

## Wheat Market Outlook and Price Report: February 18, 2020

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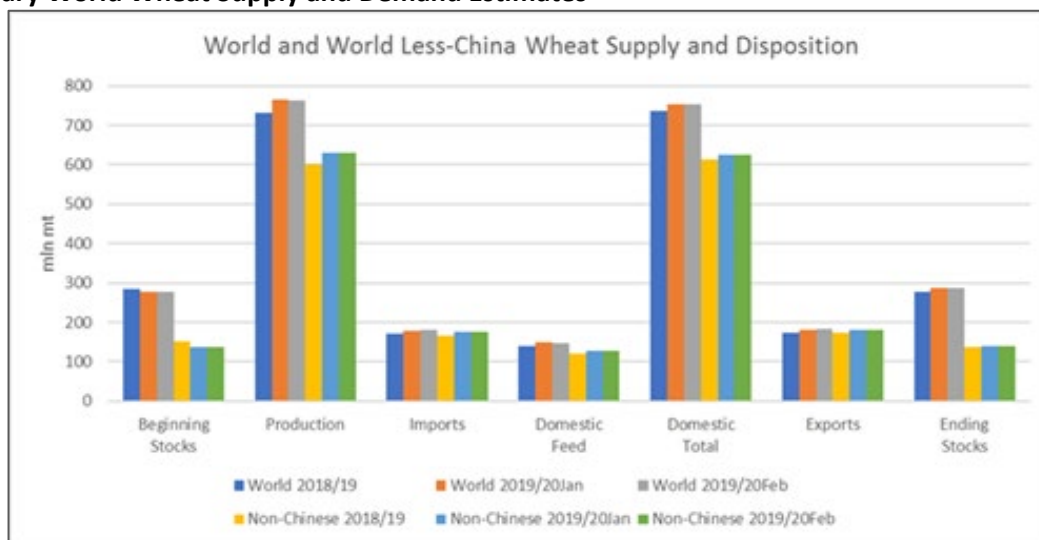
### **i) Background and Rationale for the Report**

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 February 11<sup>th</sup>, 2020**

#### USDA February World Wheat Supply and Demand Estimates



- **There was little fresh input from last Tuesday's the USDA report** and the trade will now look to the USDA Outlook Conference at the end of this week for more insights.
- **World production was marginally lower** (440,000 mt), which was partially offset by higher (210,000 mt) beginning stocks.
- **Global exports were raised by 1.75 million mt** from a 1 million mt increase in the EU, an 800,000 mt increase in Kazakhstan and a 700,000 mt increase in the US. Slightly offsetting these increases was a 500,000 mt decrease in Canadian exports.
- **Global stocks fell 50,000 mt from the January estimate to 288.03 million mt** (the trade was expecting 288 million). Non-Chinese stocks fell 900,000 mt to 139.77 million mt.

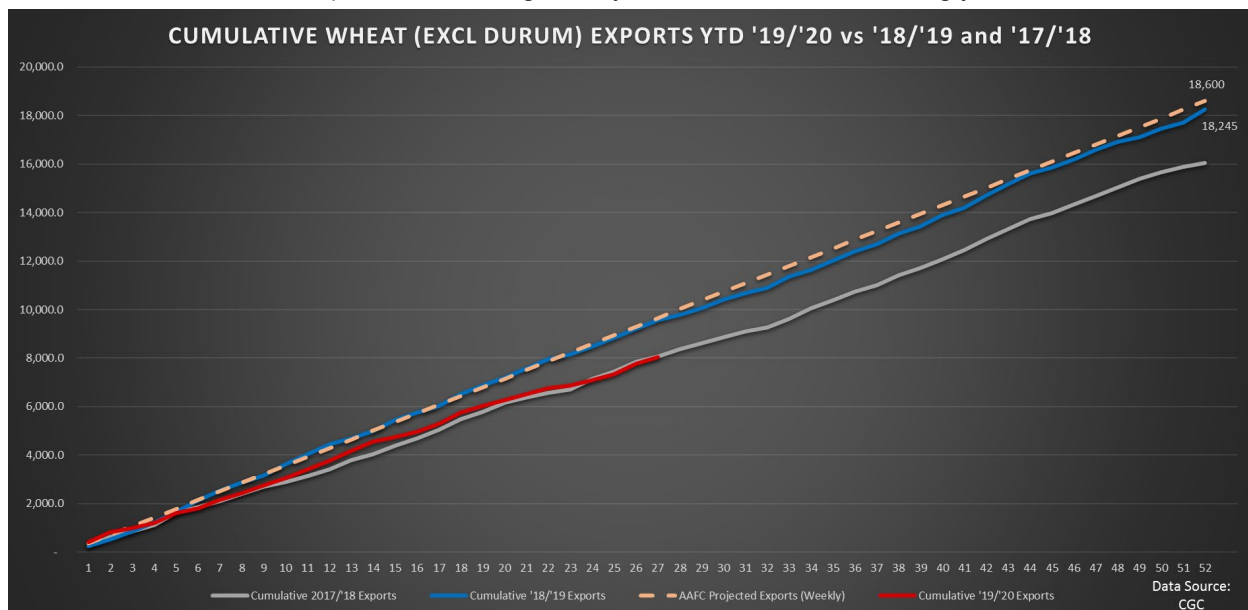
➤ **Global wheat production and trade:**

