

Wheat Market Outlook and Price Report: December 14, 2020

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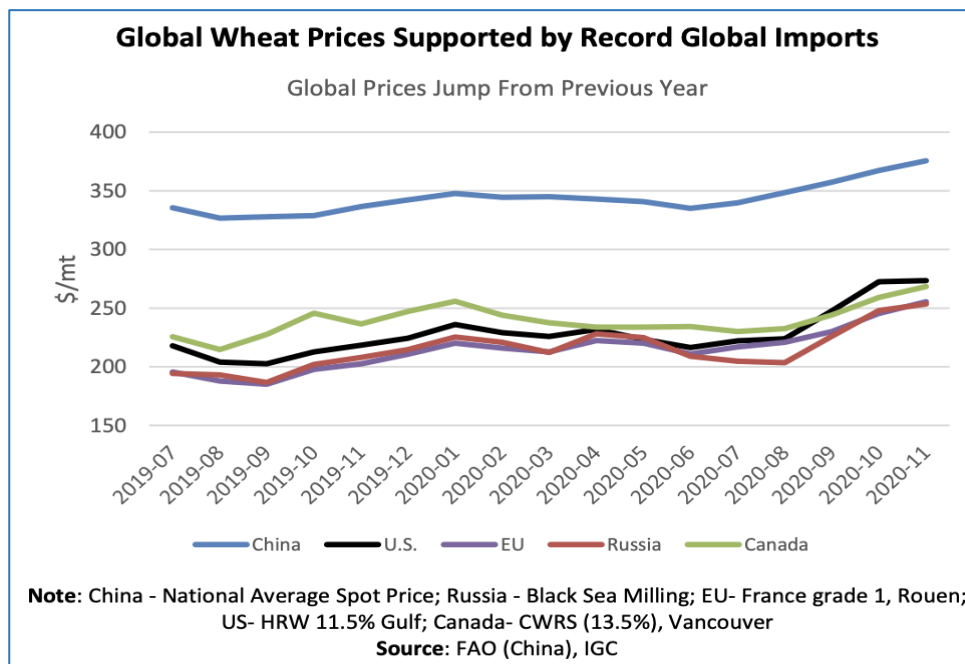
i) Background and Rationale for the Report

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 December 14, 2020

USDA-FAS on Global Wheat Prices:



- **Wheat prices** for major consuming and exporting countries surged from last year despite record global production and ending stocks. Prices found support, in part, from *record global imports and consumption in 2020/21*.
- Furthermore, *unexpectedly strong import demand in China and Pakistan* helped bolster global trade to a record this month due to unprecedented demand from both countries and other major importers, driving stocks in exporting countries lower and strengthening global prices.
- Global wheat prices have also been pulled higher in recent months on *strength in global oilseed and feed grain prices*.

➤ **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 614-4, up 18 cents on Friday, *up 39 cents for the week*.
Dec. '20 contract Kansas hard red winter wheat closed at 581-2, up 17-6 cents in Friday's trade, *up 38-6 cents for the week*.
Minneapolis Dec. '20 hard red spring wheat closed at 570-0, up 7-4 cents on Friday, *up 9-6 cents for the week*.
- **Futures market summary:** Higher than expected weekly US export sales, a reduced global ending stocks forecast in this week's USDA report and **news that Russia is considering a wheat export tax** supported all wheat futures prices late last week.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



Mpls. Mch. '21 Wheat



Canadian Wheat:

- The most important news came late in the week from Russia, where the government is considering *imposing a grain export quota (17.5 mln mt) and a wheat export tax (Euro25/mt were discussed in news wires) for February to June 2021 deliveries*, following President Vladimir Putin's public criticism of rising domestic food prices.
- In the WASDE report last Thursday, USDA increased Canadian 2020 wheat production to 35.2 mln mt, compared to 32.7 mln mt last year.
- USDA *also raised wheat export projections for Australia and Canada by 1 mln mt each*, plus a 500k mt increase for Russia and 300k mt for the US. If realized, 193.7 mln mt would be the largest global wheat export volume shipped ever.
- **North American wheat currently is competitive in export markets**, and exports from Canada continued with another 339k mt of wheat loaded during week 18, for a YTD total of 7 mln mt, compared to 5.8 mln mt last YTD.
- Canadian exports are 21% ahead of last year's pace, *and given continued access to rail transportation*, Canada should be able to keep selling into this market.
- Dry conditions in Argentina as well as in Russia and *the potential Russian wheat export quota and tax* pushed wheat back up on Friday and these developments are being closely watched by traders. *What actually happens in Russia will determine the short term to the markets.*
- *We see no reason to sell additional grains until the New Year. (If you need to sell, we would target min. \$7.25/bu for #2 CWRS 13.5 delivered elevator SK for the next sales.)*

