

Wheat Market Outlook and Price Report: April 13, 2020

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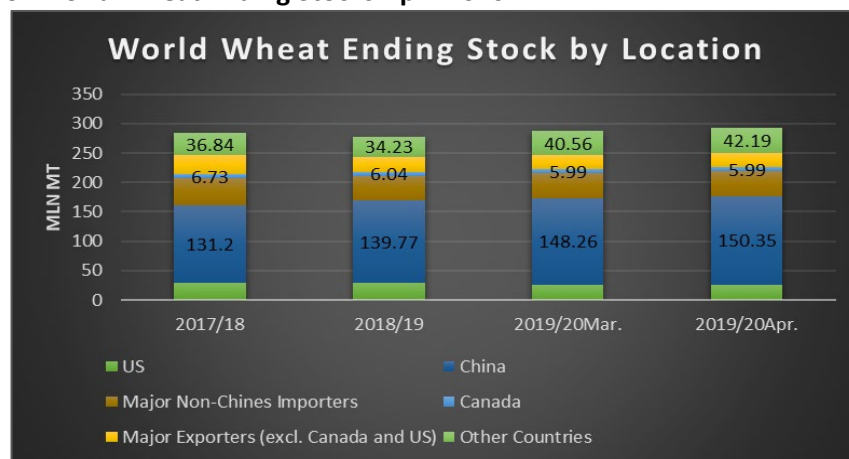
i) Background and Rationale for the Report

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.

