

Wheat Market Outlook and Price Report: August 24, 2020
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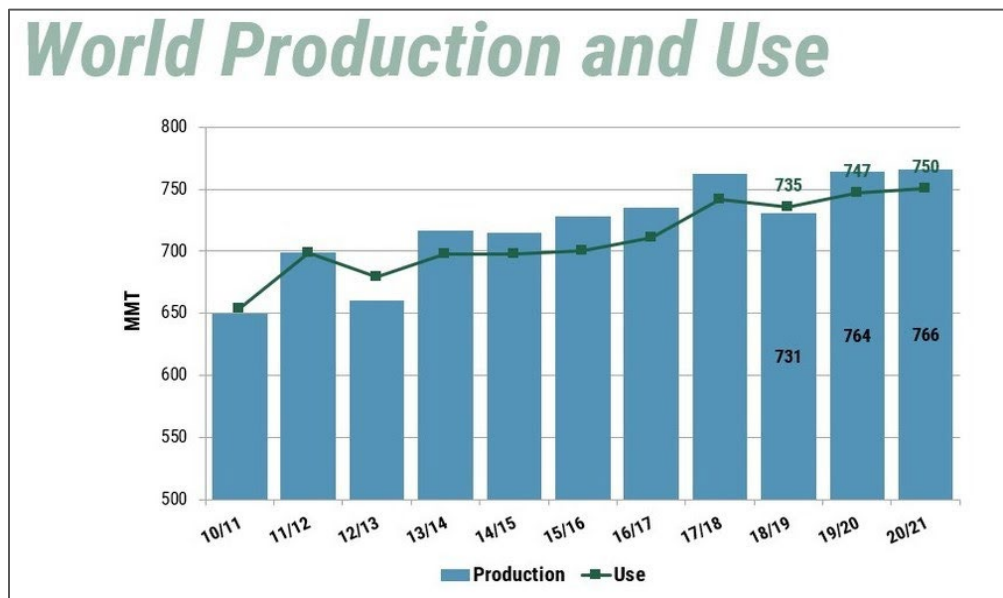
i) Background and Rationale for the Report

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 August 24, 2020

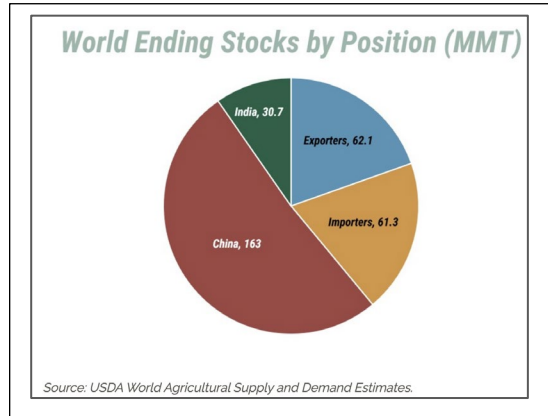
World Wheat Production and Use Summary¹:



- USDA projects **global wheat production to hit another record of 766 million mt.**
- USDA expects increases in Australia, Russia, Argentina, Canada and other countries to offset lower production in the European Union and the United States.
- Global use continues to increase, and USDA expects it to reach another record in 2020/21 at 750 million mt.

¹ Based on USDA-WASDE data.

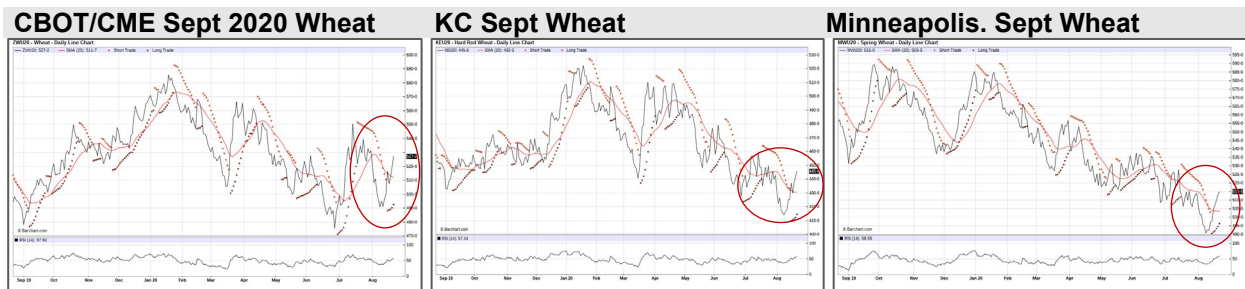
- **Global ending stocks** are now projected at a record level of 317 million mt. If realized, that volume would be 5% more than 2019/20 and 14% more than the 5-year average.
- China's record 2020/21 beginning stocks of 152 million mt could increase through the marketing year to end at 163 million mt and USDA expects India to hold a record level of 30.7 million mt at the end of 2020/21. China will not export any of its stocks. India, however, may start exporting as it has periodically when its subsidized production exceeds its ability to store and distribute it domestically.



