

Wheat Market Outlook and Price Report: June 22, 2020

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i) Background and Rationale for the Report

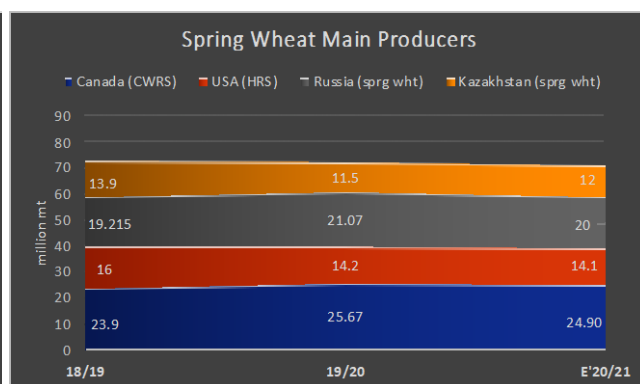
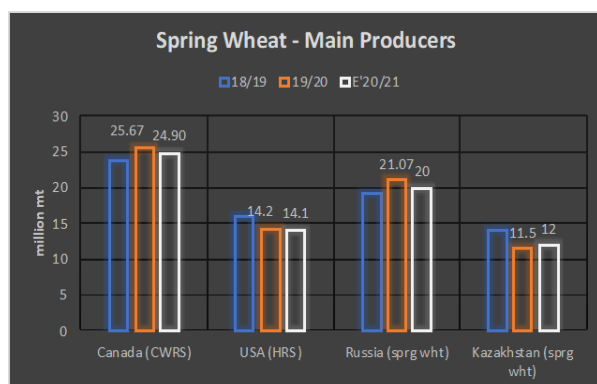
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 June 22, 2020

Spring Wheat Production Outlook, June 18, 2020:

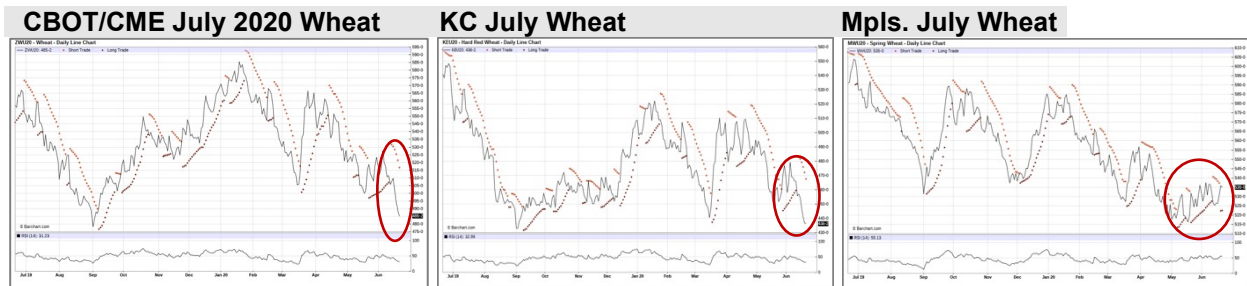
- Given the support in Minneapolis hard wheat, we reviewed the production outlook for the **main spring wheat production areas**. While there are prevailing threats to yields in some regions, at the current stage, our estimate shows a relatively moderate 2% reduction in spring wheat production from last year to 71 million mt.
- Note that spring wheat carry-in stocks in the US are expected to be down by 410,000 mt, but this is offset by an increase in Canadian wheat (excl. durum) stocks of at least 735,000 mt this summer. Russian wheat carry-in stocks will be down about 1.9 million mt (all wheat), and Kazakh carry-in is down by ~600,000 mt. The net effect is a reduction in carry-in into 2020/21 by roughly 2.8 million mt.
- There are also some questions around the spring wheat conditions in Kazakhstan, which could impact their yields, and potential problems in Canada would tighten spring wheat production significantly. The demand outlook for spring wheat is also relatively solid.
- The spring wheat supply needs watching, although there is no real worry about the global overall wheat supply situation.



➤ **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:** Jul '20 contract **Chicago winter wheat** closed at 481-2, down 2-2 cents on Friday, *down 20-8 cents for the week.*
 Jul '20 contract **Kansas hard red winter wheat** closed at 428-2, down 0-2 cents in Friday's trade, *down 20-2 cents for the week.*
Minneapolis Jul '20 contract **hard red spring wheat** closed at 524-2, down 0-4 in Friday's trade, *up 11 cents for the week,* while Sep '20 hard red spring wheat closed at 535-0, down 0-6 cents on Friday, *up 9-8 cents for the week.*



Canadian Wheat:

- Seeding progress: Canada:** Crop conditions have remained generally favourable. The rain received in most areas was welcome, but more is needed in some areas. In SK, 79 per cent of fall cereals, 70 per cent of spring cereals, are at normal development for this time of year. And 76% of SK spring wheat is listed in Gd/ Exc. condition, with 21% in fair condition, and 3% in poor condition. In AB, hail and severe storms hit some areas across the southern half of the province, followed by another system impacting both south and north. A large area mainly in the Central, North West and Peace Regions along with the western parts of the North East Region received well over 30 mm of precipitation, with many areas getting up to 80 mm. In AB, 83% of spring wheat was reported in in Gd/ Exc. condition.
- US spring wheat:** U.S. spring wheat ratings fell slightly from last week to 81% good to excellent on worsening dryness across the Northern Plains. Total crop ratings in North Dakota fell from 84% good to excellent last week to 78% this week. Minnesota crop ratings increased 5 points from last week to 88% good to excellent this week. In South Dakota, spring wheat rated as good to excellent increased 6 points from last week to 70%.
- E Europe:** There is concern about dryness in Kazakh and Russian spring wheat regions.
- Hedge funds are still holding a large short position in Minneapolis HRS wheat, and if the dryness in parts of US Northern Plains and Western Canada persists, we could see some short-covering. Rumours of Chinese buying interest in US spring wheat have also kept Minneapolis supported, while ongoing harvest is weighing on the winter wheat market.

- According to the weekly CGC data, Canadian **wheat exports** for week 45 amounted to 323,000 mt, bringing year-to-date exports to 14.9 million mt, 7% smaller than last years (-1 million mt).
- Commercial wheat stocks in Canada dropped to 2.2 million mt.

(CGC) Grain Handling Summary Wheat		Wk. 45		(June 14/'20)
('000 mt)	Terminal		Bulk exports	Dom.
	Prod. Dlvs.	Rcpts.		Disappearance
Wk. 45	565.5	537.2	322.6	32.4
Week ago	553.3	515.3	444.3	110.7
YTD	18,917.3	17,259.3	14,883.2	3,398.8
Last YTD	18,789.5	18,032.8	15,922.6	3,542.9
YTD less Last YTD	127.8	-773.5	-1,039.4	-144.1
YTD over Last YTD	101%	96%	93%	96%

Mercantile based on weekly CGC Handling Data

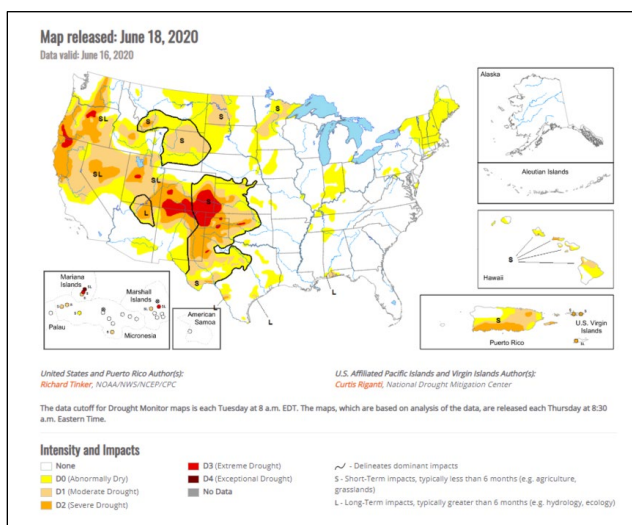
- However, Canadian wheat ending stocks (excl. durum) will increase this year, and are also expected to increase again in the new crop year.
- *Our suggestions remain the same: Liquidate old crop, hold new for the present.*
- **Durum:** 79% of SK durum is listed in Gd/Exc. Condition, 28% in fair condition, and 3% in poor condition. IN AB, a full 86% of durum are shown in Gd/Exc. condition.
- **US durum:** North Dakota crop condition ratings declined from 82% to 73% Gd/Exc., due to continued dry conditions that may be stressing the crop. Emergence remains behind the 5-year average in Montana at 35% and higher than the 5-year average in North Dakota at 94%. Much of the durum region is still classified abnormally dry or in drought; producers continue to hope for precipitation to aid in crop development.
- US '19/20 durum stocks are expected to fall by almost 1 million mt to 520,000 mt. And in their March report, USDA projected the US durum acreage to fall by 4% this spring to 1.3 million acres. This would be down 38% from the 2018 durum acreage. – We will have to see how USDA updates seeded US durum acres in July.
- **Durum exports** for week 45 were 75,000 mt for a season total of 4.5 million mt, **18% (+642,000 mt) bigger than last year.**
- We continue to expect export sales for durum to remain strong into the summer.
- There is no change in our assessment of the Canadian durum balance sheet as discussed earlier. We expect Canadian durum acres to have increased by 15% this spring, but demand should be sufficient for the increase, given we draw 2019 crop stocks down this summer. For the '20/21 crop year, Mercantile is projecting Canadian ending stocks at 800,000 mt based on the bigger acreage increase.
- Tightening stocks will continue to support old crop bids. Durum demand is strong, which will keep exports steady until the EU crop starts being harvested. Moderate carry-in stocks and strong export demand in 2020/21 are supportive to new crop durum.