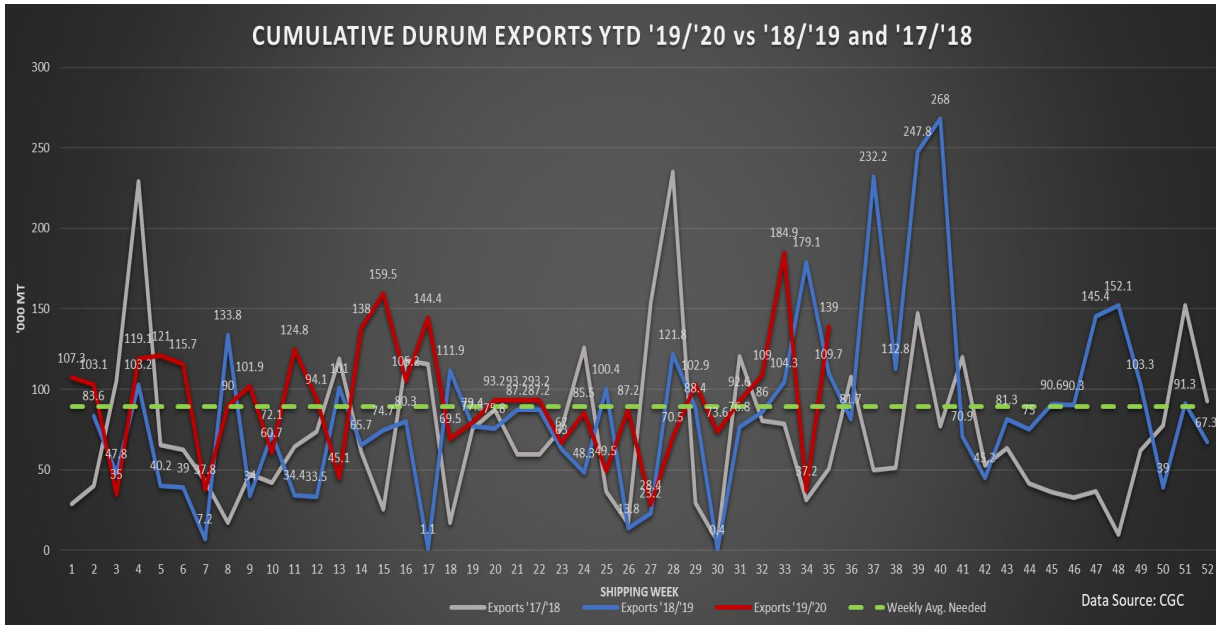
ii) Wheat Market Outlook April 9, 2020

USDA Estimates for World Wheat Ending Stocks April 2020

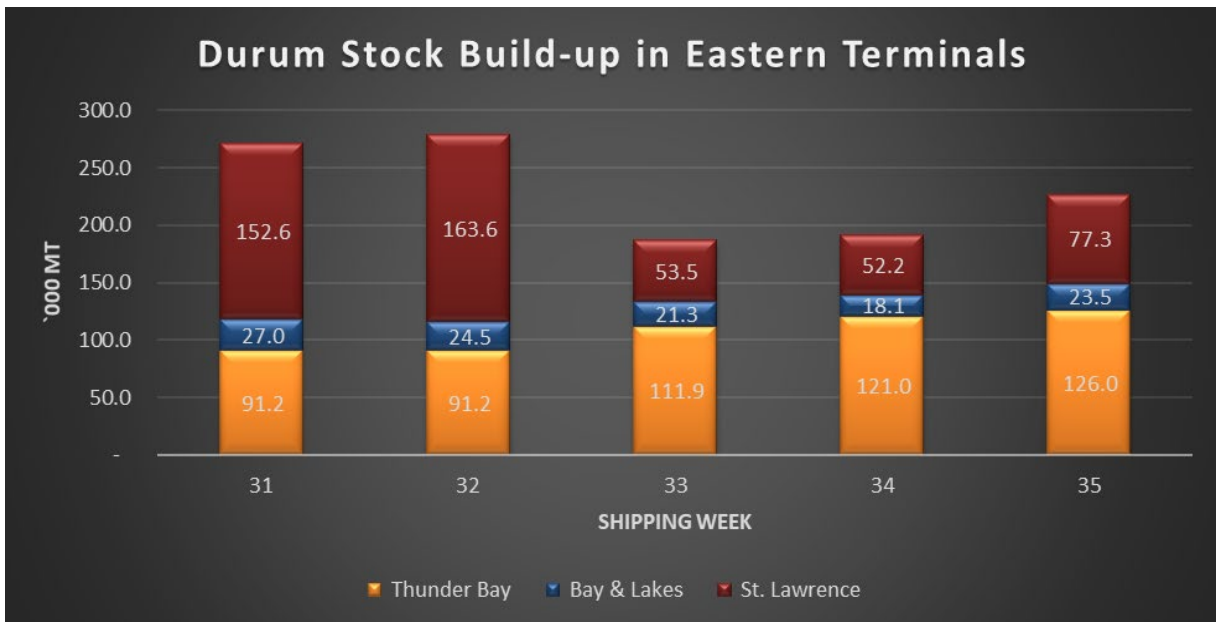


- In their April update of world wheat supply and use, **USDA increased supplies and lowered trade and utilization.**
- **Global production was lowered slightly** (30,000 mt) with several largely offsetting revisions.
- **Exports were seen 900,000 mt lower led by a 1.5 million mt decrease in Russian exports.** The decrease in Russia was from the newly implemented export restrictions but was exactly offset by a 1.5 million mt increase in the EU.
- **Imports were reduced by 570,000 mt;** 300,000 mt reductions in Brazil, Japan and Uzbekistan were slightly offset by a 300,000 mt increase in Morocco.
- **World consumption was seen 5.1 million mt lower,** the largest reductions being a 2.0 million mt fall in China, a 1.9 million mt decline in India and a 1.0 million mt decrease in the EU.
- **With use falling further, ending stocks were raised 5.6 million mt from last month** to a large 292.8 million mt, 14.7 million mt (5%) more than last year.
- **It is worth noting that 150.4 million mt of the worlds ending stocks are expected to be in China,** which largely do not count in the overall picture. Ending stocks in the major exporting countries are down from last year by 4% (1.3 million mt).

- Canadian producers delivered 156,700 mt of durum into the system during shipping week 35 for a year-to-date total of 3.4 million mt, 17% (493,700 mt) more than last year.



- Exports throughout the week were 84,600 mt for a season total of 3.3 million mt, 31% (779,200 mt) more than last year.
- The Great Lakes are now open. CGC data is showing a build up of stocks in Eastern Terminals.



