

Wheat Market Outlook and Price Report: April 27, 2020

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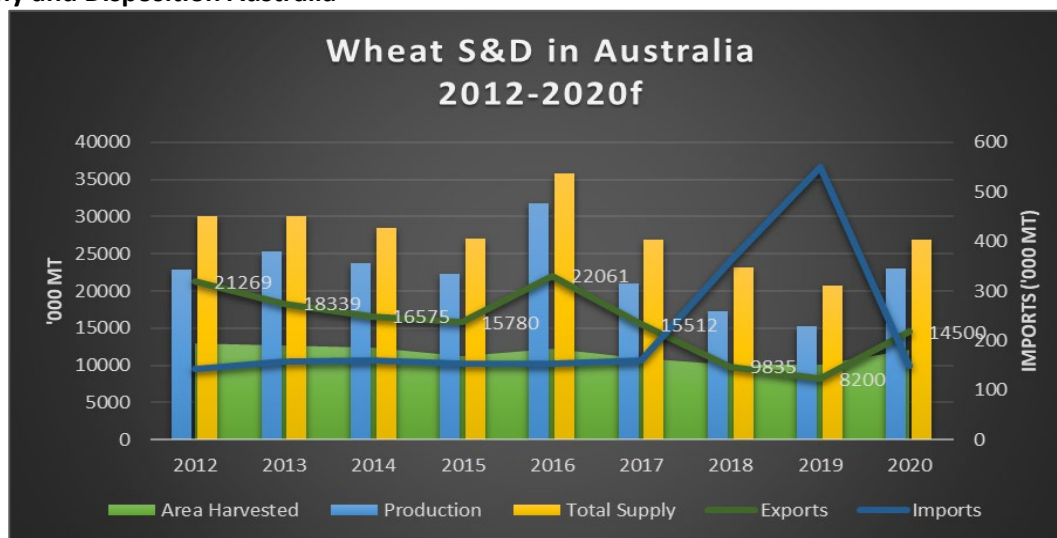
i) Background and Rationale for the Report

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 April 21, 2020

Wheat Supply and Disposition Australia



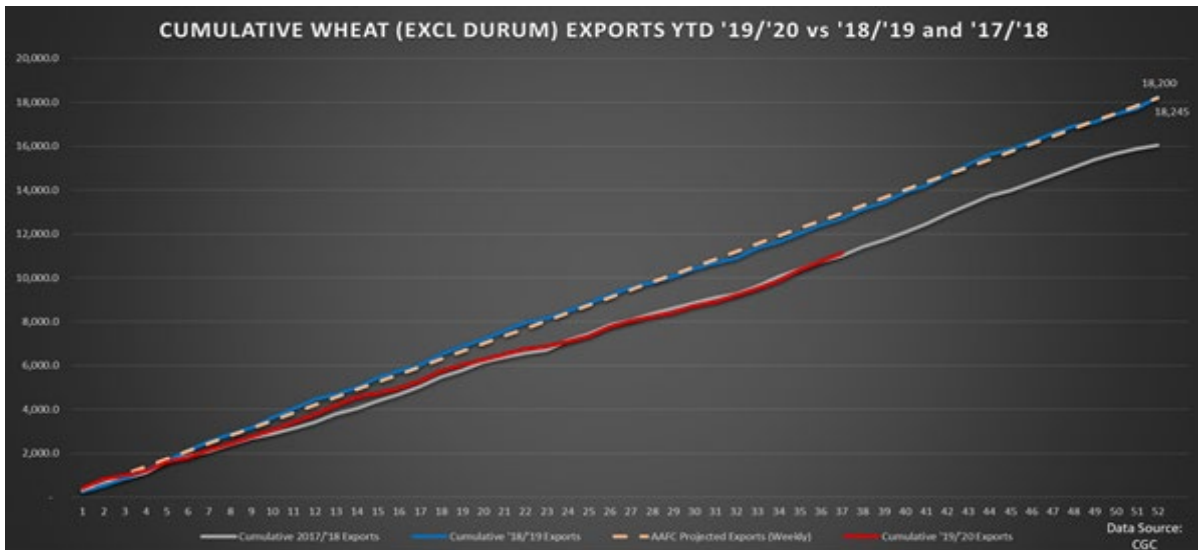
- USDA released an updated S&D for wheat in Australia. **Australian wheat is a major competitor to Canadian wheat, especially into the Asia market.**
- Strong prices and a weak AU\$ have led planted area in Australia to increase by 20% to 12.1 million ha. Widespread rainfall across the country has all but ended their three-year drought.
- The combination of **higher area and stronger yields has caused USDA to estimate 2020 Australian wheat production at 23.0 million mt, 50% bigger than last year's crop.**
- **Exports are expected to return to 14.5 million mt, 6.3 million mt more than last year,** while imports will shrink by 73% to 150,000 mt.
- *The rebound in Australian wheat production will return Australian wheat as a major competitor to Canadian wheat and will cut off the ~60,000 mt worth of monthly imports of Canadian wheat Australia has been buying this marketing year.*

