4	756.9	743.6	739.2	741.2	752.0
	620.9	630.0	622.6	614.2	613.4	624.1
Trade	170.7	173.5	181.2	178.5	172.3	173.6
	167.6	169.9	176.2	173.8	168.6	169.9
Stocks	268.2	278.0	281.9	275.6	264.4	274.0
	148.5	149.8	150.6	135.6	143.0	147.8

- **Wheat production** in 2019 is forecast to rebound by 5% from last year's reduced level with most of the increase in Australia, the EU and the Russian Federation.
- **Wheat utilization** is expected to increase by 1.3% in 2019/20 with food consumption keeping pace with overall population growth and feed use also increasing by 1.4 %.
- **Wheat trade** in 2019/20 (July/June) is projected to rise by 1.6 %, supported by stronger import demand in Asia and Africa while the Russian Federation is seen to retain its position as the world's largest exporter.
- **Wheat ending stocks** (ending in 2020) are expected to increase by 3.7%, though still below the record of 2017/18 with higher inventories projected for all major exporters except the US.

¹ Agricultural Market Information System, May report

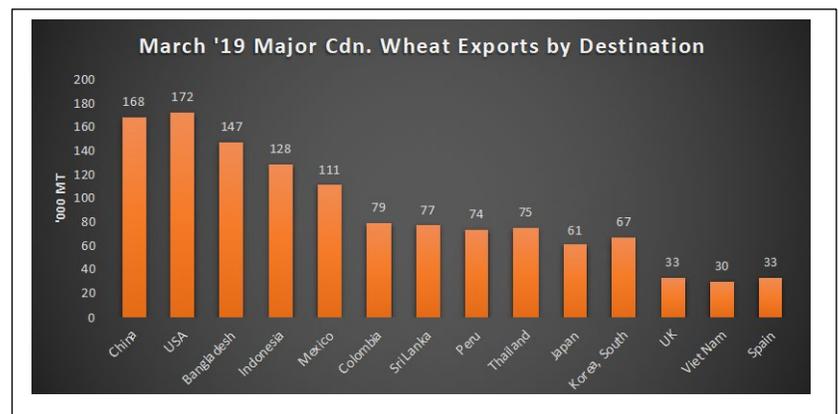
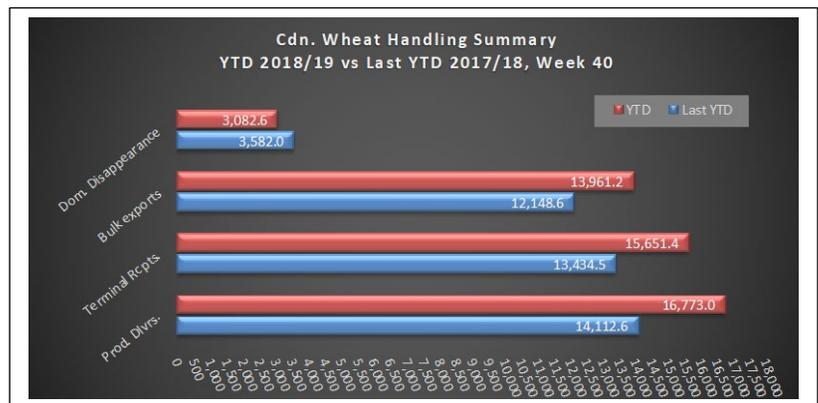
➤ **Global wheat production and trade:**

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.

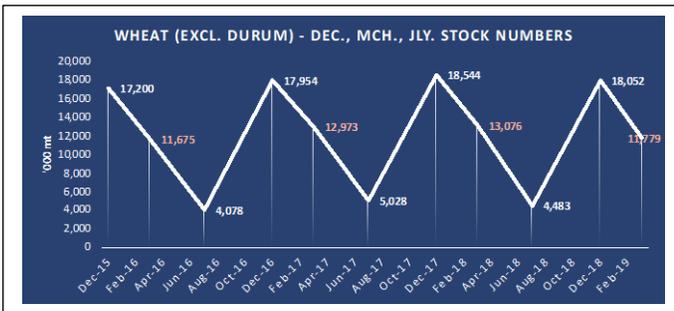
- **Futures:** July '19 contract **Chicago winter wheat** at 424-6, down 4-6 cents in today's trade, down 13c on the week.
July '19 contract **Kansas hard red winter wheat** closed down 10-6 cents at 377-0, down 16c on the week.
Minneapolis, July '19 contract **hard red spring wheat** closed at 517-0, down 0-2 cents in today's trade and up 2 cents on the week, while Sept '19 hard red spring wheat closed at 525-4, down 0-2 cents for the day.
- **Matif:** Matif wheat hit contract lows on poor weekly shipments, generally favorable weather, a lack of Black Sea activity due to holidays
- **Funds:** Index Funds did nothing whilst the Specs were big sellers following the poor export numbers and bearish USA estimates.

