

Wheat Market Outlook and Price Report: April 6, 2020
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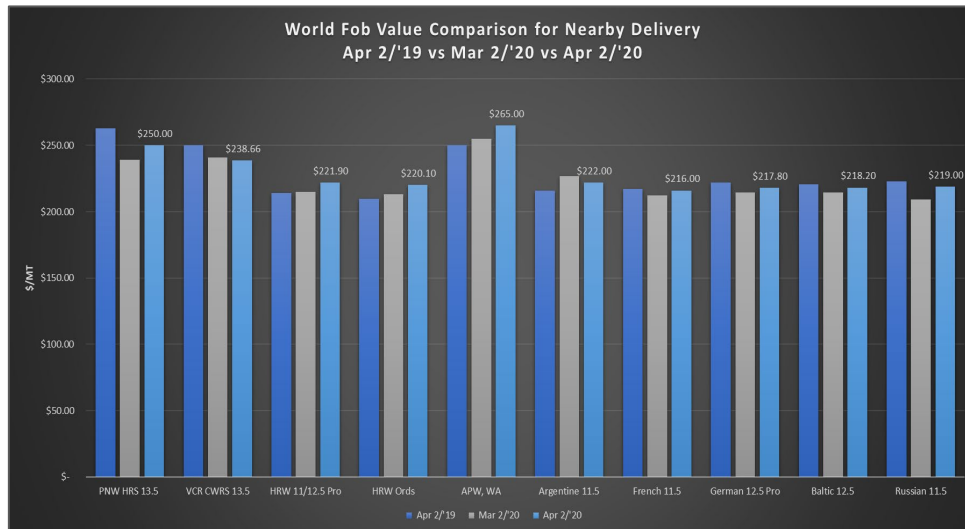
i) Background and Rationale for the Report

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 2, 2020

World Cash Wheat Price Comparison



- **World cash values are mixed** as the market tries to sort out the combination of appreciating/depreciating currencies, transportation issues, export restrictions, new crop weather and strategic reserve building.
- The graph above is a comparison of the current cash price of near-by wheat vs the price it was last month and one year ago. **The beginning of March was largely the end of the pre-COVID era as markets were seasonally trending lower as attention was turning to a very strong new crop.**
- **Five-month lows were experienced on or around March 16th (bloody Monday), the day the market learned about the oil price war between OPEC and Russian oil makers.**
- **Sine then, bargain buying, panic buying, and strained logistical networks have supported FOB values in most origins to levels higher than they were last month.**

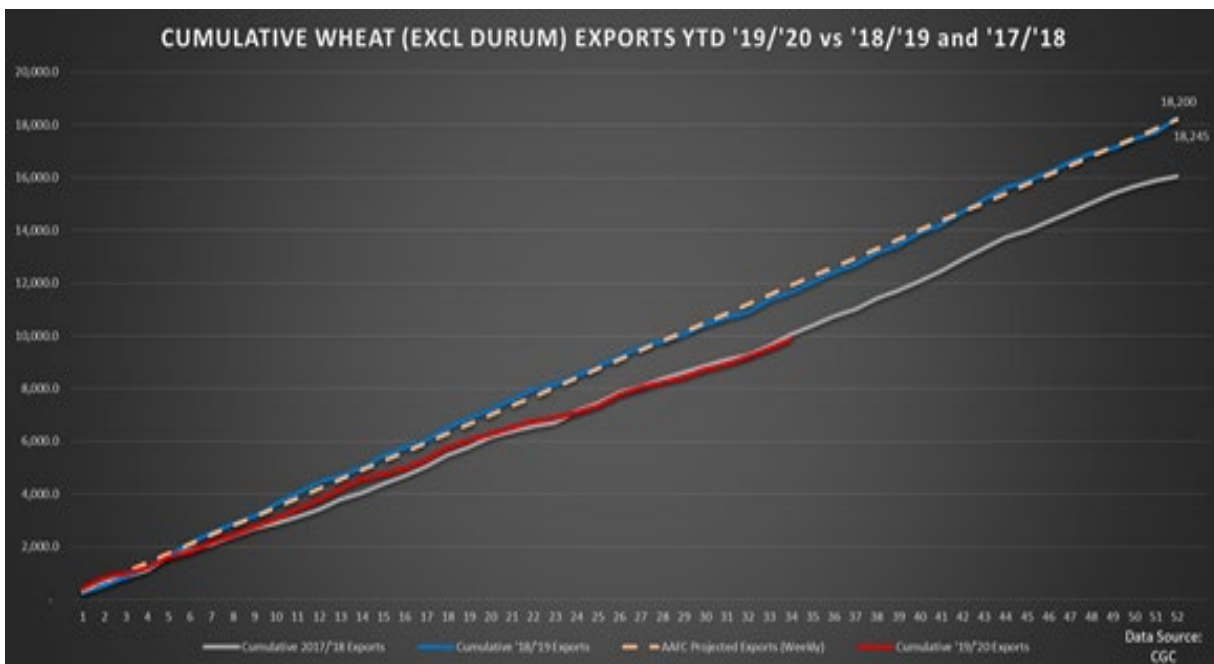
➤ **Global wheat production and trade:**

