

Wheat Market Outlook and Price Report: March 2, 2020
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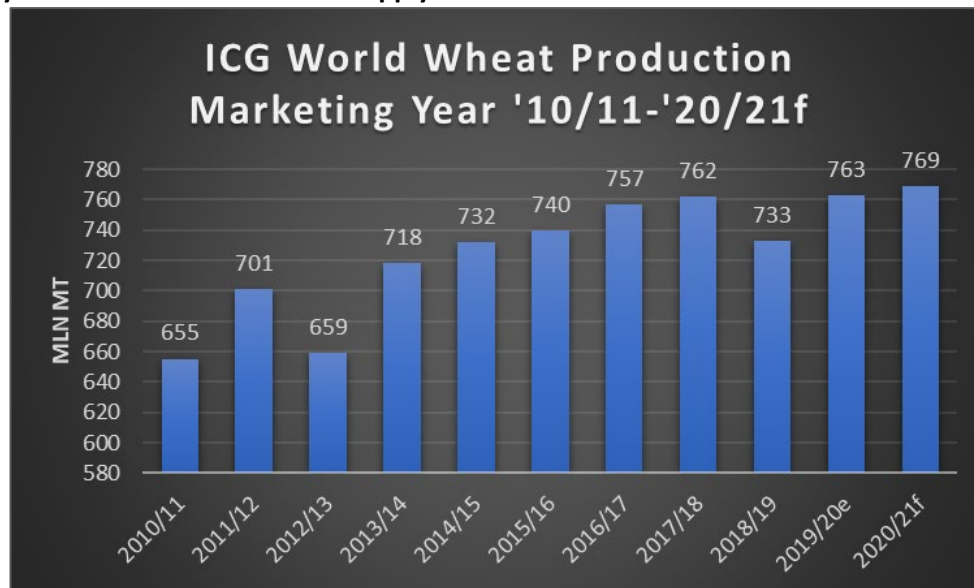
i) Background and Rationale for the Report

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 27th, 2020

ICG February Estimates of World Wheat Supply



- In their latest update on Feb 27th, ICG increased 2019/20 production by an additional 2 million mt to 763 million mt.
- Higher 2019/20 trade, but lower consumption due to lower than expected feed use, caused **global ending stocks to rise 3 million mt from last month to 275 million mt**, now 10 million mt more than last year.
- In their **early estimates for the 2020/21**, ICG put production at a new record of **769 million mt**, largely from increased production in India, China and more normal production in Australia.
- **Wheat stocks are expected to expand in 2020/21**, but the largest increases are expected to be in importing countries like China and India.

➤ **Global wheat production and trade:**

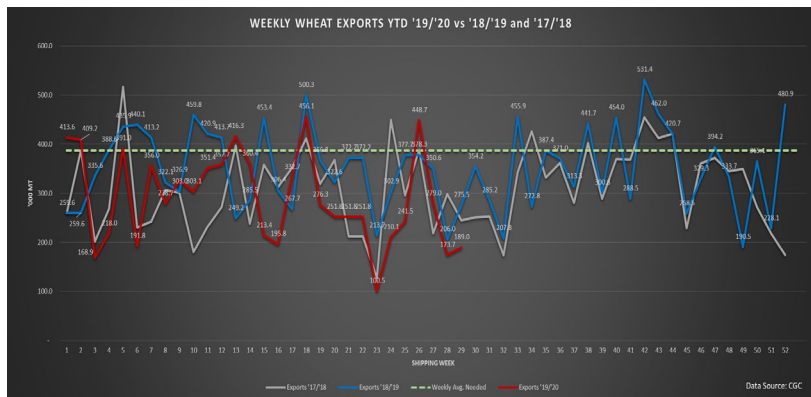
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** May '20 contract **Chicago** winter wheat closed at 525-0, down 2-4 cents for the day, *down 27-0 cents for the week.*
May '20 contract **Kansas** hard red winter wheat closed at 453-2, up 1-4 cents for the day, *down 22-2 cents for the week.*
- In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 527-4, up 3-4 cents for the day, *down 10-6 cents for the week,* while Jul '20 hard red spring wheat closed at 536-6, up 3-2 cents for the day, *down 10-6 cents for the week.* Minneapolis futures have fared better than Chicago for the simple reason that the funds had built up a large long on CBOT wheat.

