

**Wheat Market Outlook and Price Report: April 20, 2020**  
By Marlene Boersch/ A.P. Temple/ Michael Wilton  
Mercantile Consulting Venture Inc.

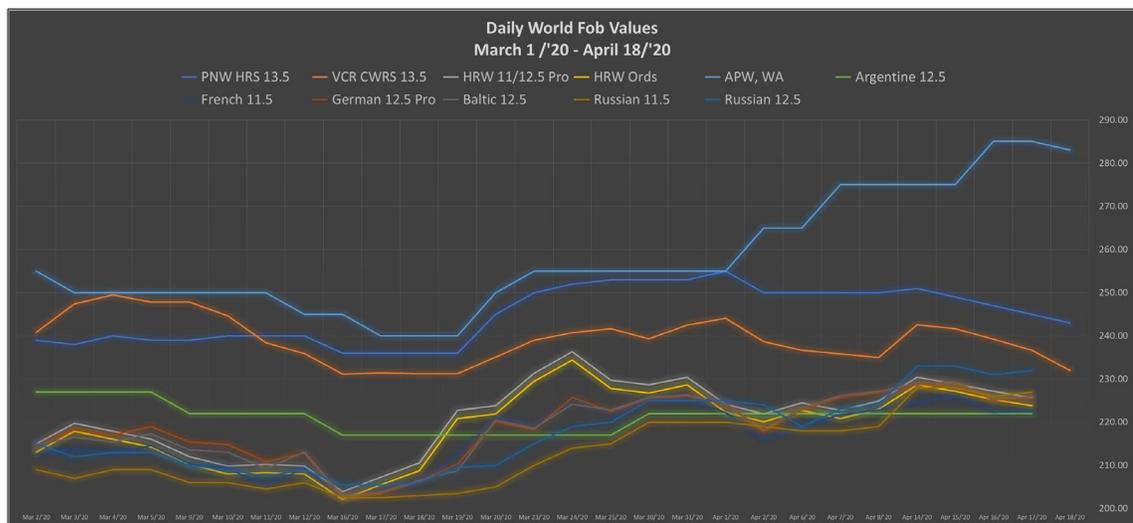
**i) Background and Rationale for the Report**

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 April 20, 2020**

**Daily Cash Prices for Nearby Delivery Wheat**



- **Global FOB values were mixed last week.** Black Sea wheat is becoming expensive as prices in Ukraine and Russia work to ensure adequate domestic supplies. Prices in the EU were relatively steady while prices in N America eased in conjunction with the falling futures market.
- There is no shortage of wheat (esp. in N America), but **world prices are being supported by exporting countries being careful to ensure adequate domestic supplies** and by importers securing additional quantities as the pandemic spells potential problems with their distribution channels.
- Egypt (GASC) conducted two tenders last week, buying a total of 360,000 mt of wheat at \$249.45-\$252.50 depending on the delivery window. In each tender, **US HRW was the cheapest on a FOB basis, but freight caused it to be too expensive** on a delivered basis, as the tenders went the Russia and France.
- **US HRW wheat values should be able to capture some additional demand.** Similarly, Canadian CRWS FOB values are competitively priced. CWRS 13.5 pro in Vancouver fell by \$10.50/mt over the week to \$231.95, well below the \$245.00/ mt of DNS13.5 pro in the PNW. This is just \$4.63/mt higher than current bids for Russian 12.5 pro wheat.

➤ **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.

