

Wheat Market Outlook and Price Report: Oct. 5, 2020
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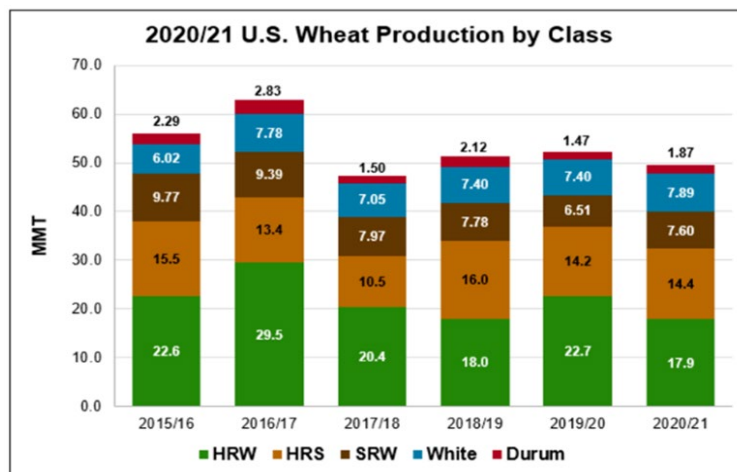
i) Background and Rationale for the Report

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 October 5, 2020

USDA: US wheat stocks & US wheat production by class as of Sept. 30, 2020:



- **US Wheat stocks:** Old crop all wheat stored in all positions on June 1, 2020 totaled 1.04 billion bushels, *down 3 percent from a year ago*.
 - On-farm stocks are estimated at 232 million bushels, up 12 percent from last year. Off-farm stocks, at 812 million bushels, are down 7 percent from a year ago. The March - May 2020 indicated disappearance is 372 million bushels, down 28 percent from the same period a year earlier.
- **US Durum Wheat stocks:** Old crop Durum wheat stocks in all positions on June 1, 2020 totaled 42.8 million bushels, *down 22 percent from a year ago*.
 - On-farm stocks, at 17.7 million bushels, are down 32 percent from June 1, 2019. Off-farm stocks totaled 25.1 million bushels, down 13 percent from a year ago. The March - May 2020 indicated disappearance of 8.55 million bushels is down 56 percent from the same period a year earlier.
- **US All Wheat production:** All wheat production totaled 1.83 billion bushels in 2020, *down 5 percent from the revised 2019 total of 1.93 billion bushels*.

Area harvested for grain totaled 36.7 million acres, down 2 percent from the previous year. The United States yield was estimated at 49.7 bushels per acre, down 2.0 bushels from the previous year.

- **The levels of production and changes from 2019 by type were:**
Winter wheat, 1.17 billion bushels, down 11 percent
Oher spring wheat, 586 million bushels, up 4 percent
Durum wheat, 68.8 million bushels, up 28 percent

➤ **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 573-2, up 3-0 cents on Friday, *up 29 cents for the week.*
- Dec. '20 contract **Kansas hard red winter wheat** closed at 509-4, up 3-0 cents in Friday's trade, *up 34-2 cents for the week.*
- **Minneapolis Dec. '20 hard red spring wheat** closed at 531-6, down 1-6 cents on Friday, *up 2 cents for the week.*

CBOT/CME Dec 2020 Wheat



KC Dec. '20 Wheat



Mpls. Dec. '20 Wheat



- **Futures market summary:** *Wheat futures rallied 25-30c/bu following the USDA wheat stocks report, which came in well below trade estimates.*

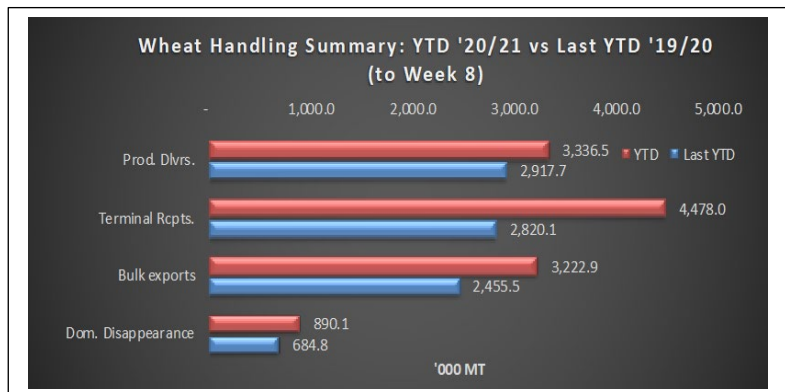
Canadian Wheat:

- *Minneapolis wheat did not rally as much as Chicago and Kansas City as the USDA stocks reductions for wheat pertained primarily to HRW and SRW wheat.*
- General attention of the wheat market will now focus on production/ planting conditions. There is concern about dryness affecting fall seeding in Russia, Ukraine, Argentina and increasingly the US Plains. Much of the EU has gone from fretting about dryness to excessive rainfall which has stopped winter plantings.
- In Canada, harvest is winding down showing above average yield results and generally good quality.

- Week 8 grower deliveries in Canada were a fairly big 487,000 mt, with a 2-month total of 3.3 million mt.

Weekly wheat export loadings were at 375,000 mt; year-to-date shipments amount to 3.2 million mt, *which is 767,000 mt (+31%) ahead of last year's loadings.*

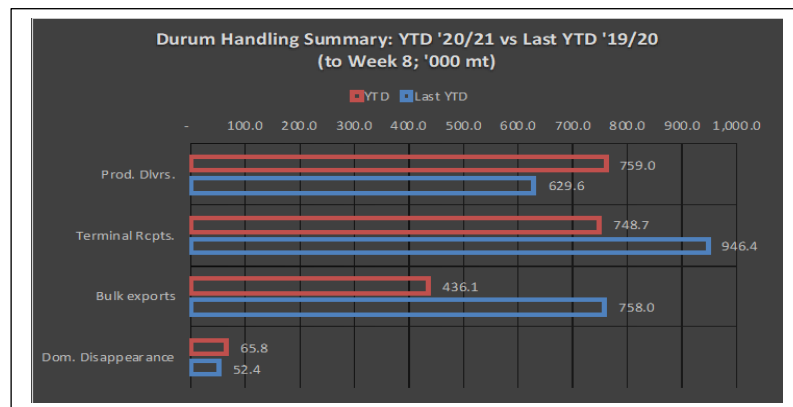
- Uncertainty about final wheat production outcomes still persists. *Canadian demand continues to be good and we expect to see improved prices in the future.*



- Durum:** Last week, USDA called old crop US durum stocks at 42.8 million bushels, *down 22 percent from a year ago. However, 2020 crop US durum production at 68.8 million bushels, is up 28 percent.* This leaves US durum supply (before imports) 1.4% higher (+50,000 mt) than last years.
- We are expecting the US to import ~1.3 million mt of Canadian durum, up from 1.1 million mt last crop year. The USDA projected 1.4 million mt of durum imports from Canada in their Sept. WASDE report.
- As a reminder: Canadian durum stocks as of Aug. 31/'20 were pegged by StatsCan at 660,000 mt, down 63% from last crop year. And the Sept. 14 StatsCan report put Canadian. durum production at 6.14 million mt, compared to 5 million mt in 2019. This means that the **Canadian. durum supply** at 6.8 million mt is roughly unchanged from last years. Exports should remain good at ~5.3 million mt, leaving '20/21 ending stocks at 703,000 mt, up slightly from last years, but still well below the 1.8 million mt we had in '18/19.
- Week 8** durum deliveries were 97,000 mt. Export shipments remain small at 81,000 mt for the week, and at 436,000 mt year-to-date. **Exports trail last years by 322,000 mt.**
- We would target starting sales at around \$8.25/bu, which would represent a decent premium over spring wheat.*

Merc. - US. Durum Outlook			
(mIn mt)	19/20	E20/21	Δ
Beginning stocks	1.50	1.15	77%
Production	1.47	1.87	127%
Imports	1.10	1.30	118%
Total Supply	4.08	4.32	106%
Dom. Use	1.77	2.42	137%
Exports	1.14	0.82	72%
Total Usage	2.91	3.24	111%
Ending Stocks	1.17	1.08	92%
Stock-to-Use Ratio	40%	33%	83%

