

Wheat Market Outlook and Price Report: May 11, 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 May 11, 2020

World Wheat Supply and Demand Outlook as seen by AMIS¹:

Wheat	FAO-AMIS		USDA		IGC	
	2019/20 est	2020/21 f'cast 7 May	2018/19 est	2019/20 f'cast 9 Apr	2019/20 f'cast	2020/21 proj. 30 Apr
Supply	762.4	762.6	731.5	764.5	762.1	764.4
Prod	628.8	628.6	600.0	630.9	628.6	630.4
Supply	1,034.2	1,035.4	1,015.2	1,042.6	1,026.9	1,043.7
Utiliz.	785.2	777.7	752.5	769.2	773.1	781.8
Trade	760.3	759.4	737.1	749.8	747.7	755.0
Stocks	631.8	631.0	612.1	623.8	618.8	623.1
	175.1	176.3	175.4	183.5	177.7	176.7
	171.3	172.5	171.2	178.5	173.6	173.0
	272.8	274.6	278.1	292.8	279.2	288.7
	149.1	142.1	138.3	142.4	150.2	155.1

Data shown in the second rows refer to world aggregates without China.

- **Wheat production** in 2020 is projected to remain close to last year's level (second highest on record); likely rebounds in Australia and Kazakhstan, together with higher production in the

¹ Agricultural Market Information System (AMIS) - The analysis is a collective assessment of the market situation and outlook by the ten international organizations and entities that form the AMIS Secretariat: FAO, IFAD, IGC, OECD, UNCTAD, World Bank, World Food PGM, WTO, GLAM.

Russian Federation and several Asian countries, are seen to offset reductions in the EU, North Africa, Ukraine and the US.

- **Utilization** in 2020/21 is expected to stagnate, with growth in food consumption largely offset by weaker demand prospects for feed and industrial use. → *Note Mercantile anticipates a contraction in demand due to lower incomes/ funds in several import countries.*
- **Trade** forecast for 2020/21 (July/June) is pointing to a slight increase due to the inclusion of the UK trade with the EU from 2020/21; otherwise, world trade is heading for a small decline despite much better export prospects for Australia and Canada.
- **Stocks** (ending in 2021) are expected to increase marginally, and the rise would be mostly a reflection of further buildups in China; excluding China, global wheat stocks are heading towards a decline of almost 5 percent, to their lowest level since 2013, with drawdowns expected in the US and North Africa.

➤ **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:** Jul '20 contract **Chicago winter wheat** closed at 522-04, down 0-4 cents on Friday, *up 2-6 cents for the week.*
- Jul '20 contract **Kansas hard red winter wheat** closed at 480-0, up 1-2 in Friday's trade, *up 3-0 cents for the week.*
- **Minneapolis** Jul '20 contract **hard red spring wheat** closed at 516-0, up 5-0 cents in Friday's trade, *up 5-4 cents for the week* while Sep '20 hard red spring wheat closed at 526-2 up 4-4 cents on Friday, *up 8-6 cents for the week.*
- Futures gained a bit of ground as the European forecast is still dry for the Balkans and the Black Sea, and soil moisture declines are also forecast in the northern half of Europe from France in the west through Germany and Poland to the Baltics in the east. Argentina remains dry for the next two weeks except for showers in the far north-east. Australia is adding rain into the south-east.

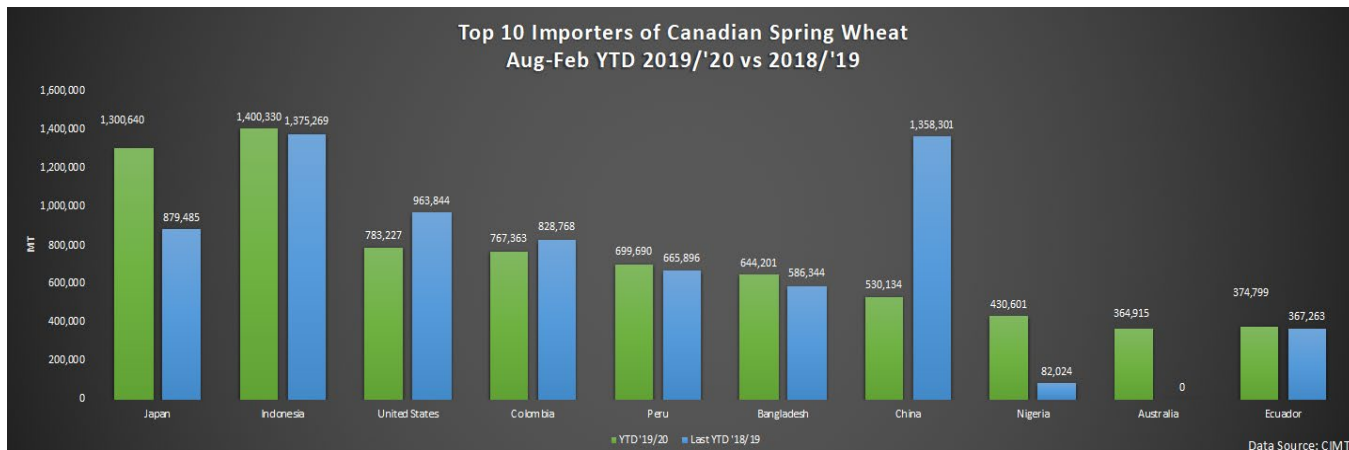
Canadian Wheat:

- **Canadian wheat exports** for last week were 295,000 mt for a total of 11.9 million mt, *still down 12% (-1.62 million mt) from last year.* Visible supplies in export locations is at 1.1 million mt in week 39, with the majority in Eastern ports.

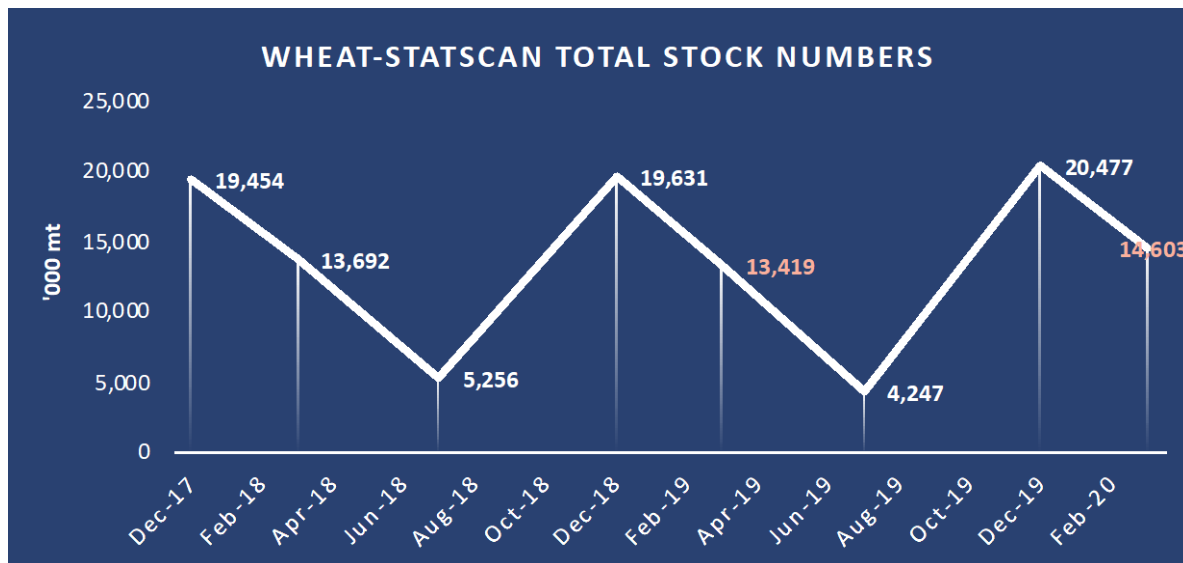
(CGC) Grain Handling Summary Wheat			Wk. 39	(May 3/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 39	408.8	479.2	295.1	119.8
Week ago	509.1	484.9	307.0	50.8
YTD	16,360.2	13,964.2	11,885.1	3,100.4
Last YTD	16,433.6	15,175.8	13,507.2	2,966.4
YTD less Last YTD	-73.4	-1,211.6	-1,622.1	134.0
YTD over Last YTD	100%	92%	88%	105%

Mercantile based on weekly CGC Handling Data

- According to StatsCan, wheat exports to March 30, 2020 amount to 10.6 million mt. **By destination**, the biggest volume losses compared to last year are to China (-828,000 mt year-to-date), to the US (-181,000 mt), and to Colombia (-61,000 mt). Volume gains occurred to Japan (+421,000 mt; this is very beneficial as Japan buys high quality wheat), to Australia (+365,000 mt; this is due to last year's drought in Australia, and not likely to be repeated next year), and to Nigeria (+349,000 mt).