Canadian Wheat:

- Canadian producers delivered 302.2k mt of wheat during week 29 ending Feb 23rd. Total deliveries are now at 11.81 million mt, down 4% (512.9k mt) from last year.

- Exports throughout the week were just 189.0k million mt for a YTD total of 8.58 million mt, 15% (1.50 million mt) less than last year.

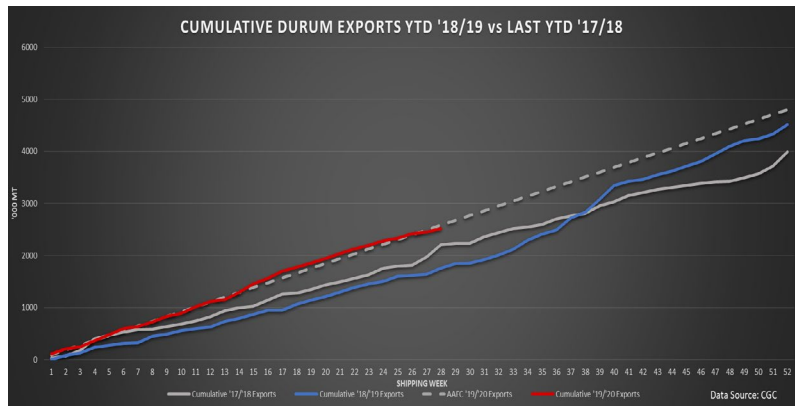


- The export situation continues to become even more dire as average exports needed to reach the AAFC's 18.4 million mt estimate is now at 426.8k mt (which will not be met). Even our current export number of 17.5 million mt demands that average weekly exports be 387.7k mt (green line). Even this is starting to seem unlikely.

- Visible Cdn. wheat supplies is now up to 3.1 million mt, most of this sitting in country elevators as grain is unable to get to port. Starting with the rail strike and now the blockades, *Canada's already damaged reputation as a reliable grain supplier is being further tarnished.* Canada's place in the wheat market is starting to fade, while still a major wheat supplier, analysts around the globe are hardly even talking about Canada's predicament.

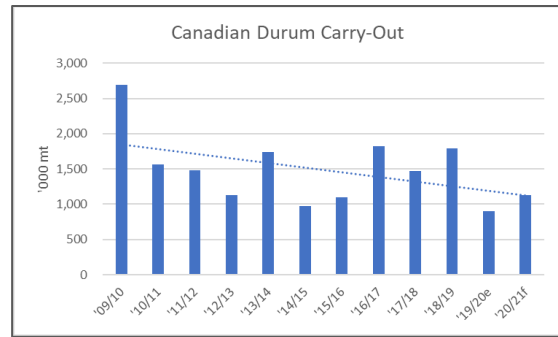
- *For spring wheat, there is little in the mix to promote a rally in MGE futures and the rail back-log is going to prevent much basis improvement (especially in the short-term). Watch for short-lived specials at individual elevators as they occasionally try and find coverage for shipping programs.*

- Canadian producers delivered 87.6k mt of durum into the system during week 29 for a YTD total of 2.7 million mt, up 23% (505k mt) from last year.



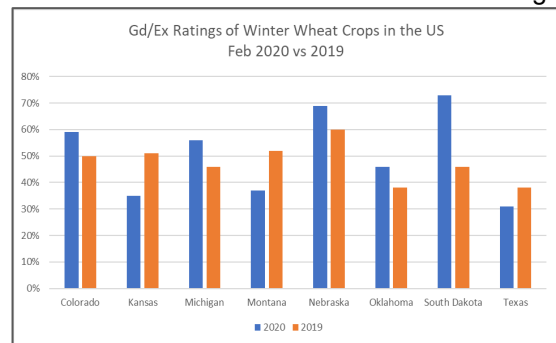
- Exports throughout the week were 102.9k mt for a season total of 2.7 million mt, 37% (724k mt) more than last year. The current pace of durum exports is on track to meet the AAFC's 4.8 million mt projection (6% more than last year).