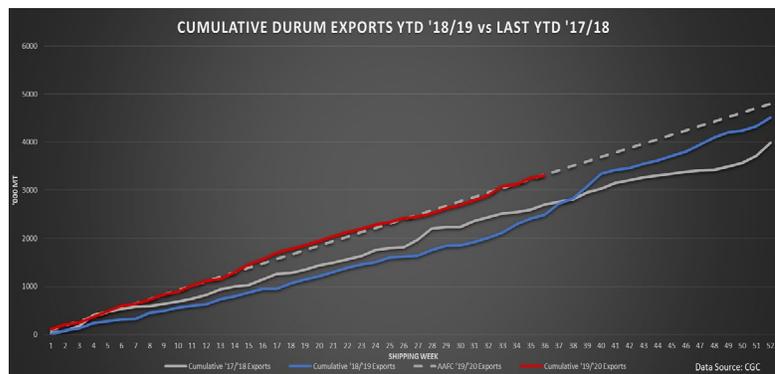
- **Futures:** May '20 contract **Chicago** winter wheat closed at 533-4, up 3-6 cents on Friday, *down 23-0 cents for the week*.
- May '20 contract **Kansas** hard red winter wheat closed at 478-6, up 8-6 cents in Friday's trade, *down 13-2 cents for the week*.
- **Minneapolis** May '20 contract hard red spring wheat closed at 506-6, up 0-4 cents in Friday's trade, *down 25-6 cents for the week* while Jul '20 hard red spring wheat closed at 519-4, down 0-6 cents on Friday, *down 24-4 cents for the week*.

**Canadian Wheat:**

- Canadian producers delivered 416,700 mt of wheat into the Canadian elevator system during week 36 ending April 12<sup>th</sup>. Total deliveries are now 14.91 million mt, down 2% (293,100 mt) from last year.
- Exports throughout the week were 368,000 mt for a total of 10.88 million mt, down 1.57 million mt.
- There were 16,000 mt of No. 1 CWRW shipped out of Thunder Bay in week 36.

<b>(CGC) Grain Handling Summary Wheat (excl. Durum)</b>		Week 36		(to Apr. 12/'20)
('000 mt)	Producer Deliveries	Terminal Receipts	Exports	Domestic Dissappearance
<b>Current Week</b>	<b>416.70</b>	<b>407.70</b>	<b>368.00</b>	<b>113.70</b>
Week Ago	461.90	490.50	467.20	88.40
<b>YTD</b>	<b>14,910.20</b>	<b>12,408.40</b>	<b>10,884.00</b>	<b>2,866.00</b>
Last YTD	15,203.30	13,785.70	12,451.50	2,735.60
YTD less Last YTD (k mt)	↓ -293.1	↓ -1377.3	↓ -1567.5	↑ 130.4
YTD over Last YTD (%)	↓ -2%	↓ -10%	↓ -13%	↑ 5%
Based on weekly CGC Handling Data				

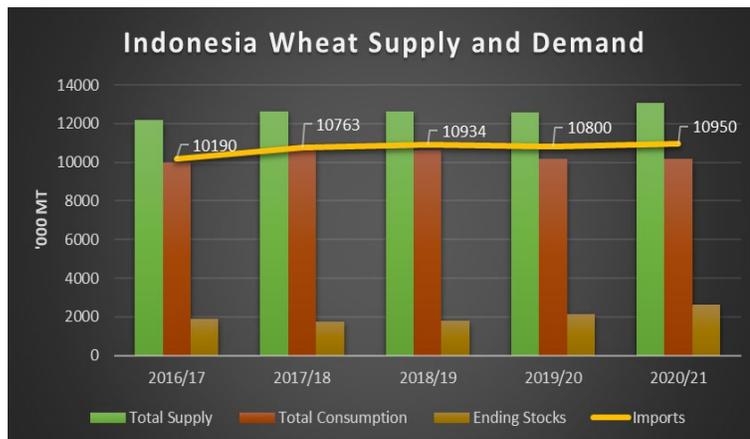
- FOB values for 123.5 pro CWRS in Vancouver fell by \$10.50/mt over the week to \$231.95, well below the \$245.00/ mt of 13.5 DNS in the PNW and just \$4.63/mt more than Russian 12.5 pro.
- Canadian producers delivered 119,800 mt of durum into the system during shipping week 36 for a YTD total of 3.56 million mt, 16% (490,900 mt) more than last year.
- Exports throughout the week were 46,700 mt for a season total of 3.33 million mt, 29% (753,300 mt) more than last year.
- Canadian durum exports will continue to be strong. We have heard rumors that the US durum market is essentially non-existent which could cause additional demand to move towards Canada.
- Stocks in the Eastern terminals continue to grow. There is 166,300 mt of durum sitting in Thunder Bay.