➤ **Global wheat production and trade:**

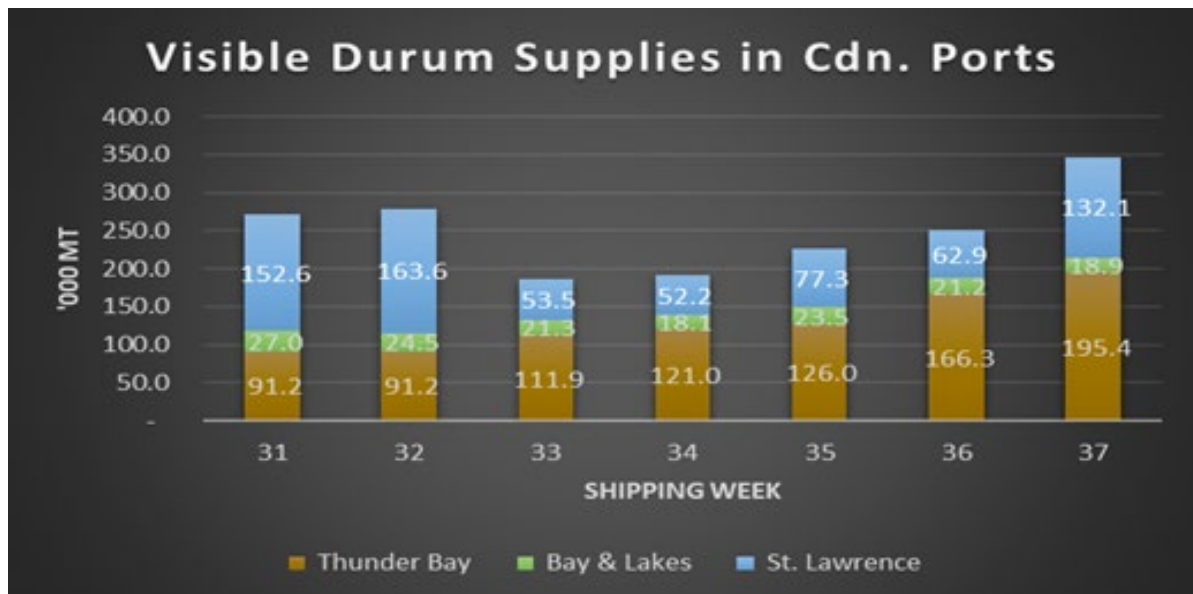
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** May '20 contract **Chicago** winter wheat closed at 526-6, down 20-2 cents on Friday, *down 6-6 cents for the week.*
- May '20 contract **Kansas** hard red winter wheat closed at 474-6, down 10-6 in Friday's trade, *down 4-0 cents for the week.*
- **Minneapolis** May '20 contract hard red spring wheat closed at 499-0, down 6-1 cents in Friday's trade, *down 7-6 cents for the week* while Jul '20 hard red spring wheat closed at 513-2, down 6-4 cents on Friday, *down 6-2 cents for the week.*

Canadian Wheat:



- Canadian producers delivered 524,900 mt of wheat into the Canadian elevator system during week 37 ending April 19th. Total deliveries are now 15.44 million mt, down 1% (220,000 mt) from last year.
- Exports throughout the week were 391,200 mt for a total of 11.28 million mt, *down 12% (1.48 million mt) from last year.*



- Canadian producers delivered 135,000 mt of durum into the system during shipping week 37 for a year-to-date total of 3.70 million mt, 15% (468,900 mt) more than last year.
- Durum exports throughout the week were 108,200 mt for a season total of 3.44 million mt, 22% (629,400 mt) more than last year.
- There were another 19,500 mt of durum exported out of Thunder Bay and visible supplies in Eastern ports continue to indicate strong export demand for durum.
- The Moroccan Government decreased 2020 durum production estimates to 750,000 mt. If true, this would be a 45% reduction in durum production from last year (which was also drought impacted). *Morocco is a strong customer of Canadian durum and we expect this will continue in the 2020/21 marketing year.*