(CGC) Grain Handling Summary Wheat		Wk.18		(Dec. 6/'20)	
('000 mt)	Prod. Dlvrs.	Terminal	Bulk exports	Dom.	
		Rcpts.		Disappearance	
Wk.18	579.0	410.3	338.7	67.6	
Week ago	504.0	398.9	230.1	67.9	
YTD	7,783.1	8,668.8	7,017.7	1,670.6	
Last YTD	7,558.9	6,885.4	5,784.6	1,599.3	
YTD less Last YTD	224.2	1,783.4	1,233.1	71.3	
YTD over Last YTD	103%	126%	121%	104%	

Mercantile based on weekly CGC Handling Data

- **Durum:** Durum exports continued with another 64k mt loaded during week 18, for a YTD total of 2 mln mt, compared to 1.8 mln mt last YTD. There are another 237k mt of durum instore the eastern seaboard, plus 57k mt at the West Coast, so shipments will continue.
- Demand remains good and we continue to hear of decent bids. *We would target to sell some durum (50%) at \$8.60/bu FOB farm.*

(CGC) Grain Handling Summary Durum	Wk.18		(Dec. 6/'20)	
('000 mt)	Prod. Dhvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk.18	162.6	240.3	64.3	21.8
Week ago	194.3	169.5	161.3	26.4
YTD	2,301.1	2,630.6	1,953.2	186.4
Last YTD	1,855.4	2,401.6	1,791.8	140.9
YTD less Last YTD	445.7	229.0	161.4	45.5
YTD over Last YTD	124%	110%	109%	132%

Mercantile based on weekly CGC Handling Data

US Wheat:

- Net weekly US wheat sales of 617k mt for 2020/2021 were higher than expectations (200k – 550k mt), up 38% from the previous week and 42% from the prior 4-week average. Increases were primarily for Mexico (107k mt), unknown destinations (104k mt), and Japan (89k mt).
- Higher than expected weekly US export sales, a reduced global ending stocks forecast in this week's USDA report and *news that Russia is considering a wheat export tax* supported all wheat futures prices this week.
- WASDE: In their report last Thursday, the USDA raised US wheat exports by 10 mln bu. to 26.8 mln mt, 2% higher than last years. There were more minor class adjustments, with HRW reduced by 2% to 10.8 mln mt. Ending stocks were lowered 15 mln bu, none of which was market moving. However, world crops were raised by 1.3 mln mt, but USDA forecasts total global wheat consumption in 2020/21 to jump to a record 758 mln mt, 1% more than last year and 4% more than the 5-year average due to higher feed and residual use in China, Australia and the European Union. World stocks (non-China) dropped by 1.4 mln mt.
- US HRS for January '21 is valued at \$272/mt FOB PNW (*up \$2/mt from last week*), PNW White wheat is valued at \$257/mt Fob PNW (*up \$2/mt from last week*), FOB Gulf HRW is valued at \$268.70/mt (*upn \$15.62/mt*).

World and U.S Supply and Use for Grains 1/						
Million Metric Tons						
World		Output	Total Supply	Trade 2/	Total Use 3/	Ending Stocks
Total Grains	2018/19	2,626	3,448	430	2,640	808
	2019/20	2,672	3,480	442	2,670	810
	(Est.)					
	2020/21	Nov	2,721	3,532	459	2,710
	Dec	2,723	3,533	466	2,719	814
Wheat	2018/19	731	1,019	174	735	284
	2019/20	765	1,049	191	748	301
	(Est.)					
	2020/21	Nov	772	1,073	191	753
	Dec	774	1,074	194	758	317
Coarse	2018/19	1,398	1,768	213	1,421	347
	2019/20	1,411	1,758	208	1,427	332
	(Est.)					
	2020/21	Nov	1,448	1,779	224	1,458
	Dec	1,448	1,779	227	1,461	319

Australian wheat:

- Australian wheat futures touched contract lows last week before bouncing back Friday.
- Australian wheat crop estimates continue to rise, but the USDA ignored ABARES and increased the Australian wheat crop to just 30 mln mt, with exports up 1 mln mt.
- Australian new crop FOB APW wheat values for Dec. closed \$5/mt *lower* than the week previous at 260.00/mt.

Argentine wheat:

- The weather in Argentina was been hot and dry all week and while the trade expected a lower crop from BAGE, this did not happen; they kept the crop at 16.8 mln mt due to "better than expected" yields in the south. The USDA number was also unchanged at 18 mln mt.
- The interior Argentine market closed much firmer with Jan up \$10 on the week at \$220/mt.
- Argentine Fob values rose \$3/mt; Fob 12% pro Argentina wheat was offered at \$250-255/mt for Jan. delivery.