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.

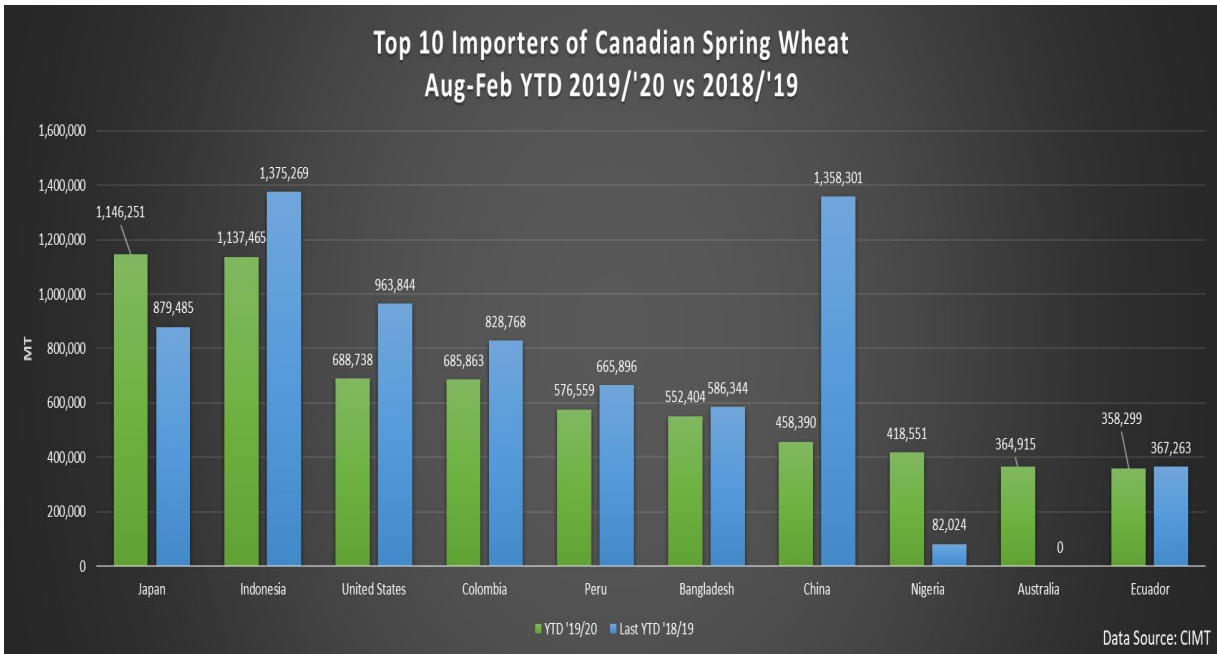
- **Futures:** May '20 contract **Chicago** winter wheat closed at 549-2, up 7-4 cents on Friday, *down 22-0 cents for the week.*
- May '20 contract **Kansas** hard red winter wheat closed at 472-0, up 8-0 cents in Friday's trade, *down 14-6 cents for the week.*
- **Minneapolis** May '20 contract hard red spring wheat closed at 524-4, up 5-4 cents in Friday's trade, *down 12-4 cents for the week* while Jul '20 hard red spring wheat closed at 535-4, up 5-4 cents on Friday, *down 10-0 cents for the week.*