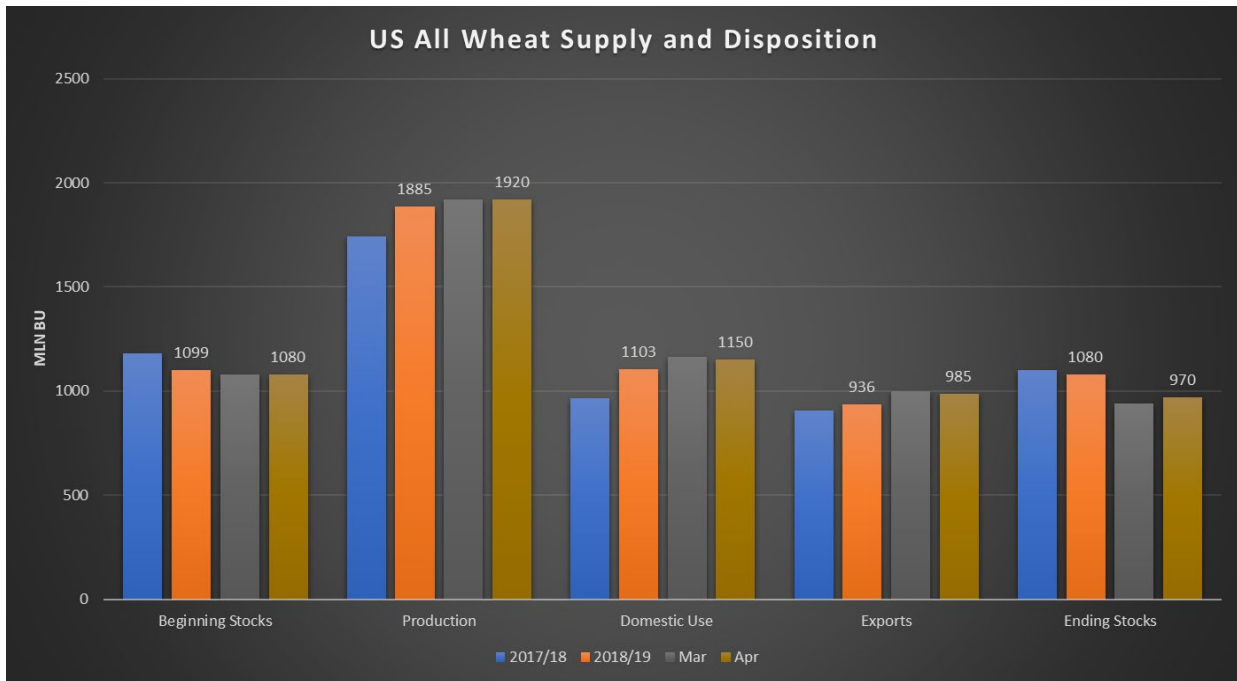
- Old crop bids should reach \$7.00 for CWRS and we would target remaining supplies at these levels.
- We continue to think that durum will be a strong crop to plant in 2020/21. Planted area in the US and Canada will be higher but not enough to cause stocks to be burdensome. Additionally, weather has been sub-optimal in N Africa and the EU creating the opportunity for another strong 2020/21 export program.

Estimate of where Sask. elevator bids should be given world cash wheat values

12-Apr-20	July	July	July	July	July	July	July	July	July	July
Current world price values usfmt	USA DNS 14 PRO	hrw ords	durum 1cw	2cwrs 12.5 pro	3cwrs 300 hag	feed wht	feed barley	peas	canola	soybeans
price value equal fob vancouver variable usfmt	\$259.75	\$227.79	\$300.00	\$240.00	\$210.00	\$200.00	\$170.00	\$240.00	\$368.10	\$347.93
price value equal fob vancouver variable usfmt	0.7176	0.7176	0.7176	0.7176	0.7176	0.7176	0.7176	0.7176	0.7176	0.7176
value in Canadian funds per tonne	\$362.00	\$317.45	\$418.09	\$334.47	\$292.66	\$278.73	\$236.92	\$334.47	\$513.00	\$484.88
per bushel	\$9.85	\$8.64	\$11.38	\$9.10	\$7.96	\$7.58				
gross backoff cost to track country elevator										
port fobbing at cost			\$8.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00
rail freight basis T2 cars basis Saskatoon/Rosetown			\$25.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00
rail freight country to fobay			\$25.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
storage and interest max 60 days			\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
cleaning at cost			\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
country elevation at cost			\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
total backoff costs			\$44.50	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50
net value can \$			\$373.59	\$284.97	\$243.16	\$229.23	\$187.42	\$284.97	\$463.50	\$435.38
Estimate value per bushel track country elevator Can\$			\$10.17	\$7.76	\$6.62	\$6.24	\$4.08	\$7.76	\$10.51	\$11.85
theoretical old cwb price basis \$60.00 backoff to SK basis current world price			\$7.47	\$6.33	\$5.95	\$3.88				
canadian company track bids										
Mkt value where Elevator bids shud be Saskatoon/Rosetown weyburn area basis 2cw or better			\$9.50	\$7.10	\$6.00	\$5.60	\$3.50	\$7.10	\$10.00	
Grain Company estimated margin over elevations at cost			\$24.56	\$24.12	\$22.72	\$23.48	\$21.33	\$24.12	\$22.56	avge margin