US wheat:

- US wheat futures were supported early in the week by fund short covering as algorithms responded to reports of poor weather conditions in the EU and potential export restrictions in the Black Sea. Wheat was not included in the list of Chinese purchases, so technical selling at the end of the week pushed wheat lower week/week.
- Weekly US inspections were 470,000 mt for a season total of 807 million bushels, 6% more than last year. Sales were 245,000 mt for a season total of 936 million bushels, essentially unchanged from last year. US wheat is very competitive on a FOB basis but continues to lose out because of freight.
- US winter wheat crop conditions lost 5 points to 57 Gd/Ex vs last year's 62% Gd/Ex. Large decreases in condition were in OK (-10), OR (-10) and SD (-12 because of frost) while the only significant increase were in MT (+10) and IL (+7). Fourteen percent of the crop has headed, in-line with the 15% average.
- Spring wheat planting progressed 2% over the week to 7% complete, well below the 18% average for this time. Spring wheat planting in Minnesota is just 1% complete vs the average of 21% while spring wheat planting in South Dakota is 9% done vs the 40% average.

Australian wheat:

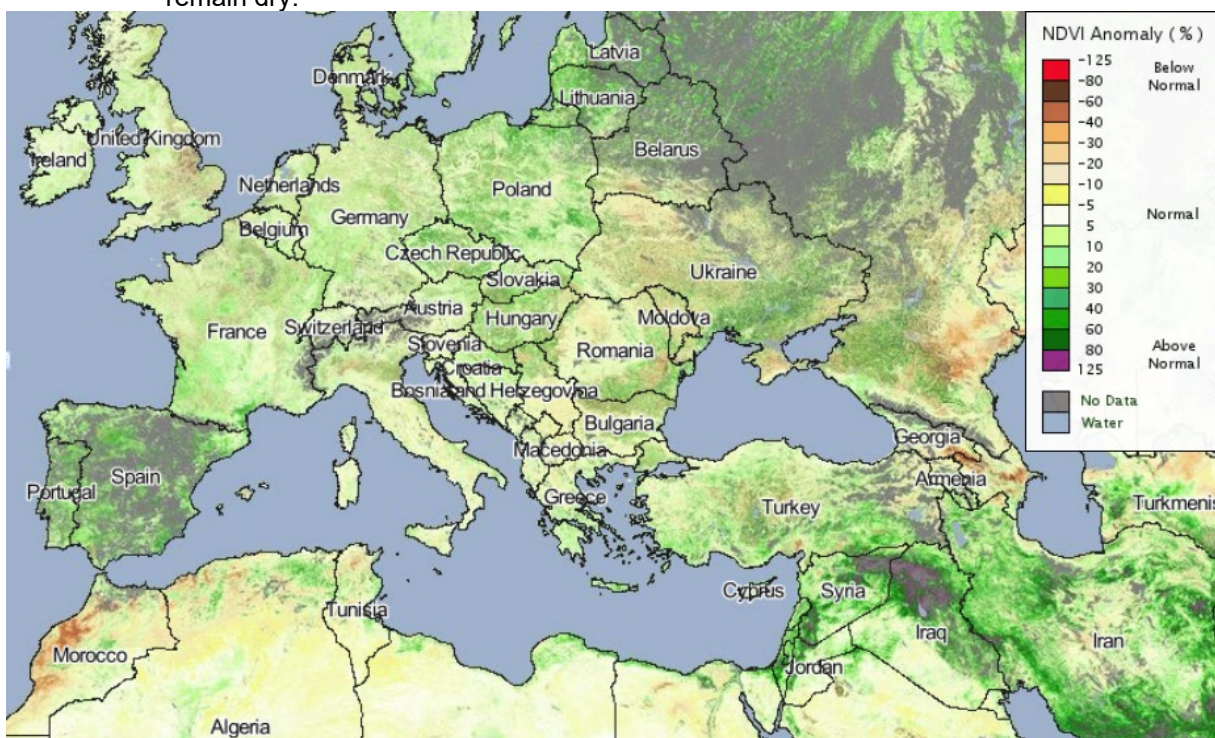
- News was limited in Australia. A wetter forecast in the east will aid early crop development.
- USDA has Australian wheat production rebounding by 50% from 2019/20 as widespread rainfall seems to have ended the 3-year drought. With planted area forecasted 2 million ha more than last year, USDA has Australian production at 23.0 million mt and exports at 14.5 million mt (73% more than last year).
- Aussie APW WA FOB rose \$2.00/mt on the week to \$285.00/mt.