Canadian Wheat:

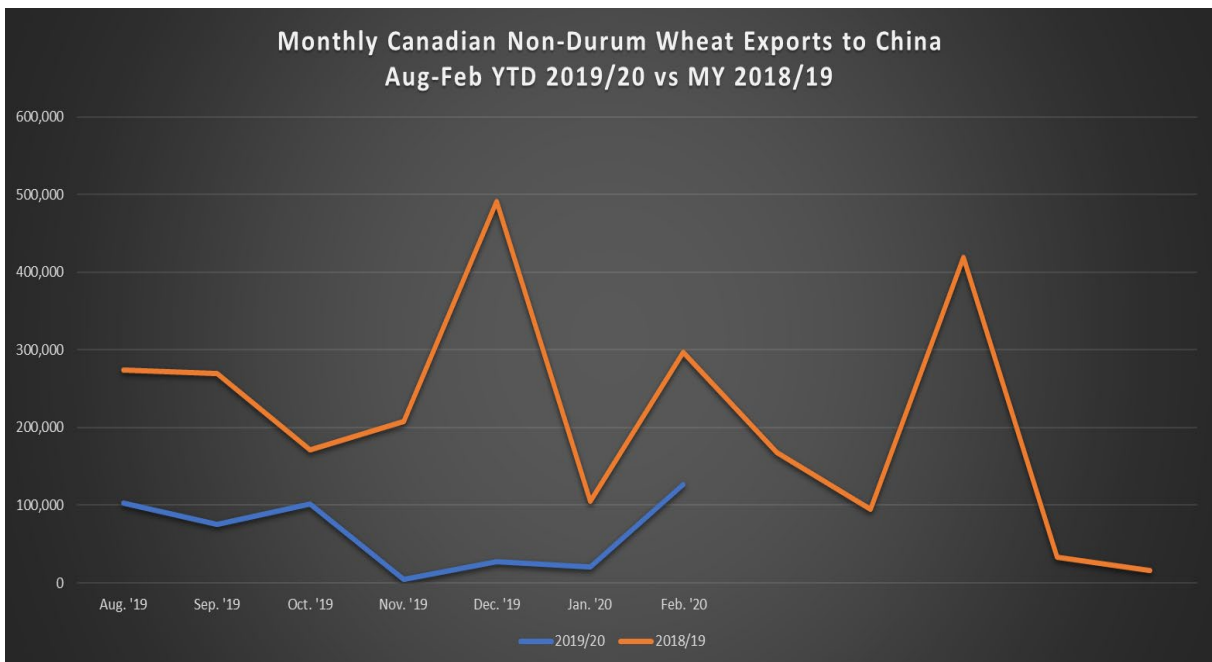
- Canadian producers delivered 523,900 mt of wheat during week 34 ending March 29th. Total deliveries are now 14.0 million mt, down 3% (369,200 mt) from last year.
- Exports throughout the week were 352,100 mt. Total exports are 1.65 million mt, 14% (1.70 million mt) less than last year. Weekly exports needed to reach AAFC's 18.2 million mt estimate now stand at 453,000 mt.



