

Wheat Market Outlook and Price Report: Nov. 30, 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 November 30, 2020

International Grains Council (IGC) November Global Wheat Summary:

| | 17/18 | 18/19 | 19/20 est. | 20/21 fcast | 29.10 26.11 |
|--------------------------------------|-------|-------|---------------|----------------|----------------|
| million tons | | | | | |
| WHEAT | | | | | |
| Production | 762 | 732 | 763 | 764 | 765 |
| Trade | 176 | 168 | 184 | 185 | 186 |
| Consumption | 742 | 739 | 746 | 751 | 752 |
| Carryover stocks | 268 | 262 | 279 | 291 | 292 |
| year/year change | 20 | -7 | 17 | | 13 |
| Major exporters ^{b)} | 83 | 71 | 64 | 61 | 61 |

IGC numbers

- The November **IGC global wheat numbers** changed only marginally from the previous month:
 - Global production, trade, consumption and carryover stocks all increased by 1 million mt from last month
 - Global '20/'21 ending stocks are also projected to be up by 1 million mt to 292 million mt. This would be 13 million mt higher than last year's ending stocks.
- We still think that the IGC is underestimating the demand for feed wheat in the EU. For example, how the EU solves its corn problem in the feed sector will determine the ultimate price level and volume of EU wheat on offer. In our view, they will need to feed more wheat and export less. We expect the strong corn market to provide support to the wheat market.

➤ **Global wheat production and trade:**

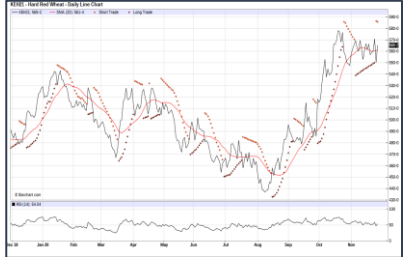
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- Futures:** Dec. '20 contract **Chicago winter wheat** closed at 596-4, up 8-2 cents on Friday, *up 9-3 cents for the week.*
 Dec. '20 contract **Kansas hard red winter wheat** closed at 561-4, up 17-6 cents in Friday's trade, *up 11-2 cents for the week.*
 Dec. '20 **Minneapolis hard red spring wheat** closed at 550-6, up 7-2 cents on Friday, *up 6-6 cents for the week.*

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



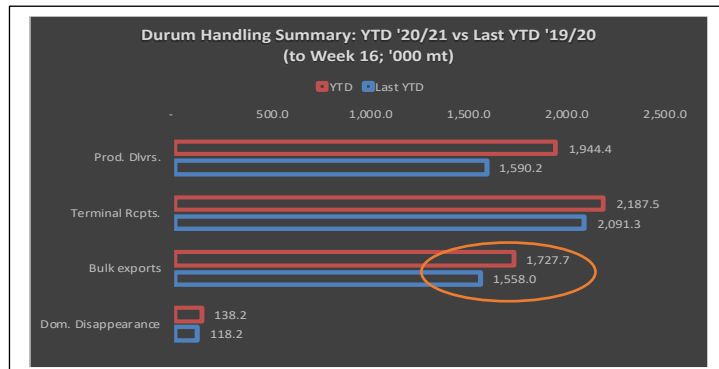
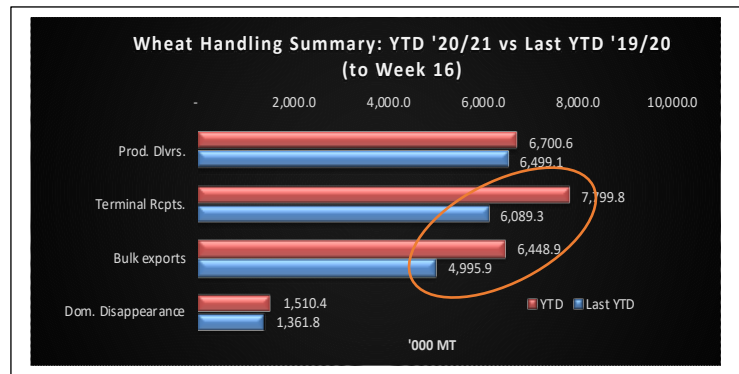
Mpls. Mch. '21 Wheat



- Futures market summary:** Fund positions will be updated on Monday. We think wheat is the sleeper and we expect better prices.