- US durum exports are showing signs that they are running low, this could spark and increase in Cdn. imports. US bids have been slowly rising while Cdn. bids fell wk/wk.
- For new crop durum, the smaller carry-out in the US will cause them to import more normal levels of Canadian durum. Current forecasted 2020/21 planted area estimates in North America are not enough to fully offset the draw down in stocks and projected ending stocks do not look burdensome.
- *Durum bids are down domestically as the rail situation gets figures out, afterwards durum bids should pick-up into spring.*



US wheat:

- US wheat futures were hit hard in last week's sell-off. With no end to the coronavirus in sight, demand is coming into question.
- US export sales of 382k mt were below expectations. Total sales of 832 million bu, are now just 3% ahead of last year vs the USDA's projected 7% increase.
- Conditions of the US winter wheat crop saw modest gains in Gd/Ex in most states. One notable exception to this was in KS where the winter wheat crop is rated at 37% Gd/Ex, down 16% from last year.



Australian wheat:

- Australia's Bureau of Meteorology said there is a 70% chance that the country will receive above average rainfall in the Mar-May window. Combined with record low AU\$, farmers are expected to plant every available hectare. Early estimates suggest that wheat area will be 12 million ha. An average yield of 2 tph would put the crop at 24 million mt (vs this year's ~18 million mt).
- Aussie Fob values lost another \$5.00/mt from last week, now bid at \$255.00/mt.

Argentine wheat:

- Last Thursday, Argentina's AgMin suspended all registrations of exports until further notice. Traders believe this is a foreshadowing of a steep increase in export tariffs. As the country is sold out of old crop, this will have little immediate impact on world markets. Farmers are planning strikes and other disruptive activities in protest of higher export taxes.
- Argentine markets were closed last week for holidays. Official Fob values were last bid at \$255-\$235.00/mt

EU wheat:

- Brussels has EU soft wheat exports at 18.7 million mt, 64% higher than last year. Brussels' number for France is still over 1 million mt lower than French export data. If the French data is true, EU exports would be 9 million mt more than last year.
- There are 500k mt worth of wheat vessels waiting to be loaded at French ports.
- Premiums in the EU continued to ease over the week: French 11.5 pro Fob values fell \$6.32/mt from last week to \$210.46/mt, German and Baltic 12.5 pro values fell \$6.80/mt from last week to \$214.71/mt and \$213.06/mt respectively.

Black Sea wheat:

- The Ruble falling to the lowest level in over a year brought selling pressure to an already thin Russian vessel line-up.
- Winter wheat in Ukraine continues to look excellent. Soil moisture is adequate, and there was almost no winter kill. Ukrainian farmers planted 6.40 million hectares of winter wheat for harvest in 2020, down slightly from last year.
- Black Sea Fob values fell another \$5.00/mt in Russia with 12.5 pro bid at \$215.00/mt and Ukrainian feed was \$7.00/mt lower at \$208.00/mt.

➤ **Significant purchases/ trades:**

- **Saudi Arabia** bought 715,000 mt wheat for Apr-Jun arrival at around \$243/mt to the Red Sea and \$253/mt to the Gulf.
- **Tunisia** bought 5 x 25,000 mt of wheat for Mar-May at an average \$233.50.
- **Jordan** bought 60,000 mt of Sep movement wheat at \$221.25.
- **Korea** bought 60,000 mt of feed wheat for July arrival at \$238.82.
- **The Philippines** bought 275,000 mt of feed wheat for May-July from around \$238 for the old crop down to \$218 for the new crop.
- **Indonesia** bought 35kt July Black Sea milling wheat at \$235.
- Offers to **Bangladesh** ranged from \$265.35 to \$274.35 Liner Out.
- **USA** export sales were just 382,000 mt (season total 832 million bu up 3% against the USDA's 7% increase).
- **EU** shipments rose another 700,000 tonnes last week to 18.7 million mt, up over 60% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- **Last week was again dominated by reports concerning the “coronavirus”.** The outbreak has now been found in 50 countries and casualties have increased. China says they have it under control, but trade is having trouble believing these reports.
 - **US wheat futures fell to 3-month lows** amidst massive risk-off trading across world commodity, equity and financial markets as concern over the corona virus turned to near panic.
 - **The stock markets were trashed as the markets expect further expansion of the virus.** Grain markets were lower but as Funds had already sold and discounted the commodity markets, futures losses in commodities on the week were not as severe as the financial markets.
- Despite supportive export data, **Matif wheat also fell sharply to 2-month lows** with selling accelerating into the weekend
- **Minimal export demand** pressured Pacific Northwest (PNW) soft white wheat export prices and Gulf HRS, HRW and SRW export basis for March and April deliveries. PNW HRS and HRW export basis remained steady week-over-week. The Great Lakes- St. Lawrence Seaway System will remain closed until mid-March 2020.
- **Weather Around the World:**
 - **South America:** Cool temperatures and near/above normal rainfall persists across central and **Northern Brazil**, whilst above normal temperatures and ongoing dryness continue across **Southern Brazil, Paraguay and Argentina.** **Europe:** Western European temperatures are dropping below normal although with no threat to crops, but ongoing excessive rain is becoming an issue. No change however in the **East, Balkans and Black Sea** with temperatures continuing well above normal and an increasingly dry pattern in **Eastern Ukraine and Southern Russia.** **USA:** Temperatures will rise above seasonal norms pretty much everywhere with precipitation continued to the south-east and far Southern Plains.