Canadian Wheat:

- Excellent Cdn. wheat exports of 454k mt during week 40 result in total of 14 mln mt exports crop year to date, *still up 15% (+1.8 mln mt) year over year*. Canada is on schedule for just around 18.0 mln mt for the crop year; exports will still have to speed up to reach AAFC's export target of 18.7 mln mt.
- StatsCan published their **March export numbers by destination** on Thursday. In total, 1.48 mln of wheat (other than durum) were exported during the month, compared to 1.24 mln mt during Feb. '19 and 1.6 mln mt during Jan. '19. The US was the biggest destination at 172k mt, followed by China (168k mt), Bangladesh (147k mt), Indonesia (128k mt), and Mexico (111k mt). Other important destinations were Colombia, Sri Lanka, Peru, and Thailand. Japan, Canada's most important quality wheat buyer took 61k mt during March, while the UK took 33 k mt. We note that China was the second largest buyer of wheat in March, but the wheat market is much more diversified than the canola market.
- StatsCan also published their **stocks numbers to the end of March** last Wednesday. The graph depicts end Dec., March and July Canadian wheat (excl. durum) stock numbers for the past 3 years. March stock numbers are



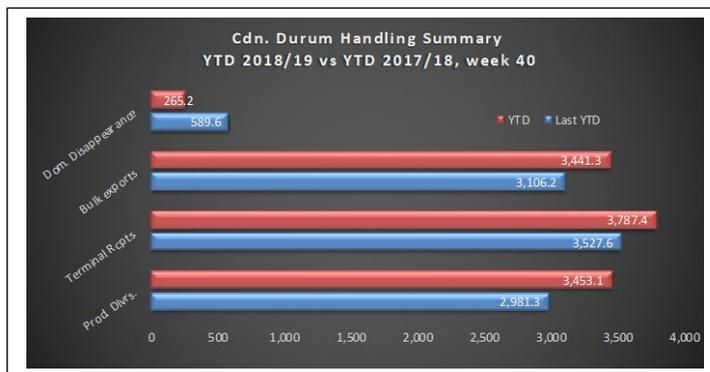
highlighted in red. StatsCan showed Cdn. wheat stocks as of the end of March at 11.8 mln mt, which is a big 1.3 mln mt or a 10% decrease from last year. Ending stocks at the end of July are expected at ~ 4 mln mt, which -if attained- would represent an 11% improvement from the 4.5 mln mt recorded last year and closer to the July '16 ending stocks. We think that improved wheat exports next year could help compensate for the drop in canola exports next year.



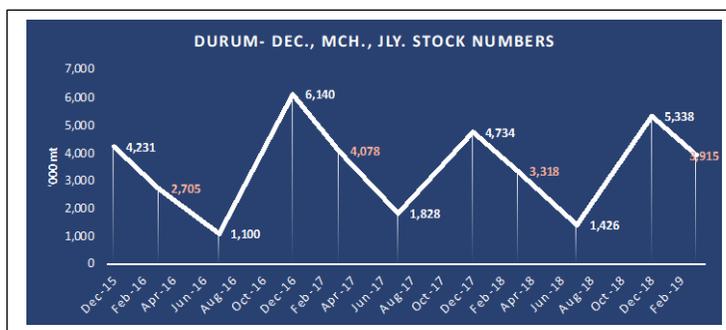
- **Spring wheat seeding progress:**

US spring wheat was shown 22% planted in the US on Tuesday, compared to an average progress of 49%. 85% of US spring wheat production occurs in ND, MN and MO, which are the states that are most lagging in seeding. MN is most behind at 7% seeded vs. 51% avg; ND is 13% seeded vs. 37% avg, and MO is 32% seeded vs. a 50% avg for May 2nd. In Canada, spring wheat seeding for SK is reported at 9% as of May 6th, and in MB spring wheat seeding is ~60% done. AB spring wheat was 15.3% seeded as of May 7th.