### Feature on Indonesia

Although YTD Canadian exports to Indonesia are 17% lower than last year, Indonesia continues to be the 2<sup>nd</sup> largest customer of Canadian wheat.

- The global economic slowdown caused by the COVID-19 pandemic has led the USDA Post in Indonesia to decrease the outlook for Indonesian wheat imports in 2019/20 by 200k mt to 10.8 million mt (-1% y/y).
- The country has been aggressively expanding its milling capacity, but USDA expects that closures and shutdowns will cause milling to fall by 5% in 2019/20.
- The large expansion of flour mills has led to strong competition in the market. This competition has been the main factor determining the shift in imports to wheat from Ukraine and Argentina. Imported wheat is used to replace high-priced domestic corn in feed rations and to supply the growing demand for high quality milling wheat.
- Canada was the second largest exporter to Indonesia in 2018/19 but has lost market share to Ukraine and Argentina. USDA is expecting imports to rebound in 2020/21 to 10.95 as the population grows. If Canada can maintain an 18% market share, Indonesia will be a ~2.0 million mt market next year.



### US wheat:

- US wheat futures fell week/week on a combination of improving weather conditions in the US and Black Sea and pressure from the very wide corn/wheat spread.
- Winter wheat crop ratings in the US were unchanged at 62% Gd/Ex against 60% last year. Periods of freeze and snow along with worsening dry conditions in KS could cause conditions to fall next week. Six percent of the crop has headed.
- Spring wheat planting in the US is 5% complete, ahead of last year's very slow start, but behind the 9% average.
- US weekly wheat sales were within expectations at 178,300 mt. This brings the YTD season total to just 927 million bushels, 1% ahead of last year (USDA is currently projecting a 5% increase). There are 7 weeks remaining in the 2019/20 marketing year. China has 225,000 mt worth on unshipped old crop and now 455,000 mt worth of new crop having bought an additional 110,000 mt last week. Weekly exports were a marketing year high at 720,900 mt.
- US FOB prices for HRS in the PNW were \$6.00 lower than last week with 13.5 pro bid at \$245.00/mt.

### Australian wheat:

- News was limited in Australia as Aussie futures fell AU\$5. Details on the FOB market were sparse, but reports suggest that prices were strong. The last quotes we received for APW WA were \$8.00 higher than last week at \$283.00/mt

### Argentine wheat:

- Water levels on the Parana River fell to a decade low, forcing Argentina to load fewer ships for China. On Friday, Brazil has agreed to release water at the Itaipu hydroelectric dam to raise the Parana water levels.
- The first case of corona virus in a load ports was detected.
- Planting will start soon. Soil moisture levels are adequate in the main growing regions but are short most everywhere else.

- FOB values were nominally unchanged at \$230.00-\$240.00/mt.

#### **EU wheat:**

- Stratégie grains made an additional cut to 2020/21 EU soft wheat production estimates as sowing conditions in NW Europe are poor. Their current estimate is now 135 million mt, 8% less than last year. Ending stocks at the end of 2020/21 are expected to remain at similar levels as 2019/20 because of the high carry-in.
- Having missed out on any of the rain that gave some relief to European crops, wheat in Germany is in “urgent need of rain”. Current projections for the German crop are for a small increase from 2019/20 to 23.0 million mt.
- French wheat crop ratings fell 1% from last week to a record low of 60% Gd/Ex. This is in stark contrast to the 81% Gd/Ex rating of this time last year.
- FAM raised 2019/20 French wheat exports an additional 200k mt to a record 13.2 million mt.
- Facing significant backlash, the Romanian Gov’t is lifting its April 10 ban on non-EU exports of wheat and food products. The export ban caused the country to miss out on both of GASC’s tenders last week.
- FOB values in the EU were mixed: French 11.5 pro FOB values rose \$1.04/mt, now bid at \$226.20/mt, German 12.5 pro was \$0.62/mt lower at \$230.55/mt while Baltic 12.5 pro values lost \$0.61/mt last week to \$228.92/mt.