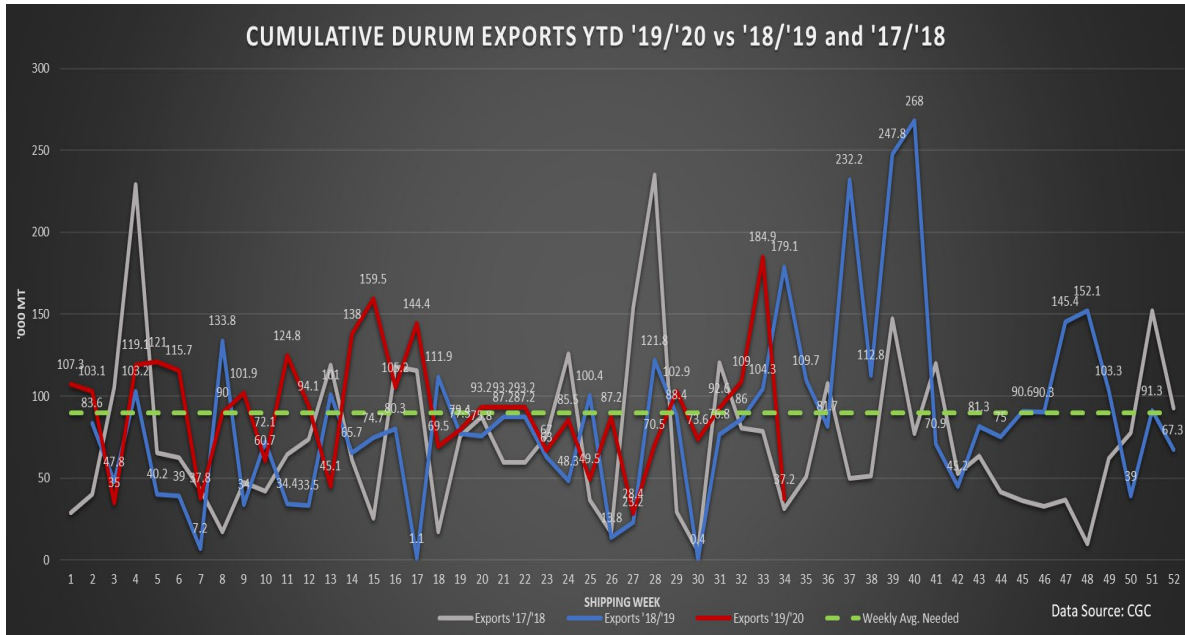
- StatsCan shows that Canada exported 1.03 million mt of wheat (excl. durum) in February. This is just 83% of last year's February amount. Year-to-date exports to all major Canadian wheat destinations is down from last year except to Japan (thanks to the CPTPP), Nigeria and Australia (both countries were very small buyers last year).



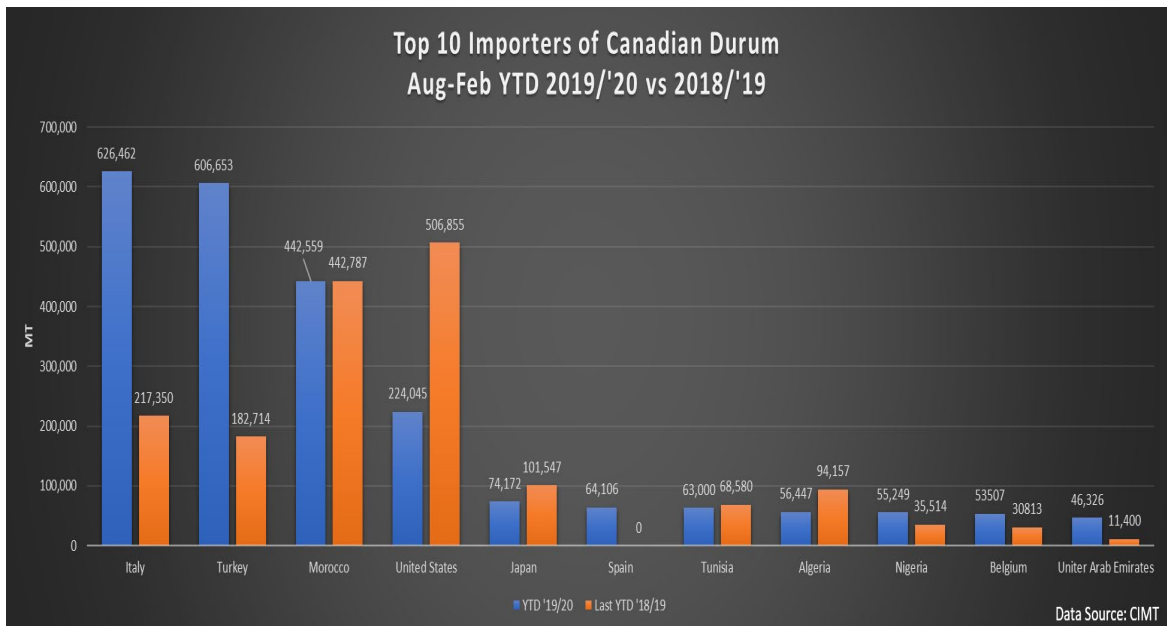
- The largest year/year decrease has been to China who had imported 1.36 million mt of Canadian wheat by this time last year vs the current year-to-date total of 458,000 mt. Notably, Australia was back for 61,000 mt in February having not imported any Canadian wheat in January.



