

Wheat Market Outlook and Price Report: December 7, 2020

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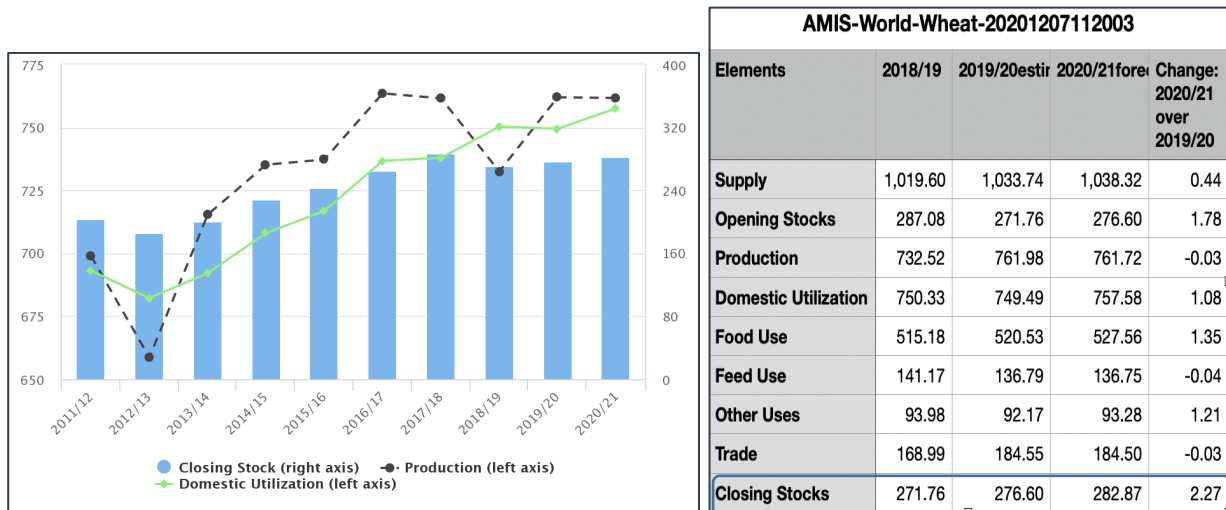
i) Background and Rationale for the Report

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 7, 2020

AMIS¹ December Global Wheat Summary:



AMIS numbers

- The **wheat production forecast** for 2020 was lowered from last month as downgraded prospects in Argentina and Brazil, as well as a reduced estimate for Kazakhstan, outweighed an upward revision for the Russian Federation.
- **Utilization of wheat** in 2020/21 is seen to be increasing by 1.1 percent from 2019/20 driven by food use, while feed demand is seen constrained by reduced price competitiveness.

¹ AMIS = Agricultural Market Information System. The analysis is a collective assessment of the market situation and outlook by the ten international organizations and entities that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank, WFP, WTO, GEOGLAM.

- **Wheat trade** in 2020/21 (July/June) remains close to the 2019/20 record and unchanged from last month with larger sales from the Russian Federation offsetting lower shipments from Argentina.
- **Wheat ending stocks** (ending in 2021) were lifted by 1.9 million mt mostly on an upward correction to the previous estimate of opening stocks in the EU, as well as further adjustments to China's inventories.

Wheat Condition across the Globe:

In the southern hemisphere, harvesting is ongoing in Argentina and Australia under mixed conditions. In the northern hemisphere, winter wheat sowing is completed with a few areas of concern in eastern Europe, Ukraine, the Russian Federation, China and the US.

Argentina - harvest is beginning under mixed conditions with prolonged dryness in the north and favourable conditions in Buenos Aires and La Pampa provinces.

Australia - harvesting is progressing under mixed conditions with above-average yields in New South Wales, Victoria, and South Australia, while persistent dryness during the season has resulted in below-average yields for Western Australia and Queensland. A large increase in sown area is estimated across the country compared to last year.

EU - conditions are generally favourable as winter wheat sowing is complete, however, some countries in eastern Europe are behind in crop development due to excessive rainfall in October.

Ukraine, conditions are generally favourable as recent warm weather extended the growth and development of crops going into winter; only persistent dryness in the east remains of some concern.