US wheat:

- USDA put US wheat ending stocks 30 million bushels higher than last month at 970 million bushels (11% less than last year). The increase in stocks was from a decrease in feed use (-15 million bushels) and exports (-15 million bushels). USDA's export number is now at 26.8 million mt, 5% more than last year.



- Weekly US wheat sales were not impressive at 258,600 mt. This was still higher than the 50,000 to 200,000 mt that trade was expecting (none of these sales were to China).

- On Good Friday, the USDA announced 165,000 worth of HRW sales to China, 55,000 mt of this is for the 2019/20 MY and the remaining 110,000 mt is for 2020/21 delivery.
 - There is now a total of 225,000 mt worth of sales to China remaining to be shipped in 2019/20 and 455,000 mt of sales to be shipped to China in 2020/21.
- The first national crop progress report was issued on Monday. It showed US winter wheat conditions at 62% Gd/Ex vs 60% last year.
- US FOB prices for HRS in the PNW were \$1.00 higher than last week with 13.5 pro at \$251.00/mt.

Australian wheat:

- Aussie FOB values rose another \$10/mt last week, now bid at \$275/mt. The pace of shipments remains extremely strong for a crop that was the smallest in 12 years.
- USDA took 200,000 mt out of Aussie ending stocks and added them exports. Total expected exports now stand at 8.2 million mt.

Argentine wheat:

- Argentine exports fell 30% in March because of export restrictions in their interior and ports.
- There were no developments on Brazils miller's petition to relax import restrictions. There is currently a 10% tax on non-South American wheat imports. Millers are trying to have this removed amidst shortages from transportation restrictions.
- FOB values in Argentina were nominally unchanged from last week at \$230.00-\$240.00/mt.

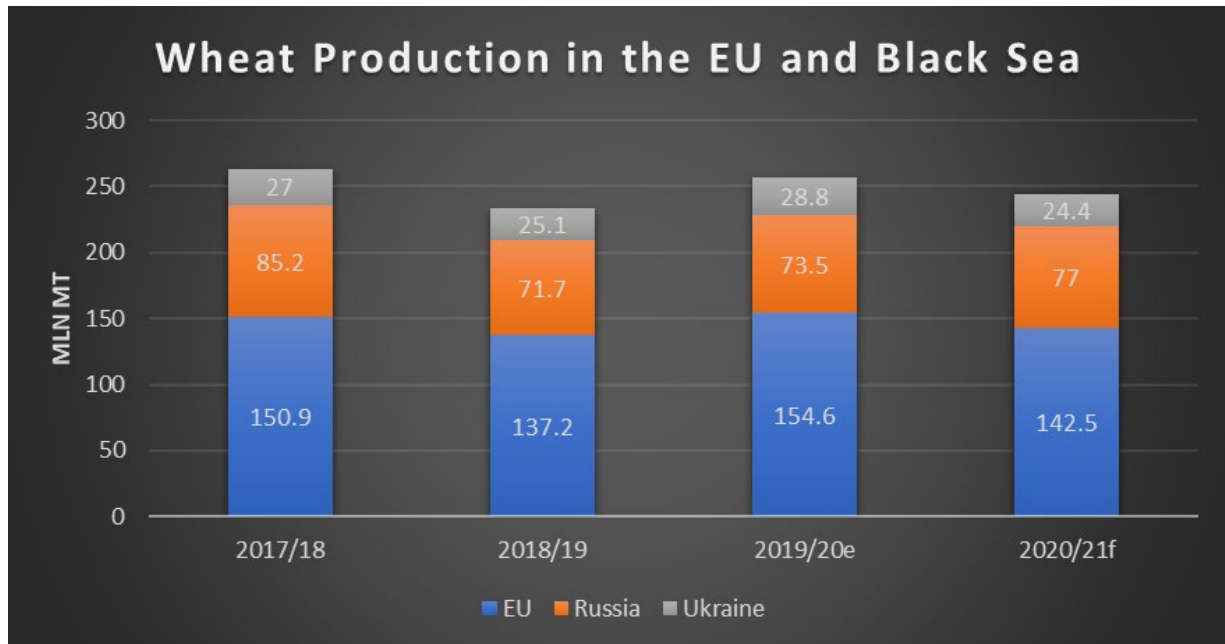
EU wheat:

- French wheat shipments to non-EU destinations in March were 1.63 million mt, the highest March amount since 2009/10.
- The French Agriculture Ministry put 2020/21 wheat area down 7.5% from last year to a 17-year low of 4.6 million ha (Coceral's current estimate is 5 million ha). Basis last year's yield this would be a 3 million mt decrease in production (most analysts are expecting at 5 million mt decline).
 - French wheat crop conditions were unchanged for the 3rd week in a row at 62% Gd/Ex vs 83% last year and the 87% average.
- In an effort to secure domestic supplies, Romania is banning the export of cereals until mid-May. Romania is a major exporter to the Middle East, especially Egypt.
- FOB values in the EU reclaimed all of the previous week's losses: French 11.5 pro FOB values rose \$10.38/mt, now bid at \$225.16/mt, German 12.5 pro was \$12.61/mt higher at \$231.17/mt while Baltic 12.5 pro values gained \$12.59/mt last week to \$229.53/mt.

Black Sea wheat:

- For the first time ever, Russia exported 60,000 mt of wheat to Saudi Arabia late last month. A sign that phytosanitary restrictions in Saudi have been adjusted to accommodate Russian wheat.
- Russia exported 1.2 million mt of grain in the first 10 days after the 7 million mt export quota was implemented. Exporters have 500,000 mt/week remaining to export until the end of the marketing year.
 - The OPEC+ deal to restrict oil supply is causing the Russian ruble to appreciate which will be negative to exports.
- USDA decreased their Russian export number by 1.5 million mt to a much more reasonable 33.5 million mt.
- There are misleading headlines of Ukraine "slashing" export amounts. The truth is that the export restrictions will still allow Ukraine's wheat exports to reach 20.2 million mt which is only slightly lower than the 20.5 million mt that USDA is projecting.
- Kazakhstan is planning to increase monthly export quotas of wheat and flour. The country recently implemented monthly quotas of 200,000 mt and 70,000 mt respectively because of fears of domestic shortages.

- We are hearing reports that some of Russia's top wheat growing regions are growing concerningly dry. Some regions of S Krasnodar have received just half of the normal amount. Krasnodar is one of the top winter wheat growing regions. Reports indicate that plants are starting to yellow and drop leaves.
- We think that 2020/21 wheat production in the EU and Black Sea is going to be upwards of 3% lower (8.5 million mt) than 2019/20. Decreases in the EU and Ukraine will be partially offset by the expanded Russian area.



- FOB values in the Black Sea rose \$10.00/mt last week. Russian 12.5 pro is now bid at \$233.00/mt while feed wheat in Ukraine is bid at \$223.00/mt.