Argentine wheat:

- We reported last week that Brazil would open hydro dams to help replenish low water levels in Argentina's Parana River. This move was denied on Tuesday. Water levels were last reported at just 55 cm vs the normal April amount of 4 m!
 - A significantly wetter pattern is expected over this coming week which will be welcome for planting and could help raise water levels (at 55 cm, there is a long way to go).
- FOB values were nominally unchanged at \$230.00-\$240.00/mt.

EU wheat:

- Vegetation and precipitation maps across most of the **EU**, **Black Sea** and **N Africa** continue to deteriorate:
 - **Germany** has received just 30-50% of normal precipitation.
 - Bloomberg described weather in **France** as "catastrophic" (which is a slight exaggeration).
 - **Poland** is having the worst drought in a decade.
 - Meanwhile **Spain** has seen ample moisture and is on track for a record crop.
 - There are rains forecasted for parts of **Germany**, **Poland**, and **Ukraine**, while **Russia** will remain dry.



- FOB values in the EU were lower for the week: French 11.5 pro FOB values fell \$6.39/mt, now bid at \$219.81/mt, German 12.5 pro was \$1.00/mt lower at \$229.55/mt while Baltic 12.5 pro values lost \$0.99/mt last week to \$227.93/mt.

Black Sea wheat:

- Updated counts of Russian exports show that 3.5 million mt of grain (half of the export quota) was exported in the first half of April, suggesting that restrictions could be implemented sooner than expected. If Black Sea export restrictions are implemented, export demand will be pushed further into France.
- Russian Spring wheat planting is 6.7% complete with 0.8k ha worth of area planted.
- Persistent dry weather across Russia has caused IKAR to cut their wheat crop expectations from 79.5 million mt to 77.2 million mt, still a 5% increase from last year.
 - While there is rain in the forecast for Ukraine, Russia looks like it will miss out entirely.
- FOB values for Russian 12.5 pro fell \$4.00/mt to \$228.00/mt, while feed wheat in Ukraine was \$8.00/mt lower at \$214.00/mt.

➤ **Significant purchases/ trades:**

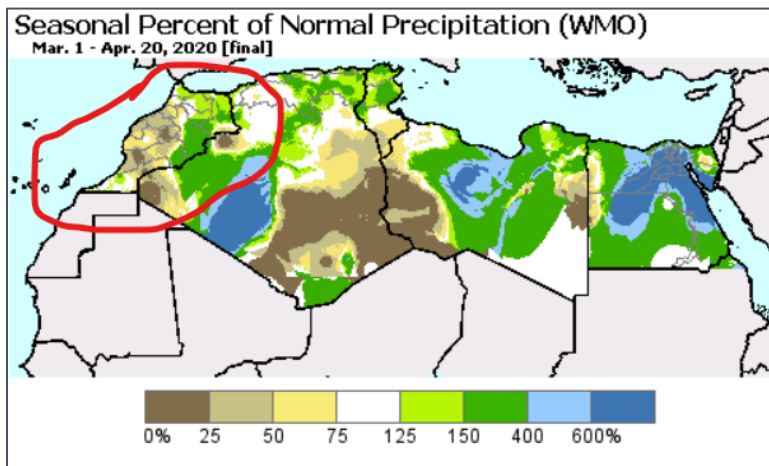
- **Saudi Arabia** tendered on Friday for 655,000 mt of wheat for Jul-Aug shipment (results are expected on today – it is unlikely any North American wheat will feature).
- **USA** inspections were 470,000 mt (season total 807 million bushels, up 6%), export sales were below expectations at 245,000 mt for a season total 936 million bushels, virtually unchanged on last year's 931 million bushels vs the USDA's 5% increase. With only a few weeks remaining, the USDA will reduce the export forecast for USA wheat sales.
- **EU** shipments advanced 450,000 mt for an all-wheat total 26.7 million mt, up 61% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- **China announced intentions to buy 30 million mt of US ag goods for their state reserves (20 million mt of corn and 10 million mt of soybeans).** Wheat was not mentioned.
- **Global deaths from “coronavirus” exceed 200,000, but daily casualties in some areas decreased.** Officials have started talk of reducing isolation requirements: Georgia was the first area to suggest isolation reductions in the USA.
- **The pandemic remains the major news story** and we might soon get a better view of its economic damage. Political leaders have made numerous announcements on aid packages but have said little on how these funds would be recovered or the consequences of taking on so much debt.
- **Ethanol production in the US is down by 45% from last year,** and more closures are happening each week. Over two dozen US facilities have switched some of their output to making ethanol for hand sanitizer. This will have little to no impact on the overall picture. **The glut of corn in the US and the rest of the world will eliminate wheat from feed rations.**

- **Drought conditions in Morocco have not improved** (see map). The Morocco government put their total grain crop down to 3 million mt, 42% less than last year. Of this, 1.65 million mt is expected to be soft wheat and 750,000 mt is expected to be durum.