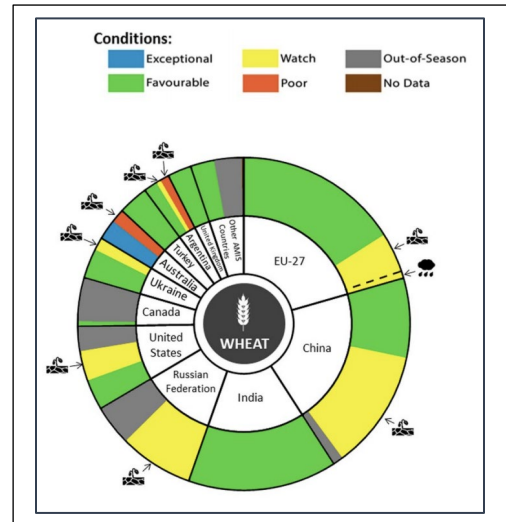
Russian Federation - winter wheat sowing is complete under mixed conditions due to drought conditions in the south and minimal rainfall in the Volga and Central districts. There is a slight increase in total sown area compared to last year.

China - winter wheat is developing under generally favourable conditions albeit with some dry conditions slowing development in the Huanghuai region.

India - sowing is progressing ahead of schedule in the northern and central states under favourable conditions.

US - winter wheat is under mixed conditions due to dryness in the southern Great Plains.

Canada - conditions are favourable as the sowing of winter wheat is complete with a slight increase in sown area in Ontario.



➤ 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 575-4, down 9 cents on Friday, *down 21 cents for the week*.
Dec. '20 contract **Kansas hard red winter wheat** closed at 542-6, down 7 cents in Friday's trade, *down 18-8 cents for the week*.
Dec. '20 **Minneapolis hard red spring wheat** closed at 550-4, down 3 cents on Friday, *down 0-2 cents for the week*.
- **Futures market summary:** Increased estimates for 2020/21 Australian and Canadian wheat production and potentially higher Russian wheat exports pressured wheat futures.

Canadian Wheat:

- The big story from Canada this week is the increase in total Canadian wheat production by over 1 million mt to 35.2 mln mt for all wheat combined. 437,000 mt of these are for durum, but the reports generally talk about the 1 million mt increase. – Not a bullish report for wheat.
- The wheat market had to contend with several pieces of negative news this week:
 - a bigger Australian wheat crop (31.2 mln mt)
 - a bigger Canadian crop (35.2 mln mmt)
 - the possible entry of India to the export market
 - likely higher Russian export quotas (from 15 to 17.5 mln mt).

The market is not yet ready to bring crop concerns for winter wheat in the fray. And with corn and beans also coming under pressure, wheat doesn't have the spark to move higher at the moment.

- Meanwhile, Canadian exports remain 25% ahead of last year's pace, and given continued access to rail transportation, Canada should be able to keep selling into this market. We note that **Canadian wheat is very competitively priced to go to the EU.**

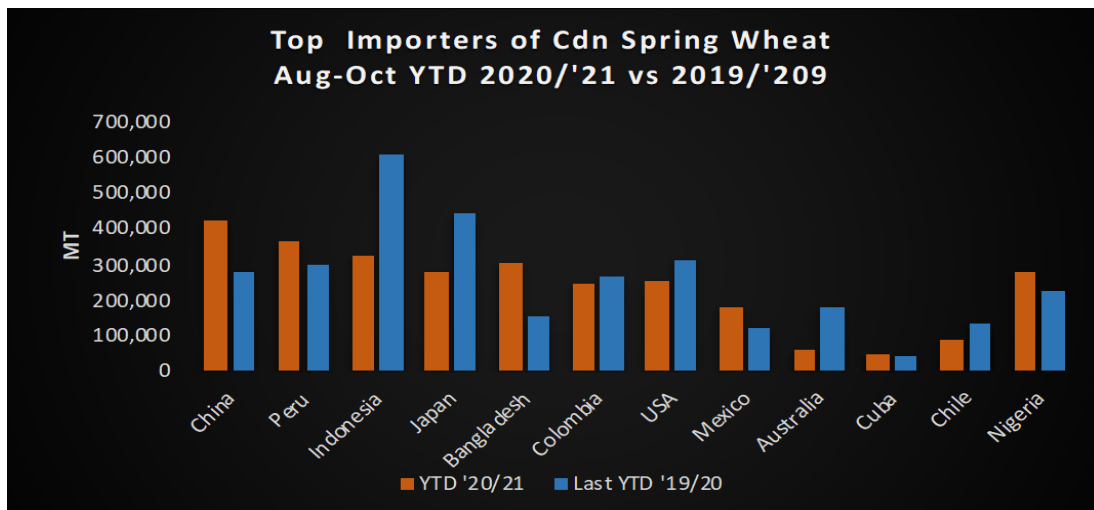
Merc. - Wheat (excl. Durum) Outlook		
('000 mt)	19/20	20/21
Beginning stocks	4,247	5,238
Production Sprng Wht.	25,670	25,841
Production WW	1,701	2,770
Imports	170	100
Total Supply	31,788	33,949
Dom. Use	8,250	7,923
Exports	18,300	19,800
Total Usage	26,550	27,723
Ending Stocks	5,238	6,226
Stock-to-Use Ratio	20%	22%