StatsCan/AAFC - Cdn. Durum Outlook			
('000 mt)	19/20	20/21	Δ
Beginning stocks	1,792	660	37%
Production	4,977	6,137	123%
Imports	98	50	51%
Total Supply	6,867	6,847	100%
Dom. Use	852	844	99%
Exports	5,356	5,300	99%
Total Usage	6,208	6,144	99%
Ending Stocks	660	703	107%
Stock-to-Use Ratio	11%	11%	



US Wheat:

- Wheat futures rallied 25-30c/bu following the **USDA wheat stocks report**, which came in well below trade estimates: USDA put all U.S. wheat stocks, at 58.8 million mt compared to the average trade estimate at 61.0 million mt. USDA also pegged total **U.S. wheat production** in 2020 at 49.7 million mt, which was less than the Sept. estimate of 50.0 million mt.
- While the changes were relatively moderate to the overall wheat crop, they obscured some big **changes on a class basis**: HRW was down 36 million bu and SRW was down 10 million bu, while white wheat was increased 30 million bu. [See graph on p. 1].

The implication of the report is that US ending stocks will fall below 900 million bu for the first time in 5 years. However, the widening price spreads against competing exporters will make the USDA's US export number tough to achieve.

- It should be kept in mind that US wheat is now somewhere on the order of US\$30.00/mt more expensive than the next closest competitor (on a FOB basis), while US corn/soybeans are likely the cheapest.

Australian wheat:

- New crop Australian wheat futures closed up A\$5/mt and FOB values are also higher.
- Exporters are expecting an early start to new crop exports.
- The Australian Met Office officially declared a La Nina event which is expected to last into January, and which should be favorable for crops.
- Australian new crop FOB APW wheat values for Dec. closed up \$6/mt from last week at 253.00/mt.

Argentine wheat:

- BAGE's weekly crop report again lowered ratings to 8% Gd./Exc. from 9% last week and 42% last year. Soil moisture was put at 58% adequate against 41% last week and 54% last year, but the national estimate does not tell the regional picture. Rain continued to miss the crop areas in the center and north (Cordoba, Chaco, Santiago, Santa Fe, Entre Ríos, Corrientes provinces) where dryness is extreme.
- Argentine new crop 12% pro wheat for Dec. rose \$5/mt to \$220-230/mt.

EU wheat:

- Matif in Europe hit a 2-year high with more French wheat sales reported to China, heavy rains halting EU plantings, ongoing Russian dryness and lower Ukraine acreage reports.
- FOB values in the EU were all up again over the past week (after falling the previous week). French 11.5 pro wheat increased by \$6.95/mt to US\$231.08/mt, German 12.5 pro increased by \$6.93/mt from last week to \$234.01/mt, and Baltic 12.5% pro wheat increased \$6.91/mt to \$231.08/mt.

Black Sea wheat:

- Black Sea futures made contract highs with the July 2021 contract hitting over \$220/mt, some \$30 above last year's value.
- Black Sea FOB markets were firm as domestic Russian wheat and flour prices remain at or close to record highs.
- There is still no rain in the forecast for Russia through mid-October, and the Ukrainian AgMin projected a 9% drop in winter wheat acreage with just 25% planted so far and added that only 10-15% of total arable land is suitable for seeding due to the drought.
- Total planting of all Russian winter crops is put at 62% complete, but very few are germinating.
- FOB values were up with Russian 12.5 pro at \$237/mt.

➤ **Significant purchases/ trades:**

- **Thailand** bought 70,000 mt of feed wheat for Nov-Jan at \$252.50/mt;
- **Jordan** bought 120,000 mt wheat for Dec-Jan at \$258;
- USA export sales were 506,000 mt for a season total 514 million bushels, up 8% on last year.
- EU wheat shipments advanced 225,000 mt to 4.37 million mt, still down 39% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- USA wheat futures began the week higher on **dryness in Russia, the Plains and Argentina**, but then soared following the **USDA report on grain stocks**.