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 '20 contract **Chicago** winter wheat closed at 542-6, down 1-4 cents for the day, *down 15-6 cents for the week.*
- Mar '20 contract **Kansas** hard red winter wheat closed at 465-4, down 0-4 cents for the day, *down 6-4 cents for the week.*
- In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 525-2, down 1-4 cents for the day, *down 10-2 cent for the week*, while May '20 hard red spring wheat closed at 535-4, down 0-6 cents for the day, *down 10-0 cents for the week.*

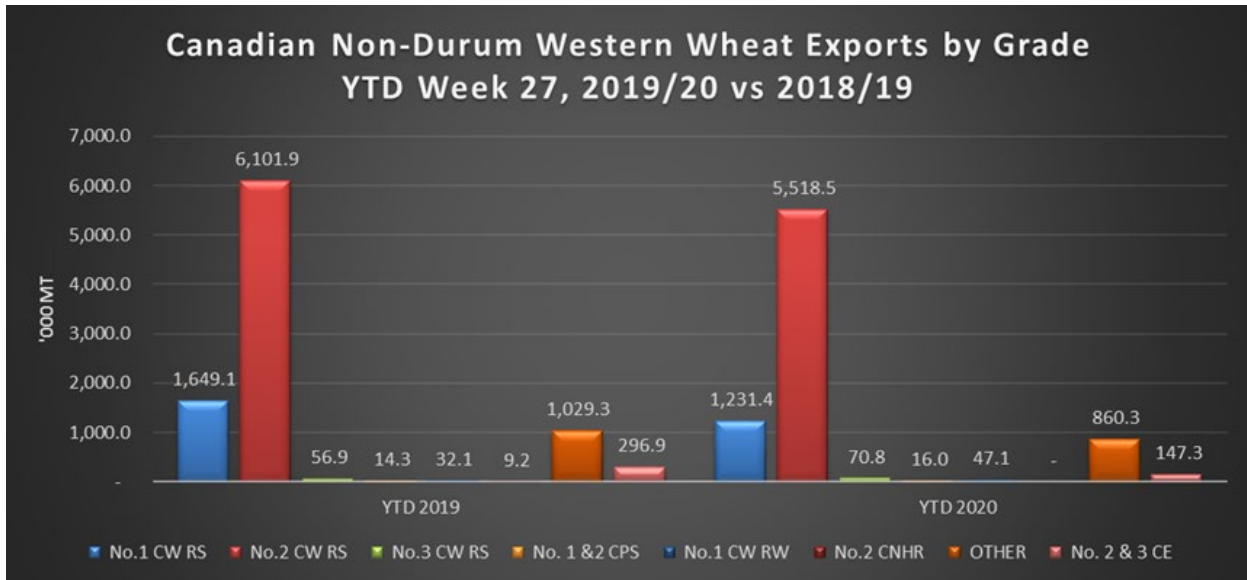
**Canadian Wheat:**

- Canadian producers delivered 450,400 mt of wheat during week 27 ending Feb 9<sup>th</sup>. Total deliveries are now at 11.11 million mt, down 5% (550,000 mt) from last year.
- Exports throughout the week were 38% less than last year at 279,000 mt, well below the 417,000 mt of average weekly sales needed to reach AAFC's 18.6 million mt estimate. Year-to-date total exports are now 8.15 million mt, 15% (1.45 million mt) less than last year. As per the graph, Canadian wheat exports are tracking closely with the 2017/18 marketing year.