➤ **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:** Sept. '20 contract **Chicago winter wheat** closed at 527-2, up 7-6 cents on Friday, *up 27-2 cents for the week.*
Sept '20 contract **Kansas hard red winter wheat** closed at 445-6, up 4-2 cents in Friday's trade, *up 20-4 cents for the week.*
Minneapolis Sept. '20 contract **hard red spring wheat** closed at 515-0, up 1-6 cents in Friday's trade, *up 17-6 cents for the week.* Dec. '20 hard red spring wheat closed at 529-0 up 1-4 cents on Friday, *up 16-8 cents for the week.*



- **Futures market summary:** Technical short covering supported all wheat futures prices during last week.

Canadian Wheat:

- The spring wheat and durum harvests on the Canadian Prairies are just starting, with few actual harvest results so far.
- Shipments of Canadian wheat is off to a decent start with 937,000 mt loaded during the first two weeks of the crop year. Hopefully the opening of the new G3 terminal along with CN commitments of increased rail capacity will help keep wheat exports more lively this crop year.
- While global 'spring wheat' production could be down slightly (depending on Canadian harvest results), overall world wheat stocks are growing, both in total

(CGC) Grain Handling Summary Wheat			Wk. 2	(Aug. 16/'20)
'000 mt)	Prod. Divrs.	Terminal	Bulk exports	Dom.
		Rcpts.		Disappearance
Wk. 2	367.6	594.4	513.2	153.4
Week ago	428.4	666.1	423.9	55.1
YTD	790.7	1,276.0	937.0	208.9
Last YTD	575.3	818.6	822.8	187.4
YTD less Last YTD	215.4	457.4	114.2	21.5
YTD over Last YTD	137%	156%	114%	111%

Mercantile based on weekly CGC Handling Data

(excluding China), or just for the seven major exporters. In addition, there are probably further increases in estimated crop forthcoming from Russia and Canada. This will make it tough to move prices higher, especially as Russian farmers are starting to move wheat into the market.

- Markets will continue to be under harvest pressure, and there is no real driver for a sustained rally. *However, we would wait on grain sales for the present; we expect better prices in the short term while the market sorts out the corn/ feed grains situation.*

• **Canadian values Saskatchewan basis world price bids**

23-Aug-20	aug	aug	aug	aug	aug	aug	aug	aug	aug	aug	aug
Current world price values usfnt	USA DNS 14 PRO	hrw ords	durum low	2cws 12.5 pro	3cws 300 hag	feed wht	malt bly	feed barley	peas	canola	soybeans
price value equal fob vancouver variable usfnt	price bid	price bid	\$260.00							fob vncvr	fob PNW
price value equal fob vancouver variable usfnt	\$230.73	\$214.19		\$220.00	\$208.00	\$200.00	\$210.00	\$180.00	\$265.00	\$401.80	\$357.48
exchange variable	0.7591	0.7591	0.7591	0.7591	0.7591	0.7591	0.7591	0.7591	0.7591	0.7591	0.7591
value in Canadian funds per tonne	\$303.94	\$282.16	\$342.50	\$289.81	\$274.00	\$263.46	\$276.64	\$237.12	\$349.09	\$529.30	\$470.91
per bushel	\$8.27	\$7.68	\$9.32	\$7.89	\$7.45	\$7.17	\$7.53				
minus backoff cost to track country elevator											
port loading at cost			\$8.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00
rail freight basis 112 cars basis Saskatoon/Rosetown			\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00
rail freight country to vncvr			\$25.00								
storage and interest max 60 days			\$1.00	\$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	\$2.50
country elevation at cost			\$8.00	\$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	\$49.50
net value can \$			\$298.00	\$240.31	\$224.50	\$213.96	\$227.14	\$187.62	\$299.59	\$479.80	\$421.41
Estimate value per bushel track country elevator Can\$			\$8.11	\$6.54	\$6.11	\$5.82	\$6.18	\$4.08	\$8.15	\$10.88	\$11.47
theoretical old cwb price basis \$60.00 backoff to SK basis current world price			\$6.26	\$5.82	\$5.54	\$5.90	\$3.89				
canadian company track bids											
Mkt value where Elevator bids shud be Saskatoon/Rosetown				\$6.00	\$5.75	\$5.40	\$5.75	\$3.60	\$7.75	\$10.50	\$11.00
weyburn area basis 2cw or better premiums basis lower frt to vncvr			\$7.60								
elevator margin above costs		avg margin	durum	2cws 12.5 pro	3cws	feed wht	feed wht	feed barley	peas	Canola	soybeans
Grain Company estimated margin over elevations at cost			\$18.78	\$19.87	\$13.25	\$15.57	\$15.88	\$17.81	\$14.85	\$16.81	\$17.27

- Durum:** The Canadian durum harvest is just starting. Very early yields in southern Saskatchewan looked mixed.
- Canadian export durum shipments for week 2 were small at only 16,000 mt.
- US durum: Harvest is moving into full swing with North Dakota 13% complete and Montana 20%.