Dec. 3/'20 * higher than ST#

(CGC) Grain Handling Summary Wheat		Wk.17		(Nov. 29/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk.17	504.0	398.9	230.1	67.9
Week ago	413.7	284.9	331.9	67.7
YTD	7,204.7	8,225.4	6,679.1	1,578.3
Last YTD	6,972.5	6,403.6	5,328.8	1,447.9
YTD less Last YTD	232.2	1,821.8	1,350.3	130.4
YTD over Last YTD	103%	128%	125%	109%

Mercantile based on weekly CGC Handling Data

- We would target min. \$7.00/bu for #2 CWRS 13.5 delivered elevator SK for the next sales.

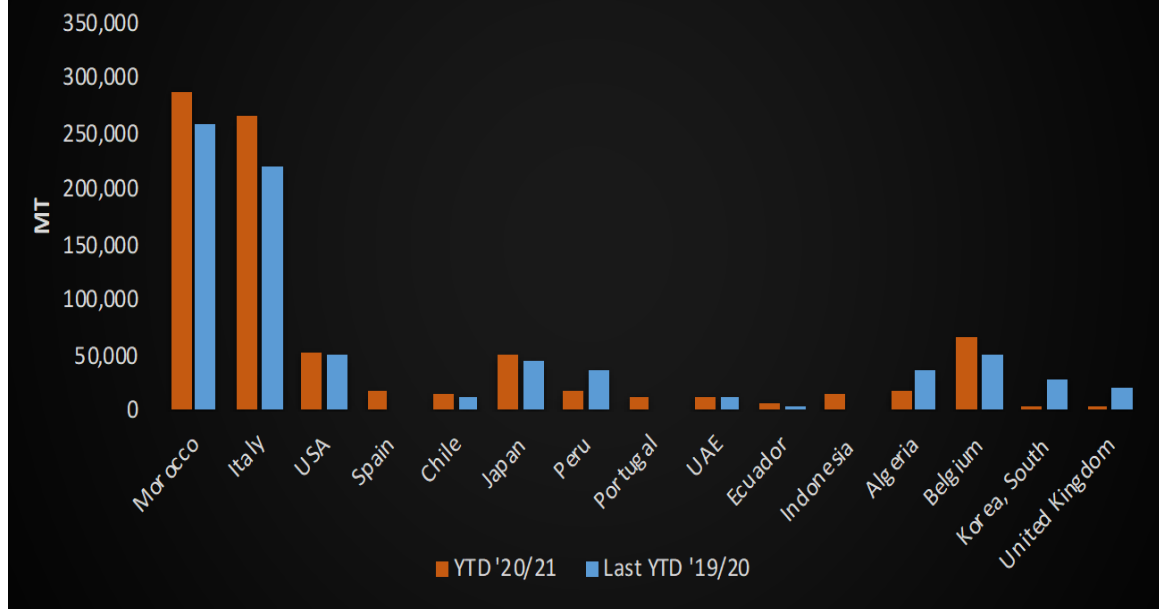


- **Durum:** The StatsCan production number for durum wheat also came in 437,000 mt bigger than their September number, thus relaxing the balance by that amount. It takes some of the pressure off buyers to forward cover durum.
- Meanwhile, durum exports improved greatly during November and are now 11% ahead of last week's pace. The biggest buyers have been Morocco and Italy, which are both dealing with drought reduced domestic crops.
- Demand remains good and we continue to hear of very good bids. *Our current target price for Durum is \$9.00/bu SK (for ergot-free product).*

StatsCan/AAFC - Cdn. Durum Outlook

('000 mt)	19/20	20/21	Δ
Beginning stocks	1,792	684	38%
Production	4,977	6,571	132%
Imports	96	50	52%
Total Supply	6,865	7,305	106%
Dom. Use	825	811	98%
Exports	5,356	5,310	99%
Total Usage	6,181	6,121	99%
Ending Stocks	684	1,184	173%
Stock-to-Use Ratio	11%	19%	