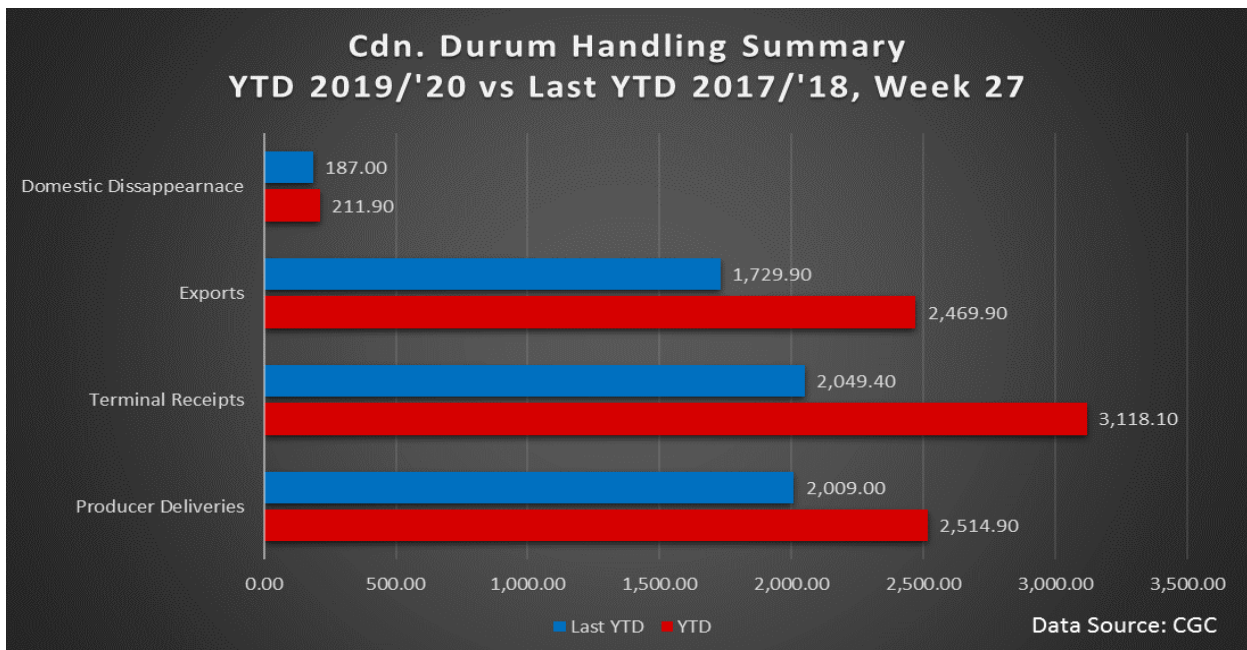


- Canadian exports are being defeated in the Southeast Asian markets by Argentina. Almost half of the 5.5 million mt of wheat exports that Argentina shipped in Dec-Jan have gone to the Asian market.

- We have said for a while now that the variable quality of the Canadian wheat crop required exporters to be more creative in finding export markets for wheat other than the traditional No. 1 and 2 CWRS. Year-to-date, there have been small, largely insignificant increases in exports of No. 3 CWRS, CPS, and winter wheats.