- While the changes were relatively moderate to the overall wheat crop, they obscured some big **changes on a class basis**: HRW was down 36 million bu and SRW was down 10 million bu, while white wheat was increased 30 million bu.
- The implication of the report is that **US ending stocks** will fall below 900 million bu for the first time in 5 years. However, the widening price spreads against competing exporters will make the USDA's US export number tough to achieve.
- However, we need to be kept in mind that US wheat is now somewhere on the order of US\$30.00/mt more expensive than the next closest competitor (on a FOB basis), while US corn/soybeans are likely the cheapest.

➤ **Outlook:**

The focus of the trade in the coming week will be on weather and in particular the continued dryness in Europe and Eastern Europe. The main attention will be on the planting of winter crops. However, we don't expect this to slow the selling of the current crop at what are traditional "highs" for Russian/FSU growers. The market still is not sure of the size of the current crop in Russia and the Ukraine.

We would hold additional sales for now. We see higher Canadian prices and we would wait until we see the next WASDE report before making new commitments.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	05-10-2020
NW Sask	Spot		NW Sask	Deferred		
	{bu.}	{mt}		Feb.'20 {bu.}	Feb.'20 {mt}	
1 CWRS 13.5	\$6.39	\$234.79	1 CWRS 13.5	6.50	\$238.84	
1 CWAD 13.0	\$7.44	\$273.38	1 CWAD 13.0			
1 CPSR 11.5	\$5.98	\$219.73	1 CPSR 11.5	6.04	\$221.93	
SW Sask			SW Sask			
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	6.37	\$234.06	
1 CWAD 13.0	\$7.58	\$278.52	1 CWAD 13.0			
1 CPSR 11.5	\$5.85	\$214.95	1 CPSR 11.5	5.97	\$219.36	
NE Sask			NE Sask			
1 CWRS 13.5	\$6.16	\$226.34	1 CWRS 13.5	6.24	\$229.28	
1 CWAD 13.0	\$7.46	\$274.11	1 CWAD 13.0	7.66	\$281.46	
1 CPSR 11.5	\$5.79	\$212.75	1 CPSR 11.5	5.81	\$213.48	
SE Sask			SE Sask			
1 CWRS 13.5	\$6.08	\$223.40	1 CWRS 13.5	6.19	\$227.45	
1 CWAD 13.0	\$7.54	\$277.05	1 CWAD 13.0	7.66	\$281.46	
1 CPSR 11.5	\$5.75	\$211.28	1 CPSR 11.5	5.79	\$212.75	

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.01)	(0.37)
1 CWRS 12.5	(0.25)	(9.19)
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 Basis¹ (see *Export Basis*

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.

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) ≈ 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.
 - 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				05-10-2020
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	\$325.64	\$381.70		
HRS	\$318.81			
HRW 11.5	\$331.49			
SWW 12.0	\$289.56			
1 CWRS 13.5 ³	\$325.64		\$226.71	\$98.93
2 CWRS 13.0 ³	\$318.81		\$208.34	\$110.48
3 CWRS ³	\$331.49		\$193.64	\$137.85
CPS ³	\$282.74		\$222.67	\$60.07
1 CWAD ⁴		\$374.87	\$293.95	\$80.92
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$237.00	August		
French 11.5 (Rouen)	\$231.08	August		
ASW 10.5 (W Coast)	\$247.00	December		
Argentine 12.0	\$220-230	December		

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				05-10-2020
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.49	\$8.84	\$5.80	\$5.80
Parity Track Rosetown	\$6.99	\$7.34	\$6.20	\$6.20
Track Bid Rosetown Area	\$5.67	\$5.27	\$6.06	\$6.06
Gross Margin at Elevator (\$/bu)*	\$1.32	\$2.07	\$0.14	\$0.14
Gross Margin at Elevator (\$/mt)*	\$48.67	\$76.04	\$5.09	\$5.09

* to cover elevation, elevator market risk, margin