- Canadian producers delivered 133,900 mt of durum into the system during shipping week 34 for a year-to-date total of 3.28 million mt, 16% (450,400 mt) more than last year.



- Exports throughout the week were 37,200 mt for a season total of 3.18 million mt, 33% (795,600 mt) more than last year.
- With the Great Lakes now open, we expect that durum exports should be strong for the next few weeks.
- According to StatsCan, Canadian durum exports were strong throughout February with 351,700 mt of durum being exported over the month. Italy continues to be the largest customer having imported 626,500 mt of durum year-to-date, August to February. This is almost three times the amount they imported last year. Year-to-date exports to Turkey are also strong at 606,700 mt, over three times the amount imported this time last year. The US has imported just 44% of last year's amount at 224,000 mt.



- Old crop *durum* bids are \$8.25-\$8.50 in SE SK. Old crop supply is tight and demand is strong. We would finish selling old crop at these levels.
- We continue to think that durum could be a strong crop to plant in 2020/21. Planted area in the US and Canada will be higher, but not enough to cause stocks to be burdensome. Additionally, weather has been sub-optimal in N Africa and the EU, there is good potential for another strong 2020/21 export program.

US wheat:

- USDA put **prospective wheat plantings for 2020 at 44.7 million acres**. This is the lowest level since 1919, but basis normal weather conditions, there will be no shortage of wheat next year. Implied by class numbers suggest that HRS will be the only class with tighter stocks than in 2019/20.
- US **spring wheat planted area for 2020 was estimated at 12.59 million acres**. This was 60,000 acres less than trade was expecting and 7,000 acres (1%) less than 2019's area. Of this total, 11.9 million acres is expected to be HRS.
 - Spring wheat planted area is expected to be larger in all spring wheat growing states except for Minnesota and North Dakota, where area planted to spring wheat is expected to fall by 100,000 acres and 600,000 acres respectively.
- **USDA projected 2020 durum area down 4% (-49,000 acres) from 2019 at 1.29 million acres**.
 - Decreases are expected in California (-5,000) and North Dakota (-80,000 to a record low of 640,000) with increases in Arizona (+16,000) and Montana (+30,000).
- All wheat stocks as of March 1st were below market's expectations at 1.4 million bu, 11.4% less than March 2019.
- **USDA reported a sharp depletion in US durum stocks**. Total March 1, 2020 durum stocks were put at 51.5 million bu, 31% less than the 74.4 million bu this time last year.
 - On-farm stocks of 23.5 million bu are down 42% from last year while off-farm stocks of 28.0 million bu are down 17% from a year ago. Current use and export number suggest that the USDA's forecasted 21 million bu (down 38% from last year) of carry-out will be close to correct.
- US winter wheat conditions were mixed. Improvement was seen in KS, up 2% to 50% (55% last year), while ratings fell 4% in CO and 7% in OK. Dry weather persists in SW KS.
- The US Wheat Quality Council cancelled its annual HRW tour because of COVID-19.
- US weekly inspections were as expected at 364,000 mt for a season total of 752 million bu, 8% more than this time last year. Sales were dismal at 73,000 mt. Year-to-date sales now total 24.8 ml mt, 2% more than last year vs the USDA's expected 7% increase.
- FOB values for HRS in the PNW fell \$3.00/mt from last week, now bid at \$250.00/mt.