- The **StatsCan 2020 acreage report** late last week pegged all Canadian wheat planted area for harvest in 2020 at 10.3 million hectares (25.4 million acres), up 3% from last year. Mercantile thinks that the Canadian wheat acreage will fall slightly (-3% to 23.8 million acres) due to the slow export pace this ongoing year.
- The StatsCan March 30 **stocks report** showed wheat (excluding durum) stocks at 14.6 million mt, *up a full 9% (+1.2 million mt) from a year ago!* 1.3 million mt of these stocks are still on farm, with 3.3 million mt in commercial hands.



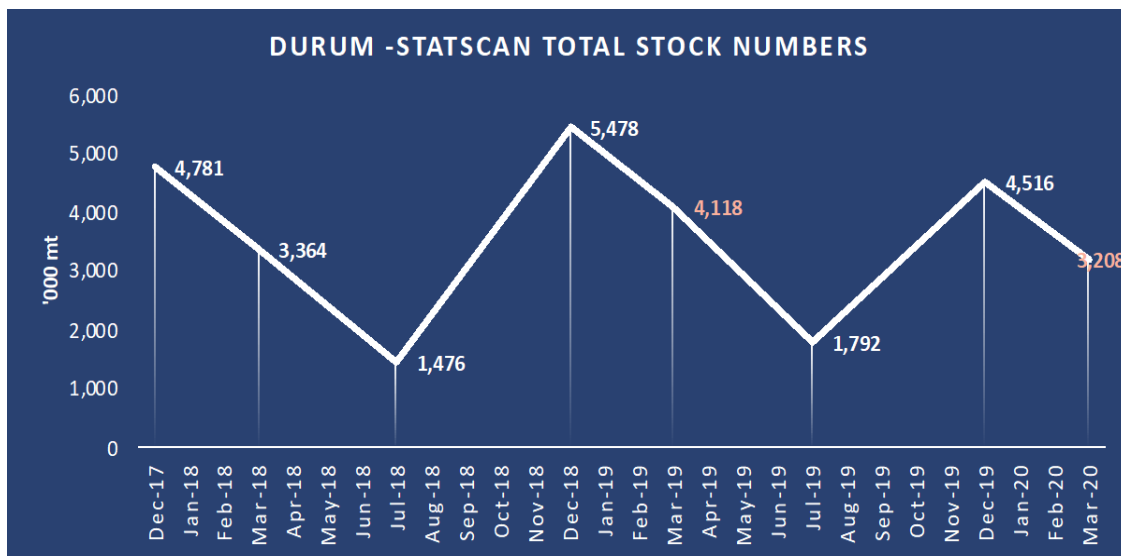
- The N Hemisphere will need more rain to reach trend yields, and acreage losses in the EU due to the wet autumn and ongoing dryness in the Balkans, almost guarantee a smaller crop there. The jury is still out on the Black Sea, but for now crop potential in the S Hemisphere remains good. However, we see the big issue with demand: There is mounting evidence that the collapse in world economic activity due to the coronavirus will seriously affect consumption. This will be one of the key numbers to watch in this week's WASDE report.
- The old new crop inverse in cash prices says new crop North American values are too high to compete for export. *Our suggestions remain the same: Liquidate old crop, hold new for the present.*

- Durum exports for week 39 were 181,000 mt for a season total of 3.8 million mt, 20% (+639,000 mt) bigger than last year.
- We expect export sales for durum to remain strong into the summer, as pasta is one of the consumer items supported by increased consumer buying during the COVID-19 pandemic.