(CGC) Grain Handling Summary Durum ('000 mt)	Wk. 45		(June 14/'20)	
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 45	116.5	169.5	75.3	11.4
Week ago	94.8	98.1	76.7	15.1
YTD	4,442.2	5,386.4	4,451.4	391.1
Last YTD	3,970.3	4,372.3	3,809.9	304.1
YTD less Last YTD	471.9	1,014.1	641.5	87.0
YTD over Last YTD	112%	123%	117%	129%

Mercantile based on weekly CGC Handling Data

US wheat:

- US wheat conditions: Harvest progress in the US pressured soft red winter (Chicago) and hard red winter futures prices (Kansas City), while concerns of increasing dryness in North Dakota, some areas in Canada and in some Russia/Kazakhstan spring wheat areas supported hard red spring (Minneapolis.) futures prices.
- Total U.S. **winter wheat** ratings fell slightly from last week to 50% good to excellent on persistent dryness across the Southern Plains.
- The U.S. **HRW harvest** is in full swing from Texas to central Kansas and the **SRW harvest** is well underway from Alabama to Virginia. According to USDA, as of June 15, 15% of the country's total winter wheat area is harvested.
- **U.S. spring wheat ratings** fell slightly from last week to 81% good to excellent on worsening dryness across the Northern Plains.



- US sales this week were reported at 505,000 mt for delivery in '20/21, up 87% from last week's 270,000 mt, and were above trade expectations of 250,000 – 500,000 mt. Year-to-date commercial sales for delivery in 2020/21 total 6.33 million mt, in line with last year.
- The FOB value for 13.5 pro HRS in the PNW for June increased by \$2.50/mt from last week at \$242.50/mt, while June White wheat from the PNW decreased by \$2.00/mt from last week to \$225/mt. North American wheat remains expensive relative to alternative origins.

Australian wheat:

- ABARES increased their 2020/21 wheat production estimate to 26.1 MMT, 13% more than the 10-year average. ABARES forecasts total Australian wheat exports will reach 16.5 MMT in 2020/21, up 79% on year, if realized.
- Additional precipitation took Australian new crop futures down US\$7/mt to contract lows and they are now down A\$75 from the March highs.
- FOB offers were little changed at around \$229/mt from Western Australia for APW.

Argentine wheat:

- BAGE cut its acreage by 100,000 Ha to 6.7 million Ha due to dryness. Plantings are 58% complete, but just 29% of the crop has optimum soil moisture; 70% are assessed Poor/Dry).
- Argentine wheat (12 pro) closed at \$225-235/mt.

EU wheat:

- Europe was drier in the west last week, but stayed very wet in the south-east and in the Balkans.
- EU shipments rose 750,000 mt for an all-wheat total 34.8 million mt.
- Fob values in the EU were weaker: French 11.5 pro dropped \$2.33/mt at \$206.61/mt, while German 12.5 pro wheat dropped by \$3.52/mt over the week to \$219.04/mt.

Black Sea wheat:

- The Ukraine is becoming an increasing concern due to excessive rains and saturated soils in the west, coupled with drought and unfavourably cold temperatures in the south. Ukrainian traders are starting to severely cut some yield.
- Dryness in some Russian and Kazakh spring wheat areas supported hard red spring (Minneapolis.) futures prices.
- The announcement of a Russian export quota from January forward is not positive. The effect will be front-end loaded export program, where Russia will try to saturate the Middle Eastern and Asian markets with wheat over the next 4-5 months before the quota becomes effective. Then Australia will jump into action with their bigger crop, and North America will see the seasonal hand-to-mouth buying that Asian millers have used over the past few years.
- Russian wheat for June shipment weakened by \$4.00/mt to \$203.00/mt for Russian July 12.5 pro wheat.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) purchased 240,000 mt of wheat from the Balkans/Black Sea for July 25-Aug 5 at around \$207/mt FOB, which was \$10 below their previous purchase price, but they had \$5/mt less costs basis sight L/C.
- **Tunisia** bought 175,000 mt of 11.5 pro wheat for Aug-Oct, with the lowest price at \$212/mt C&F.
- **US export sales** at 505,000 mt were above trade expectations of 250,000 – 500,000 mt. Season total is 233 million bu, exactly the same as last year.
- **EU shipments** increased by 750,000 mt for an all-wheat total 34.8 million mt.
- Canadian sales continue to drag last years by 7% in spite of better rail freight since March due to COVID-19.
- We note that **ocean freight rates** continued to rally, with the BDI up 69% on the week.