Australian wheat:

- Aussie futures made contract highs last week as the AU\$ fell 3% from the week previous.
- FOB values were firm, rising \$10/mt from last week to \$265/mt amidst an active shipment program.
- Kuwait reportedly bought Aussie wheat at \$280 FOB parity.

Argentine wheat:

- Argentina continues to be dry now weeks ahead of planting time.
- Transport restrictions in nearly 70 local governments in Argentina are affecting grain supply at local terminals. Municipal governments are restricting freight transportation to minimize the spread of the COVID-19 virus.
- Facing wheat supply shortages, Brazilian mills are turning to suppliers outside of Argentina. Millers are also pressuring the government to lift sanitary restrictions on Russian wheat as well as the 10% import tariff on non-South American origin.
- Fob values in Argentina nominally rose \$5/mt from last week to \$230.00-\$240.00/mt.

EU wheat:

- The European Commissions raised EU non-durum wheat exports for 2019/20 another 2 million mt from last month to 30 million mt.
- Sub-freezing temperatures hit the EU. Romania received up to 10 cm of snow! The market didn't care as all eyes remain on COVID-19.
- According to AMIS, conditions in many parts of the EU including France and Romania are rated as "watch".
- French 11.5 pro FOB values lost \$11.47/mt from last week, now bid at \$214.78/mt, German 12.5 pro was \$9.91/mt lower at \$218.56/mt while Baltic 12.5 pro values lost \$9.86/mt last week to \$216.94/mt.

Black Sea wheat:

- The Russian Government approved a 7 million mt April to June grain export quota. The quota will have little impact as this is largely what the country is expected to export during that timeframe anyway.
- Russia will also release 1.5 million mt of its 1.8 million mt worth of grain reserves to combat rising domestic prices. The original amount was going to be 1 million mt, which was later increased to 1.5 million mt. We think the country could be in more trouble than they are letting on.
- Russian prices were tempered somewhat because of the reserve release and as farmers sold into the rally, securing cashflow to spring planting.
- Some analysts are maintaining their 80-82 million mt estimate for 2020/21 Russian wheat production. As soil moisture levels deteriorate in the Black Sea, these numbers are beginning to look unrealistic (unless it rains soon).
- Ukraine's major trader's union, UGA, agreed to limit 2019/20 wheat exports to 20.2 million mt. If realized this is a 26% increase from last year. As of Apr 2nd, Ukraine had exported 17.9 million mt of wheat leaving 2.3 million mt to export in the April to June timeframe.
 - Russia, Ukraine and Kazakhstan all have some degree of export restriction through to the end of June, while many importing countries (including Egypt and Algeria) have indicated desires to expand grain inventories.
- FOB values in the Black Sea fell \$1.00/mt last week. Russian 12.5 pro is now bid at \$233.00/mt while feed wheat in Ukraine is bid at \$213.00/mt.