#### **Black Sea wheat:**

- There is some rain in the forecast, but Ukraine’s Agro Meteorology Department said that the crop could decline by 20% due to the “extreme drought across the whole of Ukraine”. *This is interesting as a couple weeks ago they said that there was almost zero winterkill and crops looked excellent...*
- FOB prices in Ukraine reached a seasonal high of \$232.00/mt last week. The deputy economy minister in Ukraine reiterated his readiness to ban wheat exports if necessary.
- The Russian AgMin has said that their 7 million mt export quota may run out by mid-May or sooner. If this is the case, they will suspend exports until July 1<sup>st</sup>. Approximately 4 million of the 7 million mt of the all grain quota has been exported and the country is currently exporting at a pace of 1 million mt of grain a week.
- Dry conditions have allowed for Russian spring planting to progress rapidly. As of Apr 10<sup>th</sup>, spring wheat planted area reached 551,900 ha, 4.5% of the 2020 forecasted area.
- FOB values in the Black Sea lost \$1.00/mt last week. Russian 12.5 pro is now bid at \$232.00/mt while feed wheat in Ukraine is bid at \$222.00/mt.
- *Prices today will likely be higher than those posted above as reports surfaced this morning indicate that forecasted rains in the Black Sea will be less than originally expected. This has caused an overnight rally as both Ukraine and Russia continue to be aggressive exporters as traders try to export their share of the pie before restrictions are implemented.*

#### ➤ **Significant purchases/ trades:**

- In two separate tenders, GASC (**Egypt**) bought 360,000 mt of May-June Russian and French wheat at \$249.50-\$252.50/mt.
  - Basis instructions from Egypt’s president, GASC still has 440,000 mt worth of May-June wheat to buy.
- **USA** inspections were 609,000 mt (season total 788 million bushels, up 7%); sales were just 178,000 mt (season total 927 million bushels, up only 1% against the USDA’s 5% increase).
- **EU** shipments rose by almost 2 million mt for an all wheat total 28.2 million mt, up 66% and on course to meet the USDA’s revised 35 million mt annual number.
- The Baltic Handy freight index hit all-time lows.

➤ **Wheat Market Outlook:**

**Significant events:**

- **India will export 50,000 mt of wheat to Afghanistan and 40,000 mt to Lebanon** in diplomatic deals.
- **Domestic wheat procurement in India is running at just 40% of normal pace** due to a COVID-19 induced labor shortage.
- **May CBOT corn futures hit the lowest level for a nearby corn contract in 3.5 years.** The focus continues to be on the collapsing ethanol prices and reports of US meat plants closing. Fears continue to grow that wheat demand will be lost to cheap corn supplies.
- All feed grain prices were lower. **Public pressure to close meat plants in Canada, like Cargill at High River is building.**
- **Local heavy rain is falling on Eastern Morocco.** At times heavy rain and wind accompanied by localized hail and thunderstorms is giving relief to the parched ground. Reports indicate the rain will be beneficial to crops that are still green like late planted cereals.
- **Weather Around the World:**
  - Rain in the **USA** will stay confined to the south-east and Gulf States in the early part of the week, but the Plains should see some significant showers by next weekend. Temperatures will remain cool but turn progressively warmer. **Europe:** Weekend rain was essentially limited to **Western France, Iberia** and the **Mediterranean** coast, and the coming week keeps rain in the southern half of the continent leaving the northern half almost completely dry. **Russia** will see some showers, but they will be light, and **Ukraine** has almost none. Temperatures will be near normal in the west but well below in the east and **Black Sea.** **Southern Brazil** and **Argentina** look completely dry for the first half of the week, but Argentina can expect some showers by next weekend. Brazilian temperatures remain below normal, but Argentina is turning progressively warmer. **Australia** has a chance of a few showers in the south-east but otherwise remains dry. *Overall weather is quite conducive to crop development.*