**Top Importers of Cdn Durum Wheat
Aug-Oct YTD 2020/'21 vs 2019/'20**



(CGC) Grain Handling Summary Durum		Wk.17		(Nov. 29/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk.17	194.3	169.5	161.3	26.4
Week ago	183.4	200.1	240.8	11.2
YTD	2,138.6	2,366.8	1,889.0	164.5
Last YTD	1,705.4	2,239.1	1,702.4	124.4
YTD less Last YTD	433.2	127.7	186.6	40.1
YTD over Last YTD	125%	106%	111%	132%

Mercantile based on weekly CGC Handling Data

US Wheat:

- In the US, 46% of the U.S. winter wheat crop (HRW, SRW, and fall-seeded SW) for harvest in 2021 is in good to excellent condition, up 3% from last week on favourable rainfall across parts of High Plains, but down 6 % from this time last year on poor soil moisture levels across the Great Plains.
- US sales this past week amounted to 446,000 mt, down 44% from last week's 796,000 mt, but within trade expectations of 250-700,000 mt. Year-to-date commercial sales now total 18.5 million mt, 12% ahead of last year's pace. USDA expects the US to export 26.5 mln mt of wheat in 2020/21, up 1% from last year.
- Despite a 30-month low in the USA dollar, USA wheat futures dropped 20-30 cents per bushel on larger crops in Australia and Canada, a potentially higher export quota in Russia, and low weekly exports.
- US HRS for December is valued at \$270/mt FOB PNW (*down \$10/mt from last week*), PNW White wheat is valued at \$255/mt FOB PNW (*down \$8/mt from last week*), FOB Gulf HRW is valued at \$253.08/mt (*down \$7.90/mt*).

Australian wheat:

- The Australian wheat harvest is pushing towards 80% complete.
- ABARES raised the wheat crop by 2.3 million mt to 31.2 million mt, and even this remains below most trade guesses.
- The A\$ hit 30-month highs
- Australian new crop FOB APW wheat values for Dec. closed \$2/mt lower than the week previous at 265.00/mt.

Argentine wheat:

- There was a confusing BAGE crop update: Gd./Exc. ratings rose 3% to 29% (36% last year), soil moisture was called 81% favourable against 77% last week and harvest advanced to 40% complete. But the exchange also said it may have to lower its crop from the current 16.8 million mt if rain doesn't fall in the south.
- New crop sales rose just 200,000 mt to 6.4 mln mt, still way below the 11 million mt last year.
- The Argentine Gvmt. announced measures to enforce the ruling that exporters must convert dollars into Pesos within 15 days of receipt, measures which include the temporary banning from further exports of companies that do not comply.
- Argentine FOB values fell \$3 on weaker international prices; FOB 11.5 pro Argentina wheat was offered at \$249/mt for Dec. delivery.

EU wheat:

- Matif wheat fell to an 8-week low close following weak US markets, a Euro at 31-month highs, and slowing EU exports.
- EU shipments rose 127,000 mt for a soft wheat season total 9.3 mln mt but remain down 24% on last year.
- *FOB prices were lower in the EU:* French 11.5 pro closed at \$258.10/mt, down \$6.22/mt from last week. German 12.5 pro was \$5.99/mt lower to \$254.52/mt. Baltic 12.5 pro dropped by \$1.00/mt on the week to \$254.00.

Black Sea wheat:

- The CME Black Sea futures fell \$5 on old crop but only \$2 on new crop wheat.
- Russian winter crop ratings are the worst in 7 years, and with 13% of total winter plantings not emerging, this implied winter acreage will actually be below last year rather than the projected 10% increase.
- Russian export quotas for Feb-June 2021 will likely be raised to 17.5 million mt from previously 15 mln mt.
- The pace of Ukrainian wheat exports slowed with a cumulative 11.8 mln mt now down 10% on last year.

- FOB values fell \$1/mt to finish the week; Russian 12.5 pro was valued at \$254/mt.

India:

- According to reports, India sold around 250,000 mt of wheat to Bangladesh at \$277/mt C&F, which is below Black Sea replacement costs.
- The USDA has Indian exports pegged at only 1 million mt, but Indian wheat stocks are projected to rise 7 mln mt to 31 mln mt. This would leave a large exportable surplus on paper. However, quality and logistics may be problematic, although India managed to export 6 & 7 mln mt in 2012/13 and 2013/14. This could add to price pressure in Asia, Africa and the Middle East over the winter.