Canadian Wheat:

- Canadian week 16 grower deliveries ramped up again at 413k mt of wheat delivered to Canadian elevators. Exports remained strong at 332,000 mt for a year-to-date total of 6.5 million mt. Visible stocks are at 2.2 million mt, which should allow for continued shipping.
- North American wheat clearly has become more competitive in the world markets, and there should be lots of opportunities to continue marketing Canadian wheat. The duty the EU placed on USA wheat should also improve Canadian demand to the EU. In other words, *we think the demand is there*, we just need to keep up the increased railcar volume available to the trade, we need to keep elevator efficiency up, and we need to work on lowering the discrepancy between international prices and country bids to make it attractive to farmers to sell.
- There are still weather issues in Russia, Argentina, and the US Plains, and the EU is increasingly rationing export demand due to their feed grain problem. Also, shipment data from the major exporters show no evidence of a demand decline. With corn and soybeans likely to see further significant gains, the downside to wheat remains limited.
- We would target \$7.50/bu for #2 CWRS 13.5 delivered elevator SK for the next sales.
- Durum:** Durum exports for week 16 amounted to 241,000 mt, for a year-to-date number of 1.7 million mt. Year-to-date exports now have surpassed last year's amount by 170,000 mt.
- Demand remains strong and we continue to hear of very good bids. For example, there are currently

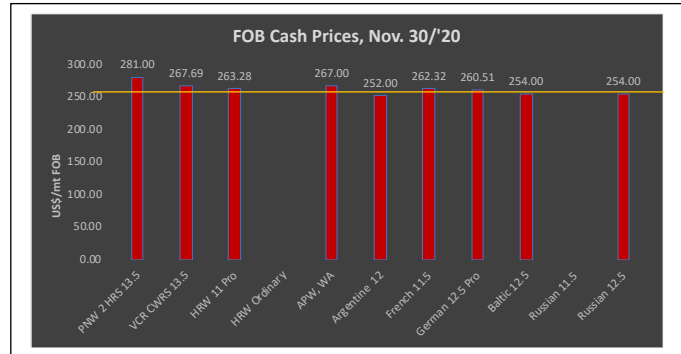


some #2 CWAD specials in the market for Dec./Jan. delivery at \$8.50/bu. *Our current target price for Durum is \$9.00/bu SK (for ergot-free product).*

- The good volume demand for Canadian durum will again lead to relatively small ending stocks this year.

US Wheat:

- Weather remains important to the wheat outlook. The US forecast is increasingly dry for the Plains and W Midwest, with rain confined to the east and south-east. Temperatures are also turning more seasonally cool.
- USA inspections were 358,000 tonnes (season total 455 myn bushels and equal to last year), sales were 796,000 tonnes (season total 663 myn bushels up 11%). Of the total weekly sales, 502,000 tonnes were white wheat of which 200,000 tonnes was to China. Season total white wheat sales of 182 myn bushels have already reached 93% of the USDA sales projection.
- FOB US wheat fell around \$8/mt over the past week until Friday's rally caused a bit of a rebound. On a FOB basis, HRW is still cheaper than French wheat.
- *The duty the EU placed on USA wheat should improve Canadian wheat demand to the EU.*
- US HRS for December is valued at \$281/mt FOB PNW (+\$1/mt from last week), PNW White wheat is valued at \$263/mt FOB PNW (up \$6/mt from last week), FOB Gulf HRW is valued at \$263.28/mt.



Australian wheat:

- Australian wheat futures ended at 11-week lows on good weather and the AU\$ pushing back towards the two-year highs. However, FOB values were little changed with elevation capacity prior to March rapidly filling up.
- Australian new crop FOB APW wheat values for Dec. closed \$2/mt higher than the week previous at 267.00/mt.