➤ **Significant purchases/ trades:**

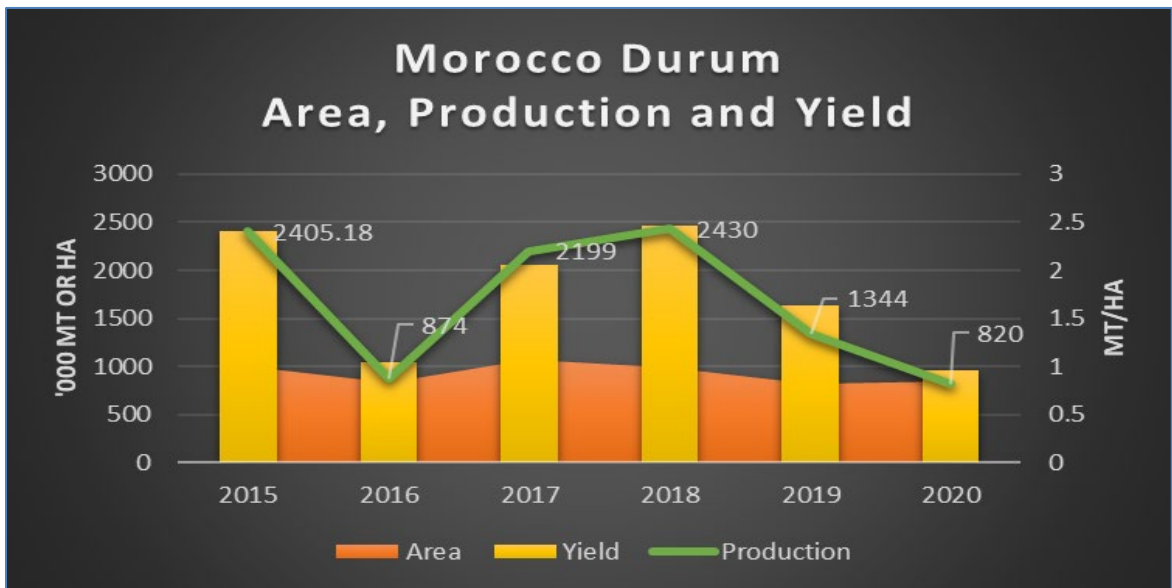
- **Jordan** bought 60,000 mt of wheat for LH June at \$233.50/mt and 60,000 mt FH July at \$226.50.
- **Turkey** bought 250,000 mt wheat for 20 Apr-15 May, but details were not clear.
- **China** bought 165,000 mt of US HRW on Good Friday.
- **Ethiopia** postponed the Apr 7th 400,000 mt tender to Apr 23rd.
- **Egypt** will import 800,000 mt wheat during the local harvest, something it does not normally do.
- **US** inspections were 320,000 mt (season total 764 million bushels, up 7%), sales were 259,000 mt (season total 920 million bushels, up 2% against the USDA's revised 5% increase).
- **EU** shipments rose over 800k mt to a soft wheat total of 24.8 million mt, up 66% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- **The markets continue to be led by wheat due to a huge increase in the production of flour** as the global consumer buys flour for stock piling and home baking following the continued expansion of COVID-19.
- In an unusual move, **Egypt announced intentions to import 800,000 mt of wheat during the country's wheat harvest.** The imports would be in addition to the 3.6 million mt of wheat that is expected to be procured from the local harvest. The move is an ongoing effort to being strategic reserves amidst the pandemic.

- **Lebanon is considering importing wheat for the first time in six years.** The cash-strapped country is usually relies on private imports of grain but is concerned about shortages driven by the pandemic. They are considering buying 80,000 mt of wheat which will likely come from the EU, Russia or Ukraine.
- **USDA Posts released updated 2020/21 S&D scenarios for two of Canada’s largest durum importers: Turkey and Morocco.**
 - **For Turkey,** a winter drought it is impacting production, but there is still time for rain to improve the crop. Wheat area has expanded in Turkey. **USDA is expecting that all wheat production will be 8 million mt with 2.5 million mt of this being durum** (durum is expected to account for a larger than normal percentage of wheat production because of its attractive price). Consumption is expected to rise to 18 million mt, 200,000 mt more than in 2019/20. Large projected beginning stocks has **all wheat imports falling from the projected record 2019/20 amount to 10.5 million mt to 8.0 million mt.** Turkey has imported 1.33 million mt of durum in the first 8 months of 2019/20 with Canada supplying 615,000 mt of the total amount (8% of the total year-to-date all wheat imports).
 - USDA post is expecting that **durum production in Morocco is going to fall to 0.82 million mt** (38% less than last year) because of the ongoing drought in N Africa. **All wheat imports in 2020/21 are expected to rise 20%.**