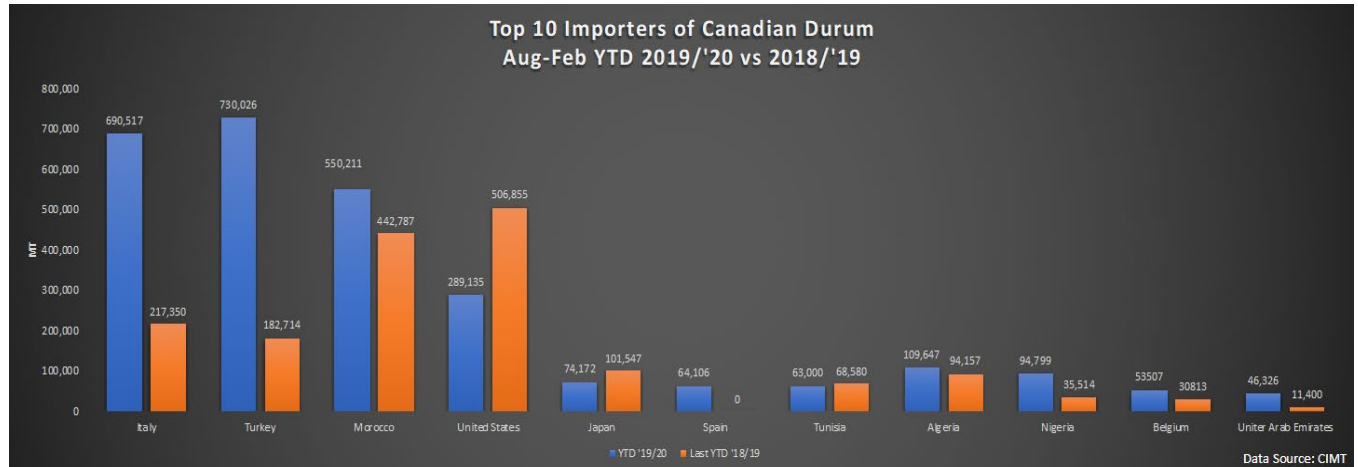
(CGC) Grain Handling Summary Durum		Wk. 39		(May 3/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 39	66.8	235.3	180.7	12.9
Week ago	122.6	171.7	189.5	15.5
YTD	3,891.2	4,607.7	3,812.7	301.6
Last YTD	3,394.4	3,606.5	3,173.4	262.3
YTD less Last YTD	496.8	1,001.2	639.3	39.3
YTD over Last YTD	115%	128%	120%	115%

Mercantile based on weekly CGC Handling Data

- The **StatsCan 2020 acreage report** pegged area planted to durum for harvest in 2020 at 5.228 million acres, up 7% from last year. Mercantile expects the durum acreage to increase by a full 15% to 5.626 million acres due to the much-improved export pace this ongoing year and improved pricing this spring.
- Note that the US Ag Attaché in Ottawa forecasts the total wheat area harvested (including durum) to increase to 10.2 million hectares (25.2 million acres).
- The StatsCan March 30 **stocks report** showed durum stocks at 3.25 million mt, *down a big 22% (-910,000 mt) from a year ago!* 2.4 million mt of these stocks are still on farm, with 765,000 mt of durum in commercial hands.



- StatsCan showed **March durum exports by destination** at an excellent 510,000 mt. Year-to-date exports to March 30, 2020, reached 3.1 million mt, 1.1 million mt higher than last year-to-date. *Excellent volume gains over last year occurred to Turkey (+547,000 mt), to Italy (+473,000 mt), and to Morocco (+107,000 mt).* Some volume losses compared to last year are to the US (-217,000 mt year-to-date), to Spain (-64,000 mt), and to Nigeria (-59,000 mt).

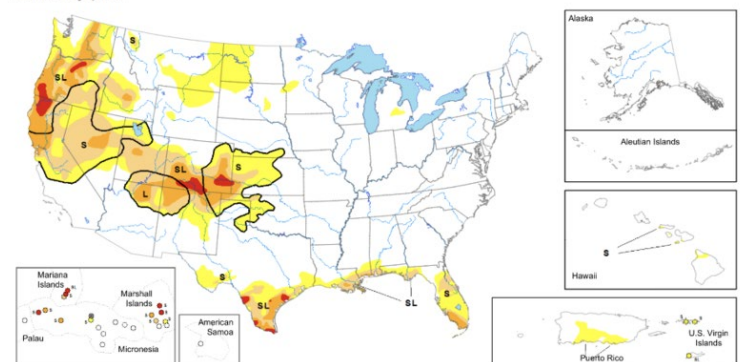


- Tightening durum stocks will continue to support old crop bids. Durum demand is strong which will keep exports steady until the EU crop starts being harvested. For new crop, we need at least 5.5 million of planted durum acres in Canada to replenish supplies. Moderate stocks and strong export demand in 2020/21 are bullish new crop durum.

US wheat:

- The US Drought Monitor introduced extreme drought in east-central Colorado and part of west-central Kansas. Beneficial precipitation alleviated some dryness in northeastern Colorado and southwestern Nebraska. Looking ahead, cooler temperatures and moderate precipitation are expected across the central areas.
- The US remains very cold for another week before turning considerably warmer from mid-May, with precipitation still mostly centered in the southern Midwest but with additional showers in the S Plains
- US export sales last week of 245,000 mt left the season total at 962 million bushels compared to the USDA's 985 million bushels forecast. New crop sales were only 135,000 mt and the cumulative for next season is currently running around 15% below last years.
- FOB values for 13.5 pro HRS in the PNW for June were up from last week by \$3.00/mt at \$235.00/mt.