➤ **Outlook:**

The “coronavirus” remains the world’s major concern as it continues to spread. We don’t see any significant bullish signs for commodities. Current weather conditions look quite good for crop production, but it is still early. North American wheat continues to be too expensive in most markets. We don’t see any reasons for the old crop markets to sustain significant rallies. We may see some higher prices in the early part of the week based on profit taking, and we suggest that growers who have current crop stocks sell these. We would 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)		May. '20 (bu.)	May. '20 (mt.)
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$7.26	\$266.76	1 CWAD 13.0	\$7.31	\$268.60
1 CPSR 11.5	\$5.32	\$195.48	1 CPSR 11.5	\$5.55	\$203.93
SW Sask			SW Sask		
1 CWRS 13.5	\$6.14	\$225.61	1 CWRS 13.5	\$6.32	\$232.22
1 CWAD 13.0	\$7.24	\$266.03	1 CWAD 13.0	\$7.30	\$268.23
1 CPSR 11.5	\$5.27	\$193.64	1 CPSR 11.5	\$5.49	\$201.72
NE Sask			NE Sask		
1 CWRS 13.5	\$5.99	\$220.10	1 CWRS 13.5	\$6.16	\$226.34
1 CWAD 13.0	\$7.62	\$279.99	1 CWAD 13.0	\$7.67	\$281.83
1 CPSR 11.5	\$5.08	\$186.66	1 CPSR 11.5	\$5.29	\$194.38
SE Sask			SE Sask		
1 CWRS 13.5	\$6.03	\$221.57	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$7.65	\$281.09	1 CWAD 13.0	\$7.71	\$283.30
1 CPSR 11.5	\$5.14	\$188.86	1 CPSR 11.5	\$5.30	\$194.74

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 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)

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				March 2, 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	\$343.99	#VALUE!		
HRS	\$337.87			
HRW 11.5	\$298.91			
SWW 12.0	\$298.42			
1 CWRS 13.5 ³	\$343.99		\$219.36	\$124.63
2 CWRS 13.0 ³	\$337.87		\$189.97	\$147.90
3 CWRS ³	\$298.91		\$147.71	\$151.20
CPS ³	\$291.56		\$181.88	\$109.68
1 CWAD ⁴		#VALUE!	\$286.60	#VALUE!
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$215.00			
French 11.5 (Rouen)	\$210.46			
APW 10.5 (W Coast)	\$255.00			
Argentine 12.5	\$225-\$235			

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: 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					March 2, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.18	\$9.01	\$7.95	\$7.93	\$7.93
Parity Track Rosetown	\$7.68	\$7.51	\$6.45	\$6.44	\$6.44
Track Bid Rosetown Area	\$5.97	\$5.17	\$4.02	\$4.95	\$4.95
Gross Margin at Elevator (\$/bu)*	\$1.71	\$2.34	\$2.43	\$1.49	\$1.49
Gross Margin at Elevator (\$/mt)*	\$62.79	\$86.06	\$89.35	\$54.69	\$54.69

* to cover elevation, elevator market risk, margin