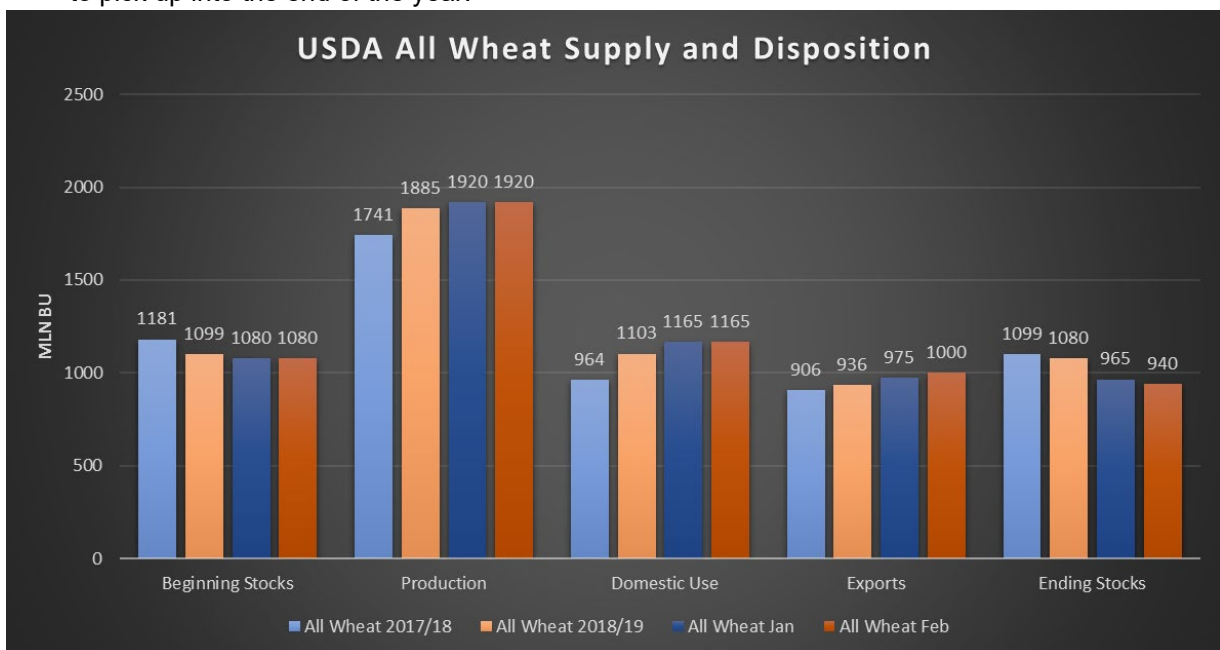
- Korea bought May-Jun Canadian feed wheat at \$248.35 (it's about time; this price figures about C\$7.40/bushels track Vancouver).
- Canadian producers delivered 93,900 mt of **durum** into the system during week 27 for a year-to-date total of 2.5 million mt, up 25% (506,000 mt) from last year.
- Exports throughout the week were 28,400 mt for a season total of 2.5 million mt, 43% (740,000 mt) more than last year. Durum exports seasonally start to pick up in late January (when the seaway reopens) and peak in early May. The current export pace is on track to meet AAFC's 4.8 million mt export estimate.



- While rail blockades are hampering grain movement, Canadian wheat arriving at the port of Vancouver last week was just half of the week previous: a further blow to the already lagging Canadian grain system. There is currently little being done to resolve the protests as there are reports of some elevators halting movement and/or purchasing until rail movement resumes.
- We continue to think tightening supplies in the durum market will see more price improvement for durum. For HRS, we didn't see an increase in rail car supply even before the blockades began. These blockades and the resulting backlog will not encourage country elevators to improve bids.

**US wheat:**

- US sales were above trade's expectation at 643,000 mt for a season total of 805 million bushels. As the US govt was on strike this time last year, we do not have last year's number to compare with, our guess is US sales are roughly 17% higher year-over-year. Thirty-six percent of last week's sales were HRW while HRS made up 30% of the sales. The seasonal trend is for US wheat exports to pick up into the end of the year.



- The only changes in the US wheat balance sheet was a 25 million bushel increase in exports (mostly in HRS) to 1 billion bushels, 7% more than last year. Ending stocks were respectively 25 million bushels lower at 940 million bushels, 12 million bushels below trade guesses and the lowest level in 5 years.