- Canadian durum exports were again at a strong 268k mt for week 40 and at a season total of 3.44 mln mt, now up 11% (+335k mt) from last year for the first time this crop year! This puts us back on track for a 4.2 mln mt export number for the year, higher even than the AAFC's 4.1 mln mt export target. – *This is a big turn-around from the dismal export performance during the first half of the crop year. As we said last week, there is more interest for durum in the markets and we expect Canadian prices to improve in the near future*



- StatsCan stocks numbers as of March 30/19: Again, the graph depicts end Dec., March and July **Canadian durum stock numbers** for the past 3 years. March stock numbers are highlighted in red. StatsCan showed Cdn. durum stocks as of the end of March at 3.9 mln mt, which is a 600k mt or a 18% increase from last year. However, exports have picked up significantly since then, and especially over the past month. Still, durum ending stocks are going to be higher than last year's 1.4 mln mt. We project ending stocks of ~ 1.7-1.8 mln mt.



US wheat:

- Last Tuesday's **NASS US crop progress report** showed that the US winter wheat condition is still very good at 64% Gd./Exc.; The Exc. rating dropped 3%, while the Gd. rating increased 3%. This is near the high end of the 10 yr range. However, only 22% of **spring wheat** had been planted by May 5th, compared to a 49% 5-yr avg. ND, MN and MO encompass 85% of of spring wheat production, and are way behind normal, especially MN.
- **Export sales:** Traders had been expecting old crop US wheat export sales at 75k-250k mt in for the wk of May 2nd, with 100k-350k mt sales for new crop. Actual sales came in at 90.6k mt for '18/19, but O/C has only 4 weeks left. '19/120 sales were above expectations at a big 412.3k mt.

- The **USDA outlook** Friday for **'19/20 US wheat** stated larger supplies, higher domestic use, lower exports, and larger stocks. Larger Hard Red Winter production is more than offsetting the smaller Soft Red Winter and White Wheat crops. Exports are projected at 900 mln bu, down 25 mln from the revised 2018/19 exports. Ending stocks for 2019/20 are projected 14 mln bu higher than last year at 1,141 mln bu. – *New crop ending stocks are a big 81 mln bu higher than the market expected (due to weaker demand & bigger carry-in).*
- **WASDE:** The initial outlook for **'19/20 global wheat** is for larger supplies, increased trade, greater consumption, and higher ending stocks. Foreign supplies are projected to increase by 38.5 mln mt to 966.4 mln mt as all of the major wheat exporters (Argentina, Australia, Canada, EU, Russia, and Ukraine) are expected to have higher production for '19/20. The EU is projected to have the largest increase to 153.8 mln mt; Russia is projected to have its second-largest wheat production on record at 77.0 mln mt. Global wheat ending stocks increase by 18 mln mt or 7% to a record-large 293 mln. World ending stocks without China are projected at 146.8 mln mt, up 11.8 mln from last year. – *This was not a bullish report, but N/C production increases had been anticipated. Ending stocks (both US and world) are at the higher end of anticipated numbers by the trade. - But With US, world and non-China stocks all up significantly, the world wheat market will struggle to rally, particularly as Russia is the only one of the major exporters whose production the USDA actually low-balled!*

Australian wheat:

- *USDA increased '19/20 Australian wheat production by 5.2 mln mt over last year's drought reduced crop to 22.5 mln mt.*
- Australian new crop futures hit 1-year lows with the feed wheat business into Asia being done at C&F prices that are below Aussie Fob levels.
- Australian old crop wheat futures fell to 9-month lows, with new crop at 11-month lows due to improving rain prospects and the need to buy some export demand.
- Australian Fob wheat values fell another \$12/mt to \$228/mt FOB.

Argentine wheat:

- *USDA increased '19/20 Argentine wheat production by 500k mt over last year's to 20 mln mt.*
- Argentine old crop Fob values for 12.5% protein wheat this week were offered at \$215.00/mt. *New crop wheat was at \$186/mt.*

EU wheat:

- *USDA increased '19/20 EU wheat production by 16.6 mln mt over last year's drought reduced crop to 153.8 mln mt.*
- The USDA left 18/19 exports unchanged at 24 mln mt; they raised 19/20 exports to 27 mln mt.

Black Sea wheat:

- *USDA increased '19/20 **Russian** wheat production by 5.3 mln mt over last year's drought reduced crop to 77 mln mt (private estimates are higher than this). USDA increased '19/20 **Ukrainian** wheat production by 3.9 mln mt over last year's crop to 29 mln mt.*
- Russian old crop 12.5 protein wheat fell by ~ \$7/mt and was buyable at \$205.00/mt.