Argentine wheat:

- BAGE estimated the wheat harvest at 31% complete, in line with last year but ahead of the 26% average. Yields are creeping higher to 1.5 mt/hah (1.2 mt/ha last week), but BAGE kept their crop estimate unchanged at 16.8 million mt. The Argentine Agriculture Ministry also left the crop unchanged at 17 million mt, but estimated '20/21 exports at just 10 million mt compared to the USDA estimate of 12.5 million mt.
- FOB 11.5 pro Argentina wheat was offered at \$252/mt for Dec. delivery. Farmers are not sellers.

EU wheat:

- Matif wheat made a contract high weekly close. Combined with a 30-month high in the Euro plus ongoing strong premiums, this pushed EU FOB spreads against Black Sea wheat even wider, and, -until Friday's US rally-, took both French and German wheat above US HRW. - *The market is doing its job of slowing EU exports as domestic prices continued to rally with corn imports still a major problem and China continuing to distort the barley market.*
- Weekly shipments rose 688k mt for a soft wheat season total 9.2 million mt, still down 20% from last year's shipments.

- *FOB prices were stronger in the EU:* French 11.5 pro closed at \$263.32/mt, up \$2.84/mt from last week. German 12.5 pro was \$2.85/mt higher to \$260.51/mt. Baltic 12.5 pro increased by \$1.00/mt on the week to \$254.00.

Black Sea wheat:

- Russian old crop wheat has been rather flat, but CME new crop futures rose to 5-week highs.
- Snow will be entirely gone in Russia by Tuesday, after which nighttime low temperatures will range from -5°C to -10°C.
- Russian winter wheat ratings are well below recent years with lots of reports of adversely affected crops.
- In the markets, the Egyptian, Tunisian and Pakistan sales all reflected around \$254-255/mt FOB parity, although replacement remained at \$258 for Russian 12.5 pro.
- Russian export quotas for Feb-June 2021 will likely be raised to 17 million mt, with the market share by company expected to be a pro rata of their operations for the whole of 2020.
- FOB values rose \$1/mt to finish the week; Russian 12.5 pro was bid at \$254/mt.

➤ **Significant purchases/ trades:**

- *Cash trading of wheat was quite good at strong prices.*
- **Egypt** (GASC) bought 175,000 tonnes of Russian wheat for Jan 20-31 at around \$275/mt C&F (180 days L/C).
- **Pakistan** bought 340,000 tonnes of wheat for March arrival at around \$287.
- **Tunisia** bought 92,000 tonnes of Dec-Jan soft wheat at \$275.50-277, plus 75,000 tonnes of durum at \$366.50-370.25.
- **Thailand** bought 60,000 tonnes of Australian feed wheat at \$283/mt Liner Out.
- **Algeria** fired the OAIC head due a 30,000 tonnes lot of contaminated cargo of Baltic wheat.
- **China** sold 708,000 tonnes of reserve wheat at \$45 below the January futures, taking total sales since the program began in June to 13.5 million tonnes.

➤ **Wheat Market Outlook:**

Significant events:

- There are still weather issues in Russia, Argentina, and the US Plains, and the EU is increasingly rationing export demand due to their feed grain problem.
- *The market is doing its job of slowing EU exports as domestic prices continued to rally with corn imports still a major problem and China continuing to distort the barley market.*
- *The duty the EU placed on USA wheat should improve the demand for Canadian demand to the EU.*
- Shipment data from the major exporters show no evidence of a demand decline due to Covid.
- With corn and soybeans likely to see further significant gains, the downside to wheat remains limited.

➤ **Outlook:**

There are still weather issues in Russia, Argentina, and the US Plains which could influence overall supply, and the EU is increasingly rationing export demand due to their feed grain problem. In addition, shipment data from the major exporters shows no evidence of a demand decline due to the Covid pandemic. *With corn and soybeans likely to see further significant gains, the downside to wheat remains limited.*

– We would target \$7.50/bu for #2 CWRS 13.5 delivered elevator SK for the next sales.