- Fifteen million mt of the USDA's decrease in US wheat ending stocks was in the HRS class, HRS ending stocks of 249 million mt are still large which will stifle MGE spring wheat futures and will prevent US imports of Canadian HRS to improve significantly.



**Australian wheat:**

- Aussie futures fell AU\$7 from last week on weakness in the world markets and heavy rain which continues to refill depleted water sources.
- USDA left the Aussie wheat S&D essentially unchanged.
- ABARES yesterday decrease Aussie production estimates to 15.17 million mt (the lowest level since 2008) vs their previous estimate of 15.85 million mt. This is against the USDA's unchanged number of 15.6 million mt. Most private estimates are closer to 15 million mt.
- FOB values lost \$5.00/mt from last week, now bid at 260.00/mt.

**Argentine wheat:**

- Official Fob prices in Argentina were unchanged from last week at \$240.00/mt plus an additional \$3-6/month carry but the market is largely non-existent.
- New crop sales rose 200,000 mt to 15.8 million mt (1.8 million mt last year). Exporters own 14.1 million mt of this against licences of 12 million mt (licences have not changed since late December).
- Argentine February exports were a record high of 3.5 million mt, taking the Dec-Jan total to 5.5 million mt. A significant portion of this went to Southeast Asian countries.

**EU wheat:**

- The second update of French 2020/21 wheat area confirmed initial guesses of a 5.6% decline in soft wheat area.
- The soft wheat crop in France lost further condition and is now 65% Gd/Ex, 20% below last year.
- Stratégie Grains reduced EU 2020/21 wheat production further to 138.6 million mt.
- France is having on-going issues with sourcing wheat against an already large export program. French premiums are a record +5.50k
- French 11.5 pro FOB values fell \$1.84/mt from last week to \$2216.34/mt. German and Baltic 12.5 pro values also fell \$1.21 from last week to \$221.34/mt and \$220.26/mt respectively.

### Black Sea wheat:

- USDA left Russian export estimates at 36 million mt which is upwards of 4 million mt too high.
- The lack of snow in the Black Seas has winter crop exposed to frost. Barring a freeze (which is not in the current forecast), Black Sea winter crops look very good. According to Reuters, 80% of Ukraine's winter crop is in excellent condition.
- Spring sowing in the Black Sea will be early because of the warm weather. Russian analysts are indicating that the early sowing may cause farmers to need cash sooner which will add selling pressure to the market.
  - *The excellent Black Sea crop will more than offset the reduction in EU production. Forecasts are for an overall decrease in the price of wheat in Europe in 2020/21.*
- Egypt (GASC) bought 360,000 mt of wheat equally shared between Russia and Romania. Traded prices were \$239.25-\$239.55, more than \$6 less than their last purchase
- Fob values in the Black Sea fell another \$3.00/mt from last week with Russian 12.5 pro bid at \$220.00/mt and Ukrainian feed at \$217.00/mt.

### ➤ Significant purchases/ trades:

- **Algeria** bought 660,000 mt April position wheat at \$238.00.
- **Egypt** (GASC) bought 360,000 mt of Black Sea wheat at \$239.50.
- **Jordan** bought 60,000 mt of LH August position wheat at \$224.00.
- **Korea** bought Canadian May to June position feed wheat at \$248.35.
- **US** inspections were 524,000 mt for a season total of 631 million bushels while sales of 643,000 mt create a season total of 805 million bushels.
- **Jordan** is tendering for 120,000 mt of September to October position wheat
- **Turkey** is tendering for 250,000 mt of soft wheat and 50,000 mt of durum.