➤ Significant purchases/ trades:

- **Egypt** (GASC) bought 175,000 mt of Russian/Ukrainian wheat at around \$275.25/mt for Jan-Feb; this was very close to what they paid the previous week and well in line with FOB market. Turkey's purchase was a similar FOB parity.
- **Turkey** bought 400,000 mt of wheat for Jan at \$266-270.50.
- **China** sold another 675,000 mt of reserve wheat, taking the total since June to 14.2 mln mt.
- **USA inspections** were 503,000 mt (season total 474 mln bushels, up 2%), sales were 446,000 mt (total 679 mln bushels, up 12%).
- **India** reportedly sold around 250,000 mt of wheat to Bangladesh at \$277/mt C&F, some \$10/mt below Black Sea replacement. The USDA has Indian wheat exports at only 1 mln mt, but it will likely be higher.
- **EU shipments** rose 127,000 mt for a soft wheat season total 9.3 mln mt but remain down 24% on last year.
- **Funds** still don't like wheat and accordingly are now short wheat futures.

➤ Wheat Market Outlook:

Significant events:

- The wheat market had to contend with several pieces of negative news this week:
 - a bigger Australian wheat crop (31.2 mln mt)
 - a bigger Canadian crop (35.2 mln mmt)
 - the possible entry of India to the export market
 - likely higher Russian export quotas (from 15 to 17.5 mln mt).

The market is not yet ready to bring crop concerns for winter wheat in the fray. And with corn and beans also coming under pressure, wheat doesn't have the spark to move higher at the moment.

- India entered the export market.
- **China** sold another 675,000 mt of reserve wheat.

➤ Outlook:

Increased supplies in Australia and Canada, sales by India, and no change to Russian exports were seen as negative to wheat prices. Traders will be watching China for additional purchases, but with the New Year approaching it's not a good time to expect buying. The progressive removal of the EU from the world trade matrix is going unnoticed so far. **Canadian wheat is very competitively priced to go to the EU.**

We hope you noted our earlier advise to be 75% sold; we would target min. \$7.00/bu for #2 CWRS 13.5 delivered elevator SK for the next sales.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 07-12-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch.'20 (bu.)	Mch.'20 (mt)
1 CWRS 13.5	\$6.56	\$241.04	1 CWRS 13.5	6.69	\$245.82
1 CWAD 13.0	\$8.06	\$296.16	1 CWAD 13.0	8.28	\$304.24
1 CPSR 11.5	\$5.98	\$219.73	1 CPSR 11.5	6.26	\$230.02
SW Sask			SW Sask		
1 CWRS 13.5	\$6.44	\$236.63	1 CWRS 13.5	6.58	\$241.78
1 CWAD 13.0	\$8.12	\$298.36	1 CWAD 13.0	8.31	\$305.34
1 CPSR 11.5	\$5.92	\$217.52	1 CPSR 11.5	6.19	\$227.45
NE Sask			NE Sask		
1 CWRS 13.5	\$6.26	\$230.02	1 CWRS 13.5	6.44	\$236.63
1 CWAD 13.0	\$8.09	\$297.26	1 CWAD 13.0	8.35	\$306.81
1 CPSR 11.5	\$5.73	\$210.54	1 CPSR 11.5	6.03	\$221.57
SE Sask			SE Sask		
1 CWRS 13.5	\$6.22	\$228.55	1 CWRS 13.5	6.38	\$234.43
1 CWAD 13.0	\$8.13	\$298.73	1 CWAD 13.0	8.37	\$307.55
1 CPSR 11.5	\$5.72	\$210.18	1 CPSR 11.5	6.01	\$220.83

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 Basis² (see *Export Basis* 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)

² 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 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				07-12-2020
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	\$316.59	\$390.44		
HRS	\$309.53			
HRW 11.5	\$324.11			
SWW 12.0	\$307.65			
1 CWRS 13.5 ³	\$316.59		\$234.79	\$81.79
2 CWRS 13.0 ³	\$309.53		\$220.10	\$89.44
3 CWRS ³	\$324.11		\$210.91	\$113.20
CPS ³	\$301.06		\$212.75	\$88.32
1 CWAD ⁴		\$383.86	\$312.32	\$71.53
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$254.00	December		
French 11.5 (Rouen)	\$258.10	December		
ASW 10.5 (W Coast)	\$262.00	December		
Argentine 12.0	\$249.00	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				07-12-2020
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.24	\$8.64	\$6.40	\$6.40
Parity Track Rosetown	\$6.75	\$7.15	\$6.70	\$6.70
Track Bid Rosetown Area	\$5.99	\$5.74	\$5.79	\$5.79
Gross Margin at Elevator (\$/bu)*	\$0.76	\$1.41	\$0.91	\$0.91
Gross Margin at Elevator (\$/mt)*	\$27.86	\$51.63	\$33.33	\$33.33
* to cover elevation, elevator market risk, margin				