➤ **Outlook:**

Weather will remain the primary focus for the next few weeks, but demand will continue to struggle in all sectors (food, feed and EU ethanol). Funds still need to get out of their wheat long. The surplus of corn will remove wheat from feed rations. **We continue to recommend liquidating old crop stocks but hold new crop for the present.**

**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	\$6.19	\$227.45	1 CWRS 13.5	\$6.28	\$230.75
1 CWAD 13.0	\$7.83	\$287.71	1 CWAD 13.0	\$7.77	\$285.50
1 CPSR 11.5	\$5.71	\$209.81	1 CPSR 11.5	\$5.72	\$210.18
SW Sask			SW Sask		
1 CWRS 13.5	\$6.07	\$223.04	1 CWRS 13.5	\$6.15	\$225.98
1 CWAD 13.0	\$7.79	\$286.24	1 CWAD 13.0	\$7.74	\$284.40
1 CPSR 11.5	\$5.62	\$206.50	1 CPSR 11.5	\$5.64	\$207.24
NE Sask			NE Sask		
1 CWRS 13.5	\$5.91	\$217.16	1 CWRS 13.5	\$6.02	\$221.20
1 CWAD 13.0	\$8.16	\$299.83	1 CWAD 13.0	\$8.05	\$295.79
1 CPSR 11.5	\$5.45	\$200.25	1 CPSR 11.5	\$5.51	\$202.46
SE Sask			SE Sask		
1 CWRS 13.5	\$5.96	\$218.99	1 CWRS 13.5	\$6.02	\$221.20
1 CWAD 13.0	\$8.13	\$298.73	1 CWAD 13.0	\$8.05	\$295.79
1 CPSR 11.5	\$5.39	\$198.05	1 CPSR 11.5	\$5.46	\$200.62

**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 Basis<sup>1</sup> (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)

---

<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.”

- 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 20, 2020
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)
DNS 14.0	\$370.33	\$325.91		
HRS	\$363.68			
HRW 11.5	\$341.92			
SWW 12.0	\$324.88			
1 CWRS 13.5 <sup>3</sup>	\$370.33		\$227.08	\$143.25
2 CWRS 13.0 <sup>3</sup>	\$363.68		\$205.03	\$158.65
3 CWRS <sup>3</sup>	\$341.92		\$171.96	\$169.96
CPS <sup>3</sup>	\$317.65		\$216.05	\$101.59
1 CWAD <sup>4</sup>		\$396.93	\$312.32	\$84.61
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$232.00			
French 11.5 (Rouen)	\$226.20			
APW 10.5 (W Coast)	\$283.00			
Argentine 12.5	\$230-\$240			
<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				

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

## ADENDUM

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

Canadian Wheat - World Price Parities					April 20, 2020
Canadian Funds			Grade		
<b>PNW value/Vancouver</b>	<b>1CWRS13.5</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
May/June delivery	\$9.88	\$9.70	\$9.11	\$8.64	\$8.64
<b>Parity Track Rosetown</b>	\$8.39	\$8.20	\$7.61	\$7.15	\$7.15
<b>Track Bid Rosetown Area</b>	<b>\$6.18</b>	<b>\$5.58</b>	<b>\$4.68</b>	<b>\$5.88</b>	<b>\$5.88</b>
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$2.21</b>	<b>\$2.62</b>	<b>\$2.93</b>	<b>\$1.27</b>	<b>\$1.27</b>
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$81.04</b>	<b>\$96.43</b>	<b>\$107.75</b>	<b>\$46.61</b>	<b>\$46.61</b>
* to cover elevation, elevator market risk, margin					