➤ **Significant purchases/ trades:**

There was significant business done last week:

- **Jordan** bought 60,000 mt hard wheat for LH Sep at \$213/mt.
- **The Philippines** bought 110,000 mt feed wheat for Jul-Aug at \$197.50/mt.
- **Taiwan** paid \$207-208 for Aug-Sept wheat.
- **Korea** bought feed wheat for Oct at \$204.75 and Nov at \$201/mt.
- **Japan** purchased 110,880 mt of wheat from the US, Canada, and Australia.
- **US old crop export sales** were a poor 91,000 mt (season total 939 mln bushels against the USDA's 945 mln bushels annual number) but inspections stand at just 804 mln bushels.

➤ **Wheat Market Outlook:**

Significant events:

- **Funds:** Specs Funds were big sellers following the poor export numbers and bearish USA estimates.
- The **USDA/ Wasde reports** were quite bearish with world wheat production estimated up by 46 mln mt over last year's production.
- There was no conclusion to the **US-China trade dispute**. Instead, increased US tariffs are in place, and China has now released its list of retaliatory tariffs, which will go into effect on June 1st.
- There is some talk that Russian weather is getting a bit hot, but so far crops are still in good condition.
- Canadian **durum exports** were at an impressive 268k mt for week 40 and at a season total of 3.4 mln mt, now up 11% (+335k mt) from last year for the first time this crop year. This is a big turnaround from the dismal export performance during the first half of the crop year. *There is more interest for durum in the markets and we expect Canadian prices to improve in the near future.*

➤ **Outlook:**

The USDA raised world production 46 mln mt for 2019/20 (all non-China), and despite stating an 11 mln mt increase in both feed and milling demand; world ending stocks rose 19 mln mt of which 6 mln mt were in China.

The USDA has set a bearish tone for 2019/20 and it will take some major weather issues, or a significant USA-China wheat trade, to move the market higher. In our view this is unlikely, as trade conditions seem to have soured as Trump continues to intervene. *Consumers will now buy hand to mouth take minimum long-term coverage and there is nothing to push the funds into covering their shorts.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: May 13, 2019					
NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Sept. '19 {bu.}	Sept.'19 {mt.}
1 CWRS 13.5	\$6.39	\$234.79	1 CWRS 13.5	\$6.02	\$221.20
1 CWAD 13.0	\$6.44	\$236.63	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$5.47	\$200.99	1 CPSR 11.5	\$4.60	\$169.02
SW Sask			SW Sask		
1 CWRS 13.5	\$6.54	\$240.31	1 CWRS 13.5	\$5.93	\$217.89
1 CWAD 13.0	\$6.46	\$237.37	1 CWAD 13.0	\$6.26	\$230.02
1 CPSR 11.5	\$4.90	\$180.05	1 CPSR 11.5	\$4.63	\$170.12
NE Sask			NE Sask		
1 CWRS 13.5	\$6.14	\$225.61	1 CWRS 13.5	\$5.76	\$211.65
1 CWAD 13.0	\$6.49	\$238.47	1 CWAD 13.0	\$6.22	\$228.55
1 CPSR 11.5	\$5.31	\$195.11	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$6.13	\$225.24	1 CWRS 13.5	\$5.76	\$211.65
1 CWAD 13.0	\$6.59	\$242.14	1 CWAD 13.0	\$6.33	\$232.59
1 CPSR 11.5	\$5.14	\$188.86	1 CPSR 11.5	\$4.38	\$160.94

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 Basis² (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are

² 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.”

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				
May 13, 2019				
Type of Wheat	FOB Prices CDA1 (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	\$307.31	\$286.03		
HRS	\$299.89			
HRW 11.5	\$286.03			
SWW 12.0	\$291.48			
1 CWRS 13.53	\$307.31		\$231.49	\$75.83
2 CWRS 13.03	\$299.89		\$222.30	\$77.59
3 CWRS3	\$286.03		\$209.44	\$76.59
CPS3	\$284.55		\$202.09	\$82.46
1 CWAD4		\$309.79	\$225.61	\$84.18
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$205.00	Jne.		
French 11.5 (Rouen)	\$211.20	Jne.		
APW 10.5 (W Coast)	\$228.00	Jne.		
Argentine 12.0	\$215.00	Jne.		

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					
May 13, 2019					
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.18	\$7.97	\$7.60	\$7.74	\$7.74
Parity Track Rosetown	\$6.68	\$6.48	\$6.10	\$6.25	\$6.25
Track Bid Rosetown Area	\$6.30	\$6.05	\$5.70	\$5.50	\$5.50
Gross Margin at Elevator (\$/bu)*	\$0.38	\$0.43	\$0.40	\$0.75	\$0.75
Gross Margin at Elevator (\$/mt)*	\$13.91	\$15.68	\$14.68	\$27.47	\$27.47

* to cover elevation, elevator market risk, margin