However, where there are good margins, we would be 75 percent sold, leaving 15 percent open for speculating on higher values.

iii) Primary Elevator Price Tables and Grade Spreads

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

| Date: 30-11-2020 | | | | | |
|------------------|--------|----------|-------------|---------------|--------------|
| NW Sask | Spot | | NW Sask | Deferred | |
| | (bu.) | (mt) | | Mch.'20 (bu.) | Mch.'20 (mt) |
| 1 CWRS 13.5 | \$6.71 | \$246.55 | 1 CWRS 13.5 | 6.87 | \$252.43 |
| 1 CWAD 13.0 | \$8.00 | \$293.95 | 1 CWAD 13.0 | 8.27 | \$303.87 |
| 1 CPSR 11.5 | \$6.22 | \$228.55 | 1 CPSR 11.5 | 6.47 | \$237.73 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$6.59 | \$242.14 | 1 CWRS 13.5 | 6.76 | \$248.39 |
| 1 CWAD 13.0 | \$8.09 | \$297.26 | 1 CWAD 13.0 | 8.31 | \$305.34 |
| 1 CPSR 11.5 | \$6.22 | \$228.55 | 1 CPSR 11.5 | 6.41 | \$235.53 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$6.45 | \$237.00 | 1 CWRS 13.5 | 6.60 | \$242.51 |
| 1 CWAD 13.0 | \$8.10 | \$297.63 | 1 CWAD 13.0 | 8.42 | \$309.38 |
| 1 CPSR 11.5 | \$5.99 | \$220.10 | 1 CPSR 11.5 | 6.24 | \$229.28 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$6.39 | \$234.79 | 1 CWRS 13.5 | 6.59 | \$242.14 |
| 1 CWAD 13.0 | \$8.15 | \$299.46 | 1 CWAD 13.0 | 8.44 | \$310.12 |
| 1 CPSR 11.5 | \$5.96 | \$218.99 | 1 CPSR 11.5 | 6.23 | \$228.92 |

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 | 0.10 | 3.77 |
| 1 CWRS 13.5 | Base Grade | Base Grade |
| 2 CWRS 13.5 | (0.05) | -1.84 |
| 1 CWRS 12.5 | (0.30) | -11.02 |
| 1 CWAD 13.0 | Base Grade | Base Grade |
| 1 CWAD 13.5 | 0.10 | 3.67 |
| 2 CWAD 13.0 | (0.20) | -7.35 |
| 2 CWAD 12.5 | (0.30) | -11.02 |

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 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)
 - 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.

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.”

- 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 | | | | 30-11-2020 |
|--------------------------------------|--|-----------------------|--------------------|--|
| 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 | \$324.70 | \$395.26 | | |
| HRS | \$317.54 | | | |
| HRW 11.5 | \$330.42 | | | |
| SWW 12.0 | \$311.82 | | | |
| 1 CWRS 13.5 ³ | \$324.70 | | \$234.43 | \$90.27 |
| 2 CWRS 13.0 ³ | \$317.54 | | \$219.73 | \$97.81 |
| 3 CWRS ³ | \$330.42 | | \$210.54 | \$119.87 |
| CPS ³ | \$305.15 | | \$217.52 | \$87.62 |
| 1 CWAD ⁴ | | \$388.59 | \$312.32 | \$76.26 |
| Competing wheat: | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$254.00 | November | | |
| French 11.5 (Rouen) | \$263.32 | November | | |
| ASW 10.5 (W Coast) | \$264.00 | November | | |
| Argentine 12.0 | \$252.00 | November | | |

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 | | | | 30-11-2020 |
|--|----------------|----------------|--------------------|----------------|
| Canadian Funds | Grade | | | |
| PNW value/Vancouver | 2CWRS | 3CWRS | Winter wht. | CPS |
| Sept/Oct delivery | \$8.46 | \$8.81 | \$6.40 | \$6.40 |
| Parity Track Rosetown | \$6.96 | \$7.31 | \$6.81 | \$6.81 |
| Track Bid Rosetown Area | \$5.98 | \$5.73 | \$5.92 | \$5.92 |
| Gross Margin at Elevator (\$/bu)* | \$0.98 | \$1.58 | \$0.89 | \$0.89 |
| Gross Margin at Elevator (\$/mt)* | \$36.15 | \$58.21 | \$32.64 | \$32.64 |
| * to cover elevation, elevator market risk, margin | | | | |