- **Weather Around the World:**
 - The forecast maintains needed rain for **Argentina** for the coming week, but whole southern half of

Brazil remains dry. Rain in the **USA** remains essentially in the southern Midwest and in the east. Temperatures are still below normal, whilst the Plains stay mostly dry with generally warmer temperatures. **Europe** is adding considerably more rain into the west, with even the driest areas of Poland and the Baltics getting coverage. **Western Ukraine** is also forecast to see rain, but **Southern Russia** remains essentially dry. **Australia** has more rains in the south-east.

➤ **Outlook:**

We still think CBOT wheat is still overpriced against corn. The old crop - new crop inverse is telling the markets that nearby prices will fall. Financials are becoming a problem as the economic consequences of “coronavirus” are starting to be considered. Corn is buying feed demand from wheat. Weather concerns will prevent aggressive farmer selling for the time being, but funds need to dispose of their old crop long in wheat. **We continue to recommend liquidating old crop stocks, but holding new crop for now.**

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)		Jun. '20 (bu.)	Jun. '20 (mt.)
1 CWRS 13.5	\$6.22	\$228.55	1 CWRS 13.5	\$6.34	\$232.96
1 CWAD 13.0	\$7.83	\$287.71	\$7.77	\$7.77	\$285.50
1 CPSR 11.5	\$5.77	\$212.01	1 CPSR 11.5	\$5.79	\$212.75
SW Sask			SW Sask		
1 CWRS 13.5	\$6.12	\$224.87	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$7.80	\$286.60	1 CWAD 13.0	\$7.74	\$284.40
1 CPSR 11.5	\$5.69	\$209.07	1 CPSR 11.5	\$5.71	\$209.81
NE Sask			NE Sask		
1 CWRS 13.5	\$5.94	\$218.26	1 CWRS 13.5	\$6.06	\$222.67
1 CWAD 13.0	\$8.17	\$300.20	1 CWAD 13.0	\$8.05	\$295.79
1 CPSR 11.5	\$552.00	\$20,282.69	1 CPSR 11.5	\$5.59	\$205.40
SE Sask			SE Sask		
1 CWRS 13.5	\$6.03	\$221.57	1 CWRS 13.5	\$6.06	\$222.67
1 CWAD 13.0	\$8.14	\$299.10	1 CWAD 13.0	\$8.06	\$296.16
1 CPSR 11.5	\$5.48	\$201.36	1 CPSR 11.5	\$5.51	\$202.46

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				April 27, 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	\$358.45	\$314.03		
HRS	\$351.80			
HRW 11.5	\$330.05			
SWW 12.0	\$324.88			
1 CWRS 13.5 ³	\$358.45		\$217.52	\$140.93
2 CWRS 13.0 ³	\$351.80		\$200.99	\$150.81
3 CWRS ³	\$330.05		\$162.41	\$167.64
CPS ³	\$317.65		\$201.72	\$115.92
1 CWAD ⁴		\$389.96	\$303.14	\$86.82
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$228.00			
French 11.5 (Rouen)	\$219.81			
APW 10.5 (W Coast)	\$285.00			
Argentine 12.5	\$230-\$240			
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: As per the opening of the Great Lakes, there are now posted bids for DNS and CWAD

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						April 27, 2020
Canadian Funds	Grade		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$9.56	\$9.38	\$8.79	\$8.64	\$8.64	
Parity Track Rosetown	\$8.06	\$7.88	\$7.29	\$7.15	\$7.15	
Track Bid Rosetown Area	\$5.92	\$5.47	\$4.42	\$5.49	\$5.49	
Gross Margin at Elevator (\$/bu)*	\$2.14	\$2.41	\$2.87	\$1.66	\$1.66	
Gross Margin at Elevator (\$/mt)*	\$78.71	\$88.59	\$105.42	\$60.94	\$60.94	

* to cover elevation, elevator market risk, margin