(CGC) Grain Handling Summary Durum			Wk. 2	(Aug. 16/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom.
				Disappearance
Wk. 2	56.9	76.2	16.2	3.2
Week ago	54.3	108.5	166.8	2.5
YTD	111.4	184.9	183.0	5.8
Last YTD	149.4	290.8	210.4	16.8
YTD less Last YTD	-38.0	-105.9	-27.4	-11.0
YTD over Last YTD	75%	64%	87%	35%

Mercantile based on weekly CGC Handling Data

Ratings for the northern durum crop are holding steady for North Dakota at 65% Gd./Exc. and have increased for Montana from 50% to 60%.

- NASS is estimating '20/21 **US durum production** at 61.790 million bu (2.27 million mt), up 11% from their previous forecast. Production gains are attributable to significant yield gains for Montana and North Dakota, where timely rains helped to lift yields per acre by 4.0 and 5.0 bu/acre, respectively, from the previous projection. The US all-durum wheat yield forecast is 42.8 bu/ac, a 4.3 bu/ac increase for the July forecast, but down nearly 3 bushels from 2019.
- International demand prospects for durum look positive and should roughly match the demand seen during 2019/20. A large durum crop will weigh on the market, but thanks to lower ending stocks the Canadian balance sheet is not overly burdensome.*

US Wheat:

- US harvest progress:** The **HRW** harvest is winding down with less than 10% remaining. The **SRW** harvest is complete and all samples received; final quality results still to come. The **SW** crop is progressing quickly with protein, moisture and test weights looking very good. **HRS** and northern **durum** harvests are advancing, with about 45% of HRS and 20% of durum harvested. Local reports indicate sound quality, though yield variability due to early environmental stresses.
- Total U.S. spring wheat crop ratings remained steady at 70% Gd./Exc. as of Aug. 17th.

- The ProFarmer tour's results were a 177.5bu/ac corn yield, which is well below the USDA's 183 bu/ac, citing dryness in the Western Corn Belt and damage from the "derecho" storm. The trade did not seem to put too much stock into their figures and are back to watching the weather for the last few weeks of grain fill for corn/soy.
- USDA's weekly Export Sales report showed that 522,964 MT of wheat sold on the week ending August 13 versus expectations of 300,000 to 600,000 mt sales. That was 42% above last week but down 12% yr/yr.
- Gulf HRS and HRW and PNW HRS and HRW export basis levels jumped significantly last week for September and October deliveries due to limited export elevation capacity as US corn and soybean exports to China continue to ramp up.
- *Note that the rally in futures lifted HRW \$6-8/mt above EU 12.5 pro FOB wheat values by the close and almost \$20 above Russian, and this will likely again price US wheat out of any fresh incremental demand.*
- The FOB value for 13.5 pro HRS in the PNW for September increased by \$6.00/mt from last week to \$252.00/mt, while PNW White wheat dropped by \$2.00/mt to \$225.00/mt.

Australian wheat:

- Australia was dry last week except for just light showers in the far SE corner.
- September is a key month for the Australian wheat crop both in terms of precipitation and temperatures.
- Australian wheat futures ended the week little changed and barely reacted to the 35-40¢/bu run-up in US futures over the last two weeks.
- December (new crop) APW is worth around \$230.00/mt FOB Western Australia.

Argentine wheat:

- Argentina was completely dry and very cold with widespread frosts.
- In its weekly report, the BAGE again talked of the problems with dryness in Argentina and cited ongoing declining yield potential particularly in the north, but did not alter their production estimate of 21 million mt. The forecast maintains dryness for the next week except for a few showers in the east. There was no reported change to Argentine FOB values.
- Argentine 11.5 pro wheat rose \$5-7/mt to \$198-205/mt, plus \$2 per half point of protein and \$2 per month carry.

EU wheat:

- Europe had near normal precipitation except France and Spain, which were dry.
- Matif rose €3-5.50/mt over the week.
- There were early week rumours of more volume sales of French wheat to China, but besides China France has just 120,000 mt of wheat vessels in the current line-up.
- FOB values in the EU were mixed by the end of the week. French 11.5 pro wheat dropped by \$1.09/mt to US\$221.11/mt, but German 12.5 pro rose \$1.63/mt from last week to \$216.73/mt. UK 11.0 pro rose \$4.02/mt, now at \$240.86.