### ➤ Wheat Market Outlook:

#### Significant events:

- All wheat futures fell week-over-week on **USDA's latest global supplies forecast**, technical selling and a firmer U.S. dollar. Soft red winter lost 16 cents to end at \$5.43/bu. Hard red winter fell 7 cents to close at \$4.65/bu. Hard red spring lost 10 cents to end at \$5.25/bu.
- The February 11 **Drought Monitor** reported increased dryness in western Kansas and eastern Colorado. Heavy precipitation in the PNW alleviated dry areas in northeastern Oregon, southeastern Washington and the Idaho Panhandle. Moderate precipitation helped reduce dry areas in north central Texas. Looking ahead, moderate to heavy precipitation is expected to help reduce dryness from central Oregon to central Washington. Dry weather and colder temperatures are expected across the Southern Plains.
- According to AgriCensus, **protests in Canada** over a natural gas pipeline have delayed or halted hundreds of trains, disrupting shipments of grain to western ports. "Not only do these bottlenecks hurt farmers' incomes but they also hurt Canada's reputation as a reliable grain supplier. Situations like this put Canada at risk of losing out on export opportunities to our competitors," said Todd Hames, Alberta Wheat Commission chairman.
- **Weather Around the World:**
  - Dryness in central **Brazil** should give way to near normal rainfall this week with cool temperatures. **Argentina** also looks cool, but precipitation is again concentrated in the north and east leaving the south and west dry. The **USA** is turning progressively drier but with ongoing heavy rain in the south-east. Temperatures overall remain a little cooler than normal but with no real threats. There will be much above normal temperatures across the whole of **Europe** and the **Black Sea**, with any precipitation confined to the northern half of the continent. Snow cover is completely absent except for Eastern Ukraine and Western Russia.

➤ **Outlook:**

While China remains absent from the US demand picture, time is running out before users start switching to the cheaper new crop supply. As we approach new crop, weather in the N Hemisphere becomes more important. For now, winter crops look excellent.

Bids in Canada are going to track sideways until (if ever) movement picks up...after the rail barricades are cleared and the resulting backlog passes through the system. Time is running out for shipments to catch up on exports previously missed. **Old crop at \$7.00 per bushel or better for 2CWRS in SK should be sold.** As there is strong selling at these levels, the upside past \$7.00 is limited. We hope you followed our earlier advice to sell current crop and hedge some new crop acres.

**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)		Apr. '20 (bu.)	Apr. '20 (mt.)
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$7.39	\$271.54	1 CWAD 13.0	\$7.47	\$274.48
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SW Sask			SW Sask		
1 CWRS 13.5	\$6.16	\$226.34	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$7.41	\$272.27	1 CWAD 13.0	\$7.51	\$275.95
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
NE Sask			NE Sask		
1 CWRS 13.5	\$6.01	\$220.83	1 CWRS 13.5	\$6.18	\$227.08
1 CWAD 13.0	\$7.48	\$274.85	1 CWAD 13.0	\$7.60	\$279.25
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SE Sask			SE Sask		
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	\$6.23	\$228.92
1 CWAD 13.0	\$7.55	\$277.42	1 CWAD 13.0	\$7.71	\$283.30
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 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)

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<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				February 18, 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	\$355.93	#VALUE!		
HRS	\$349.82			
HRW 11.5	\$313.83			
SWW 12.0	\$312.85			
1 CWRS 13.5 <sup>3</sup>	\$355.93		\$225.61	\$130.33
2 CWRS 13.0 <sup>3</sup>	\$349.82		\$196.21	\$153.60
3 CWRS <sup>3</sup>	\$313.83		\$153.96	\$159.87
CPS <sup>3</sup>	\$306.00		\$194.74	\$111.25
1 CWAD <sup>4</sup>		#VALUE!	\$284.77	#VALUE!
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$220.00			
French 11.5 (Rouen)	\$216.34			
APW 10.5 (W Coast)	\$260.00			
Argentine 12.5	\$225-\$235			
<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: The Great Lakes are closed, thus there are no bids posted were #VALUE is shown. \*

## ADDENDUM

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

Canadian Wheat - World Price Parities					February 18, 2020
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.50	\$9.33	\$8.35	\$8.33	\$8.33
Parity Track Rosetown	\$8.00	\$7.84	\$6.86	\$6.83	\$6.83
Track Bid Rosetown Area	\$6.14	\$5.34	\$4.19	\$5.30	\$5.30
Gross Margin at Elevator (\$/bu)*	\$1.86	\$2.50	\$2.67	\$1.53	\$1.53
Gross Margin at Elevator (\$/mt)*	\$68.49	\$91.76	\$98.03	\$56.27	\$56.27

\* to cover elevation, elevator market risk, margin