Map released: May 7, 2020
Data valid: May 5, 2020



United States and Puerto Rico Author(s):
Brad Pugh, NOAA/CPC

U.S. Affiliated Pacific Islands and Virgin Islands Author(s):
Anthony Artusa, NOAA/NWS/NCEP/CPC

The data cutoff for Drought Monitor maps is each Tuesday at 8 a.m. EDT. The maps, which are based on analysis of the data, are released each Thursday at 8:30 a.m. Eastern Time.

Intensity and Impacts

- None
- D0 (Abnormally Dry)
- D1 (Moderate Drought)
- D2 (Severe Drought)
- D3 (Extreme Drought)
- D4 (Exceptional Drought)
- No Data
- Delineates dominant impacts
- S - Short-Term impacts, typically less than 6 months (e.g. agriculture, grasslands)
- L - Long-Term impacts, typically greater than 6 months (e.g. hydrology, ecology)

Australian wheat:

- Australia is getting additional rain into the south-east.
- Australian new crop wheat futures rose \$6/mt. Like in N America, the focus by growers is increasingly concentrated on fieldwork. Domestic markets were firmer with declining soil moisture levels.
- Australian APW WA FOB fell \$another \$3.00/mt on the week to \$277.00/mt.

Argentine wheat:

- Argentina remains dry for the next two weeks except for showers in the far north-east.
- BAGE put the 20/21 wheat crop at a record 21 million mt on acreage of 6.7 million ha.
- The Argentine Finance Minister said the re-financing proposals for the \$65 billion IMF loan were the best the country could do, which brought a likely debt default closer into focus and the official Peso hit more new lows of 67.27. Meanwhile, the parallel 'blue dollar' soared to 122 amidst talk of the return of the Junta of the 70's and 80's.
- FOB values were nominally unchanged at \$230.00-\$240.00/mt. Farmers are sold out of old crop while exporters are long ~15 million mt.

EU wheat:

- Soil moisture declines are also forecast in the northern half of Europe from France in the west through Germany and Poland to the Baltics in the east.
- Futures gained a bit of ground as the European forecast is still dry for the Balkans and the Black Sea, and soil moisture declines are forecast in the northern half of Europe.
- French wheat ratings were unchanged on the week at 56% GD/EX against 72% last year. While there has been some rain, more is needed as crops move into their peak water requirement period.
- Fresh demand is starting to decline.
- FOB values in the EU were mixed: French 11.5 pro was \$0.40/mt lower at \$221.93, German 12.5 pro gained \$2.00/mt over the week to \$227.64/mt, and Baltic 12.5 pro wheat gained \$1.20/mt from last week at \$225.20/mt.

Black Sea wheat:

- Cumulative rainfall in the Balkans, Ukraine and S Russia over the next 8 days will be just 7-12 mm (compared to 80-90mm in most of France), and with normal daily evaporation of 2mm exacerbated by strong winds, soil moisture levels will continue to fall.
- We have FOB values in the Black Sea up \$1.00/mt at \$229.00/mt for Russian 12.5 pro wheat.

➤ **Significant purchases/ trades:**

- **Algeria** announced a wheat tender for Tuesday May 12 for Jul-Aug shipment.
- **Morocco** extended its zero import duty to Dec 31, 2020.
- The **FAO** forecast a 20% increase in Tunisian cereal imports for 20/21 to 3.8 million mt.
- **US** new crop wheat sales are 15% below last years.

➤ **Wheat Market Outlook:**

Significant events:

- **Fresh demand** is starting to decline and there is little new crop tender business. For example, it has been three weeks since Egypt's last purchase, and they still have over 400,000 mt of nearby wheat to buy according to the instructions from President Sisi.
- Newswire reports quoted **Iran's AgMin** saying they needed 4 million mt of wheat imports Apr 20-Mar 21 (the USDA has 19/20 imports at just 150,000 mt), *but Iran effectively has no means of payment*. And there appears to be some political in-fighting as the Commerce Ministry has always maintained imports were not needed. There are also major ongoing problems with payments.
- **Argentina** is expected to plant 6.7 million hectares (16.5 million acres) for harvest in 2020/21, up 2% from last year on favorable weather and beneficial soil moisture levels due to recent rain. Argentinian wheat planting will begin in mid-May.
- According to Reuters, beneficial rains fell this week in **France and Germany** and are expected in parts of Russia and Ukraine in the near future. "Good precipitation is coming a bit late, but it will relieve the hydric stress of winter crops and facilitate the quick growth of spring crops," said French agriculture consultancy Agritel.
- The **Baltic Dry Index** (BDI), an assessment of the average cost to ship raw materials like grains, coal and iron ore, fell 17% from last week to end at 514.
- The main event this coming week will be **Tuesday's WASDE report**. Pre-report WASDE estimates for 2020/21 USA wheat production averaged 1.848 byn bushels. That would be a 3.8% drop from the April forecast. The winter wheat figure is 1.207 billion in one survey. The estimate for new crop carryout is 824 myn bushels, which is below the previous year WASDE estimate of 970 million bu. *However, we don't appear to have any significant shortage of grain and oilseed supplies.*

➤ **Outlook:**

The focus of the wheat market will remain on weather in the Black Sea and EU, where forecasts are increasingly wetter. Dryness is expanding in the US plains, but this is not a big issue yet. Decreasing demand continues to shroud the market.

The concerns over global wheat demand continue to increase amidst the global collapse in tourist trade, and worldwide closures of cafes, restaurants and bars. In its April update, the IGC put 20/21 feed demand for wheat down just 3 million mt or 2.5%, while raising non-feed demand by 7 million mt, but this already looks much too high.

With the potential of a huge surplus in corn supplies showing in next week's WASDE report and the potential for much lower demand, we don't get too excited on higher prices. The old crop - new crop inverse in cash prices says new crop North American wheat values are too high to compete for export.

Our suggestions remain the same: Liquidate old crop, hold new 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)		Jly.'20 (bu.)	Jly.'20 (mt)
1 CWRS 13.5	\$6.49	\$238.47	1 CWRS 13.5	6.42	\$235.90
1 CWAD 13.0	\$7.84	\$288.07	1 CWAD 13.0	7.77	\$285.50
1 CPSR 11.5	\$5.82	\$213.85	1 CPSR 11.5	5.79	\$212.75
SW Sask			SW Sask		
1 CWRS 13.5	\$6.38	\$234.43	1 CWRS 13.5	6.28	\$230.75
1 CWAD 13.0	\$7.80	\$286.60	1 CWAD 13.0	7.73	\$284.03
1 CPSR 11.5	\$5.73	\$210.54	1 CPSR 11.5	5.69	\$209.07
NE Sask			NE Sask		
1 CWRS 13.5	\$6.22	\$228.55	1 CWRS 13.5	6.12	\$224.87
1 CWAD 13.0	\$8.20	\$301.30	1 CWAD 13.0	8.06	\$296.16
1 CPSR 11.5	\$5.56	\$204.30	1 CPSR 11.5	5.51	\$202.46
SE Sask			SE Sask		
1 CWRS 13.5	\$6.29	\$231.12	1 CWRS 13.5	6.21	\$228.18
1 CWAD 13.0	\$8.15	\$299.46	1 CWAD 13.0	8.03	\$295.05
1 CPSR 11.5	\$5.51	\$202.46	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 Basis² (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)

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.

“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 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.

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

Relevant FOB Prices and Export Basis				11-05-2020
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	\$361.98	\$395.97		
HRS	\$351.68			
HRW 11.5	\$330.06			
SWW 12.0	\$326.45			
1 CWRS 13.5³	\$361.98		\$231.85	\$130.13
2 CWRS 13.0³	\$351.68		\$211.28	\$140.41
3 CWRS³	\$330.06		\$209.44	\$120.62
CPS³	\$319.24		\$204.30	\$114.95
1 CWAD⁴		\$388.76	\$250.59	\$138.16
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$228.00	June		
French 11.0 (Rouen)	\$221.10	June		
ASW 10.5 (W Coast)	\$274.00	June		
Argentine 12.0	\$230-240	June		

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				11-05-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$9.38	\$8.79	\$6.20	\$6.20
Parity Track Rosetown	\$7.88	\$7.29	\$7.19	\$7.19
Track Bid Rosetown Area	\$5.75	\$5.70	\$5.56	\$5.56
Gross Margin at Elevator (\$/bu)*	\$2.13	\$1.59	\$1.63	\$1.63
Gross Margin at Elevator (\$/mt)*	\$78.21	\$58.42	\$59.96	\$59.96
* to cover elevation, elevator market risk, margin				