Black Sea wheat:

- Russian wheat yields continued to show ever higher final production potential.
- There is some concern that basis current Australian prices, Russian demand into Asia will fall sharply from January onward.
- Nearby cash values for Russian wheat were ill-defined, forward bids were higher with Russian 12.5 pro wheat at \$204/mt and November at \$206, less \$2-3/mt for 11.5 pro and a further \$2- 3 for feed.
- The Ukraine put a 17.5 million mt export cap for '20/21 wheat exports. The cheapest offer to Pakistan was Ukrainian wheat and reflected just \$194/mt FOB.

➤ **Significant purchases/ trades:**

- **Algeria** bought 560,000 mt of wheat for October at \$231-232/mt.

- The cheapest offer at **Pakistan's** 1.5 million tonne tender was \$233.85/mt CIF, but there are no results yet. - It seems unlikely that Pakistan will buy anywhere near the 1.5 million mt they tendered for.
- USA weekly inspections were 462,000 tonnes (season total 207 myn bushels up 2%), sales were 523,000 tonnes for a season total 408 myn bushels, up 7% on last year.
- There were rumours of HRW sales to China early in the week, but this was not confirmed, and it likely relates to some French wheat sold to China.

➤ **Wheat Market Outlook:**

Significant events:

- Although futures prices were higher, there was no shortage of offers for cash business as harvest pressure mounted. In our view, it's going to be tough to get much of a cash rally at this time.
- There were some late week reports of frost damage in Argentina alongside talk of possible demand from Brazil for US wheat.

➤ **Outlook:**

There are still some uncertainties about production in the Southern Hemisphere, and we are still waiting for the first real Russian spring wheat yields. But assuming normal weather in the Southern Hemisphere, wheat remains a market that lacks any element to drive it to a sustained rally, particularly as harvest pressure mounts and nearby demand is lackluster.

There is little change to the overall picture and the wheat market is still looking for more demand.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 24-08-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct.'20 (bu.)	Oct.'20 (mt)
1 CWRS 13.5	\$5.87	\$215.69	1 CWRS 13.5	5.83	\$214.22
1 CWAD 13.0	\$7.59	\$278.89	1 CWAD 13.0	7.62	\$279.99
1 CPSR 11.5	\$5.11	\$187.76	1 CPSR 11.5	5.11	\$187.76
SW Sask			SW Sask		
1 CWRS 13.5	\$5.98	\$219.73	1 CWRS 13.5	5.95	\$218.63
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	7.36	\$270.44
1 CPSR 11.5	\$5.24	\$192.54	1 CPSR 11.5	5.24	\$192.54
NE Sask			NE Sask		
1 CWRS 13.5	\$5.89	\$216.42	1 CWRS 13.5	5.85	\$214.95
1 CWAD 13.0	\$7.60	\$279.25	1 CWAD 13.0	7.62	\$279.99
1 CPSR 11.5	\$5.17	\$189.97	1 CPSR 11.5	5.14	\$188.86
SE Sask			SE Sask		
1 CWRS 13.5	\$5.87	\$215.69	1 CWRS 13.5	5.83	\$214.22
1 CWAD 13.0	\$7.59	\$278.89	1 CWAD 13.0	7.62	\$279.99
1 CPSR 11.5	\$5.11	\$187.76	1 CPSR 11.5	5.11	\$187.76

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/mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mt, 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*

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.

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) \approx 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) \approx 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific North West (PNW) \approx 3 CWRS in Vancouver
 - SW (lowest price wheat) \approx CPS red (mostly fed domestically)
 - HAD (Lakes) \approx 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 year-to-date (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.

“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.”

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				24-08-2020
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	\$309.16	\$380.61		
HRS	\$301.87			
HRW 11.5	\$285.82			
SWW 12.0	\$266.87			
1 CWRS 13.5 ³	\$309.16		\$217.89	\$91.27
2 CWRS 13.0 ³	\$301.87		\$197.68	\$104.18
3 CWRS ³	\$285.82		\$179.31	\$106.51
CPS ³	\$260.06		\$190.33	\$69.73
1 CWAD ⁴		\$373.81	\$255.74	\$118.07
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$203.00	August		
French 11.5 (Rouen)	\$221.11	August		
ASW 10.5 (W Coast)	\$230.00	December		
Argentine 12.0		August		

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				24-08-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.03	\$7.59	\$5.35	\$5.35
Parity Track Rosetown	\$6.53	\$6.10	\$5.58	\$5.58
Track Bid Rosetown Area	\$5.38	\$4.88	\$5.18	\$5.18
Gross Margin at Elevator (\$/bu)*	\$1.15	\$1.22	\$0.40	\$0.40
Gross Margin at Elevator (\$/mt)*	\$42.39	\$44.72	\$14.74	\$14.74

* to cover elevation, elevator market risk, margin