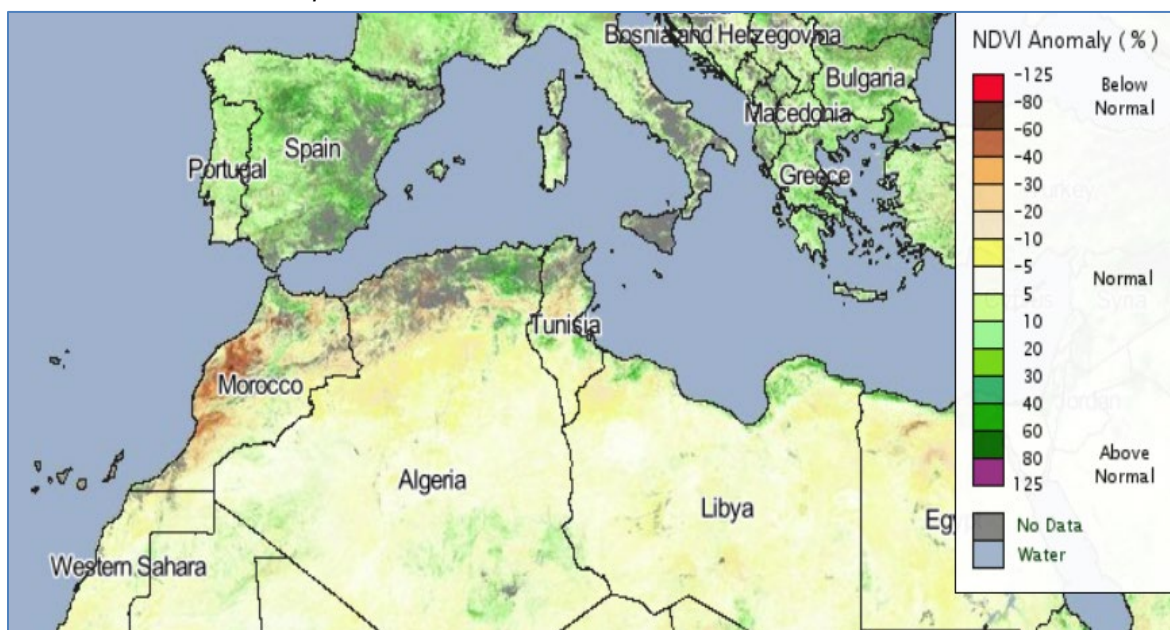
➤ **Significant purchases/ trades:**

- **Algeria** bought 250,000 mt of wheat for June at \$245/mt, but passed at Friday's July tender.
- **Kuwait** reportedly bought Australian wheat at \$280 FOB parity.
- **Tunisia** bought 75,000 mt of April to May durum at an average price of \$340.
- **Ethiopia** postponed its tender to April 15th.
- **Russia, Ukraine and Kazakhstan** have all placed some measure of restrictions on exports.
- GASC (**Egypt**) may come back this week to buy C&F with sight L/C's.
- **USA** wheat inspections were 364,000 mt (season total 752 million bu, up 8%), sales were 73,000 mt (season total 911 million bu up just 2% against the USDA's 7%).
- **EU** all wheat shipments advanced another 750,000 mt to 25.3 million mt, up 65% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- **US wheat futures succumbed to the global selling across the world's financial markets.** This was compounded by an awful week of US export sales, which displayed the consequences of the near 90¢ price increase in the US\$ during the second half of March.
- CBOT corn fell to contract lows this week. **The USDA put 2020 US corn acreage at 97 million acres, almost 3 million acres above trade guesses,** and is suggesting a crop of close to 16 billion bushels basis normal weather. **The USDA's number is likely upwards to 3 million acres too high, but regardless implies export corn will be cheap and will replace any wheat that's being used as feed, particularly if use as ethanol is not improved.**
- **Shortly after announcing a wheat tender for April 1, GASC (Egypt) promptly cancelled it.** Speculation behind the cancelation was that there was a clause in the contract saying the seller would have to replace any wheat that was blocked because of COVID-19, something traders were unwilling to agree to.
- **A 21-day COVID-19 lockdown in India has created a shortage of workers to harvest the country's ripe wheat crops.**
- Tunisia is currently the 7th largest importer of Canadian durum. **USDA Post is forecasting that 2020/21 area seeded to durum in Tunisia is 20% less than last year because of excessive dryness at seeding time.** The attaché is forecasting that total durum production will be 38% less than last year at 783,000 mt (some analysts believe that production could fall 30-50%) because of the excessive dryness. Note: vegetation indexes have improved since the Post's forecast (see map). Consumption is expected to expand slightly from population growth for an implied 200,000 mt increase in durum imports to 770,000 mt.



- StatsCan and USDA data suggests that **Tunisia imported 30% of their durum needs from Canada in 2018/19.**
- The Moroccan government has made 49,500 mt of subsidized barley available to animal farmers struggling from dryness. **The country has received rain over the last two weeks, but some analysts believe the rain is too late.** Morocco's ag minister said the rain should improve the crop; vegetation indices are yet to show this.