- A USDA Post is forecasting that **Chinese wheat production will be slightly (1.4 million mt) higher in 2020/21 to 135.0 million mt because of policy-driven higher area.** Total wheat consumption is forecast 3.0 million mt lower at 125.0 million mt because of reduced feed use. Food use is expected to expand by 1 million mt because of population growth and larger demand for “western-style” baked goods. Wheat imports are expected to rise by 500,000 mt to 4.5 million mt at the government encourages higher use of the TRQ. **Ending stocks are forecast to jump 13.5 million mt to 165.0 million mt on larger production and slower demand.**
- **Weather Around the World:**
 - **North America:** Severe cold temperatures drop south from **Canada** across the **USA** Plains and Midwest this week, accompanied by high winds and some heavy snowfall. Readings will be mostly in the mid-teens to mid-20’s Fahrenheit (-9°C to -5°C), with forecasts for CO down to -15°C. **Europe:** Snow and rain will cross much of **Ukraine** and **Southern Russia** this week, with temperatures staying below normal and sub-zero readings at night. **Western Europe** remains mostly warm, but central regions will also see some sub-zero readings. Rain will be limited rain except in **Iberia**, although there were some heavy storms over the weekend, particularly in **France**. **Southern Hemisphere:** The coming week offers another almost entirely dry forecast for **Southern Brazil** and **Argentina**, whilst **South Africa** remains warm and wet. **Australia** looks dry with near normal temperatures.

➤ **Outlook:**

On the supply side, dryness in the Black Sea will be the focus for cash markets going forward, but EU crops also need rain, the US expects some seriously cold temperatures next week and the Southern Hemisphere could also use some rain ahead of planting. On the demand side, the world economy/energy prices are trimming food and ethanol demand, while the expected huge corn crop this summer will cut into demand for wheat as a feed grain. In the short term, prices could strengthen but will then weaken as soon as nearby flour demand declines.

We recommend targets at the \$7.00 level for No. 2 13.5 pro CWRS. We would not make any new crop sales as we see further downside risk to the Canadian dollar.

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)		Jun. '20 (bu.)	Jun. '20 (mt.)
1 CWRS 13.5	\$6.41	\$235.53	1 CWRS 13.5	\$6.51	\$239.20
1 CWAD 13.0	\$7.79	\$286.24	1 CWAD 13.0	\$7.71	\$283.30
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SW Sask			SW Sask		
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.84	\$288.07	1 CWAD 13.0	\$7.77	\$285.50
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
NE Sask			NE Sask		
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.26	\$230.02
1 CWAD 13.0	\$8.16	\$299.83	1 CWAD 13.0	\$8.04	\$295.42
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SE Sask			SE Sask		
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.27	\$230.38
1 CWAD 13.0	\$8.16	\$299.83	1 CWAD 13.0	\$8.07	\$296.52
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00

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	(0.15)	-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 Canadian. FOB Prices minus primary elevator bids, the FOB prices are translated into Canadian. 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)

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.”

- 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				April 13, 2020
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	\$373.31	\$336.90		
HRS	\$366.73			
HRW 11.5	\$334.85			
SWW 12.0	\$322.55			
1 CWRS 13.5 ³	\$373.31		\$233.69	\$139.62
2 CWRS 13.0 ³	\$366.73		\$211.65	\$155.08
3 CWRS ³	\$334.85		\$178.58	\$156.28
CPS ³	\$315.37		\$210.18	\$105.19
1 CWAD ⁴		\$394.08	\$304.98	\$89.10
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$233.00			
French 11.5 (Rouen)	\$225.16			
APW 10.5 (W Coast)	\$275.00			
Argentine 12.5	\$230-\$240			

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

*Note: As per the opening of the Great Lakes, there are now posted bids for DNS and CWAD

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						April 13, 2020
Canadian Funds	Grade		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$9.96	\$9.79	\$8.92	\$8.58	\$8.58	
Parity Track Rosetown	\$8.47	\$8.29	\$7.42	\$7.09	\$7.09	
Track Bid Rosetown Area	\$6.36	\$5.76	\$4.86	\$5.72	\$5.72	
Gross Margin at Elevator (\$/bu)*	\$2.11	\$2.53	\$2.56	\$1.37	\$1.37	
Gross Margin at Elevator (\$/mt)*	\$77.46	\$92.92	\$94.11	\$50.21	\$50.21	

* to cover elevation, elevator market risk, margin