EU wheat:

- Matif wheat futures rallied €8.50/mt last week (~Cdn.\$13.20/mt).
- Europe was wet in the west and Balkans but dry in the north-east, with above normal temperatures everywhere.
- Weekly shipments of 1.1 mln mt took the EU soft wheat season total to 10.4 mln mt, still down 21% on last year. However, the pro rata annualised number of 27.5 mln mt soft wheat is simply too high for the EU wheat S&D to sustain and much more rationing needs to take place.
- *Fob prices were higher in the EU:* French 11.5 pro closed at \$267.68/mt, up \$9.53/mt from last week. German 12.5 pro was up \$10.19mt to \$264.71/mt. Baltic 12.5 pro rose by \$6.00/mt on the week to \$260.00.

Black Sea wheat:

- CME old crop Black sea wheat futures soared \$11/mt at Friday's close, although new crop was up just \$2/mt.
- Record high domestic wheat and flour prices prompted President Putin to instruct his Gvmt. to use "all tools" to lower prices. Both taxes and quotas are under discussion, and a Govt proposals will be submitted on Monday.
- The market is pretty certain that 'something' will happen, and that Russian exports will be slowed in 2021.
- USDA increased Russia's crop and exports by 500k mt; presumably the USDA was unaware of the talk of export restrictions.
- USDA also left the Ukraine S&D unchanged.
- Fob values increased by \$6/mt to finish the week; Russian 12.5 pro was valued at \$260/mt.

➤ Significant purchases/ trades:

- **Jordan** bought 60k mt wheat for FH May at \$274.40/mt (other offers ranged from \$285-290).
- **The Philippines** bought 100k mt Australian feed wheat for Feb-Apr at \$260-\$265/mt.
- **Japan** purchased 131k mt of wheat, 83,405 mt are U.S. origin, with the remainder to be sourced from Canada.
- **US inspections** were 531k mt (season total 495 mln bushels, up 3%), sales were 617k mt (season total 702 mln bushels, up 13%).
- Weekly shipments of 1.1 mln tonnes took the **EU soft wheat** season total to 10.4 mln tonnes, still down 21% on last year.

➤ Wheat Market Outlook:

Significant events:

- US wheat was up 10-15 cents per bushel ahead of the USDA report on rumored Chinese demand for Hard Red Spring, ongoing dryness in the Plains, and **reports that President Putin told the Government to use "all tools" to curb Russian domestic price increases**. There was much talk about a Russian export tax to be applied against old crop sales, which made the markets very nervous.

➤ Outlook:

This week will be dominated by Russia and an eventual decision on export taxes and quotas. The Russian Economy Ministry is reported to have put its proposals forward for discussion on Monday. According to the newswires, they include a Euro 25.00/mt export tax to start from Feb 15th together with the previously proposed 17.5 mln tonnes all grain quotas.

What actually happens in Russia will determine the short term to the markets. Other grains are independently strong but will also take their lead from wheat.

We see no reason to sell additional grains until the New Year.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 14-12-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch.'20 (bu.)	Mch.'20 (mt)
1 CWRS 13.5	\$6.79	\$249.49	1 CWRS 13.5	6.94	\$255.00
1 CWAD 13.0	\$8.10	\$297.63	1 CWAD 13.0	8.35	\$306.81
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$6.63	\$243.61	1 CWRS 13.5	6.78	\$249.12
1 CWAD 13.0	\$8.17	\$300.20	1 CWAD 13.0	8.41	\$309.02
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
NE Sask			NE Sask		
1 CWRS 13.5	\$6.50	\$238.84	1 CWRS 13.5	6.70	\$246.18
1 CWAD 13.0	\$8.03	\$295.05	1 CWAD 13.0	8.35	\$306.81
1 CPSR 11.5			1 CPSR 11.5		
SE Sask			SE Sask		
1 CWRS 13.5	\$6.43	\$236.26	1 CWRS 13.5	6.61	\$242.88
1 CWAD 13.0	\$8.13	\$298.73	1 CWAD 13.0	8.38	\$307.91
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	

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)

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.”

- 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				14-12-2020
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	\$322.33	\$383.32		
HRS	\$315.29			
HRW 11.5	\$335.00			
SWW 12.0	\$309.19			
1 CWRS 13.5³	\$322.33		\$238.10	\$84.23
2 CWRS 13.0³	\$315.29		\$223.04	\$92.25
3 CWRS³	\$335.00		\$324.08	\$10.91
CPS³	\$302.62		\$220.83	\$81.79
1 CWAD⁴		\$376.75	\$293.95	\$82.80
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$260.00	January		
French 11.5 (Rouen)	\$267.68	January		
ASW 10.5 (W Coast)	\$257.00	January		
Argentine 12.0	\$252.50	January		

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				14-12-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.40	\$8.94	\$6.45	\$6.45
Parity Track Rosetown	\$6.91	\$7.44	\$6.74	\$6.74
Track Bid Rosetown Area	\$6.07	\$8.82	\$6.01	\$6.01
Gross Margin at Elevator (\$/bu)*	\$0.84	-\$1.38	\$0.73	\$0.73
Gross Margin at Elevator (\$/mt)*	\$30.70	-\$50.64	\$26.81	\$26.81

* to cover elevation, elevator market risk, margin