- **Weather Around the World:**

- the **USA** looks generally dry this week with near normal temperatures but turns much colder in the north and generally wetter in week two of the forecast. **Central Brazil** has near normal precipitation, but the south remains dry, as does the whole of **Argentina**. Temperatures remain below normal in Brazil, warm in central and Southern Argentina. Once again, except for Iberia. **Europe** remains almost completely dry with temperatures raising 2-4°C above normal. The **Black Sea** is also dry, but temperatures here remain cool. **S Africa** remains warm and dry; **Australia** looks considerably drier this week but could still use some rainfall. In general, currently conditions look quite good, but winterkill could become an issue in Europe if temperatures fall.

- **Outlook:**

Weather concerns in the Black Sea and EU are supportive to the wheat market. Fundamentally, weather should be driving wheat prices, but nothing is significant enough divert the market's attention from COVID-19. Stalling global economies are negative to consumption in the long run, but hoarding and building of strategic reserves will be supportive in the short-term. Even if corn acres are being overestimated, the huge glut of corn that is expected this summer will limit wheat feeding and will prevent substantial rallies. The USDA April report is due on Thursday, but the May report will attract more attention as it features the first new crop world S&D's.

If not already sold as per our recommendations, we recommend targets at the \$7.00 level for No. 2 13.5 pro CWRS. We would not make any new crop sales as we see further downside risk to the Canadian dollar.

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	\$6.41	\$235.53	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$7.78	\$285.87	1 CWAD 13.0	\$7.72	\$283.66
1 CPSR 11.5	\$5.73	\$210.54	1 CPSR 11.5	\$5.72	\$210.18
SW Sask			SW Sask		
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	\$6.38	\$234.43
1 CWAD 13.0	\$7.78	\$285.87	1 CWAD 13.0	\$7.72	\$283.66
1 CPSR 11.5	\$5.66	\$207.97	1 CPSR 11.5	\$5.65	\$207.60
NE Sask			NE Sask		
1 CWRS 13.5	\$6.15	\$225.98	1 CWRS 13.5	\$6.24	\$229.28
1 CWAD 13.0	\$8.17	\$300.20	1 CWAD 13.0	\$8.06	\$296.16
1 CPSR 11.5	\$5.50	\$202.09	1 CPSR 11.5	\$5.53	\$203.19
SE Sask			SE Sask		
1 CWRS 13.5	\$6.15	\$225.98	1 CWRS 13.5	\$6.23	\$228.92
1 CWAD 13.0	\$8.15	\$299.46	1 CWAD 13.0	\$8.07	\$296.52
1 CPSR 11.5	\$5.45	\$200.25	1 CPSR 11.5	\$5.49	\$201.72

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 6, 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	\$378.59	\$336.58		
HRS	\$371.89			
HRW 11.5	\$340.21			
SWW 12.0	\$323.62			
1 CWRS 13.5 ³	\$378.59		\$235.16	\$143.43
2 CWRS 13.0 ³	\$371.89		\$213.12	\$158.78
3 CWRS ³	\$340.21		\$180.05	\$160.17
CPS ³	\$316.36		\$206.13	\$110.22
1 CWAD ⁴		\$398.56	\$303.14	\$95.42
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$223.00			
French 11.5 (Rouen)	\$214.78			
APW 10.5 (W Coast)	\$265.00			
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 8, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$10.11	\$9.92	\$9.06	\$8.61	\$8.61
Parity Track Rosetown	\$8.61	\$8.43	\$7.56	\$7.11	\$7.11
Track Bid Rosetown Area	\$6.40	\$5.80	\$4.90	\$5.61	\$5.61
Gross Margin at Elevator (\$/bu)*	\$2.21	\$2.63	\$2.66	\$1.50	\$1.50
Gross Margin at Elevator (\$/mt)*	\$81.18	\$96.53	\$97.92	\$55.24	\$55.24

* to cover elevation, elevator market risk, margin