➤ **Wheat Market Outlook:**

Significant events:

- The announcement of a **Russian export quota from January forward** is not positive. The effect will be front-end loaded export program, where Russia will try to saturate the Middle Eastern and Asian markets with wheat over the next 4-5 months before the quota becomes effective. Then Australia will jump into action with their bigger crop, and N America will see the seasonal hand-to-mouth buying that Asian millers have used over the past few years.
- **US winter wheat and spring wheat futures continue to diverge** and the spreads moved by ~30¢ last week. Ongoing US harvest is weighing on winter wheat, while rumours of Chinese interest in US spring wheat kept Minneapolis supported.
- **Weather** in Kazakhstan and Russian spring wheat areas remains increasingly important.
- **Ocean freight rates** are rising.
- **Global Wheat News:**
 - **Russia's Ministry of Agriculture** announced it would not impose grain export quotas for the first half of marketing year 2020/21, but that it plans to implement quotas from January to June 2021. The extent of these grain export quotas for the second half of the marketing year is unknown.
 - **ABARES in Australia** increased the country's 2020/21 wheat production estimate to 26.1 MMT, 13% more than the 10-year average, if realized, as beneficial moisture through the planting season pulled the country out of a three-year drought. ABARES forecasts total Australian wheat exports will reach 16.5 MMT in 2020/21, *up 79% on year, if realized*.
 - DLG, **Germany's association of farm cooperatives** reduced the country's total wheat production forecast to 22.2 MMT, down 4% from last year, if realized, on persistent spring dryness.
 - According to BAGE, **Argentinian wheat planting** for the 2020/21 season jumped from last week to 58% complete, 11 points ahead of the 5-year average. The Buenos Aires Grain Exchange cut Argentina's total wheat planted area estimate by 2% to 6.7 million hectares (16.5 million acres) on abnormally dry weather in the country's northern regions. If realized, total wheat planted area would still surpass last year by 2%.
 - The **Baltic Dry Index** (BDI), an assessment of the average cost to ship raw materials like grains, coal and iron ore, jumped 65% on the week to end at 1,527, the highest since early December 2019.

➤ **Outlook:**

As mentioned, the announcement of a Russian export quota from January forward is not positive. The effect will be front-end loaded export program, where Russia will try to saturate the Middle Eastern and Asian markets with wheat over the next 4-5 months before the quota becomes effective. Then Australia will jump into action with their bigger crop, and N America will see the seasonal hand-to-mouth buying that Asian millers have used over the past few years.

In terms of weather, E Ukraine, S Russia and Kazakhstan remained dry. Argentina was mostly dry, Australia got good showers, and the Indian monsoon was near normal. *Weather in Kazakhstan and Russian spring wheat areas remains increasingly important, ocean freight rates are rising and the USDA has not accounted for Chinese HRS demand.* On the other hand, the size of overall demand is a big question given the economic downturn by economies dependent on oil revenues and tourism.

- *The spring wheat supply needs watching, although there is no real worry about the global overall wheat supply situation.*

Our suggestions remain the same: Liquidate old crop, hold new for the present.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 22-06-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept.'20 (bu.)	Sept.'20 (mt)
1 CWRS 13.5	\$6.61	\$242.88	1 CWRS 13.5	6.38	\$234.43
1 CWAD 13.0	\$7.76	\$285.13	1 CWAD 13.0	7.59	\$278.89
1 CPSR 11.5	\$5.56	\$204.30	1 CPSR 11.5	5.33	\$195.85
SW Sask			SW Sask		
1 CWRS 13.5	\$6.45	\$237.00	1 CWRS 13.5	6.24	\$229.28
1 CWAD 13.0	\$7.73	\$284.03	1 CWAD 13.0	7.52	\$276.31
1 CPSR 11.5	\$5.48	\$201.36	1 CPSR 11.5	5.25	\$192.91
NE Sask			NE Sask		
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	6.12	\$224.87
1 CWAD 13.0	\$8.10	\$297.63	1 CWAD 13.0	7.91	\$290.65
1 CPSR 11.5	\$5.37	\$197.32	1 CPSR 11.5	5.15	\$189.23
SE Sask			SE Sask		
1 CWRS 13.5	\$6.28	\$230.75	1 CWRS 13.5	6.11	\$224.51
1 CWAD 13.0	\$8.10	\$297.63	1 CWAD 13.0	7.88	\$289.54
1 CPSR 11.5	\$5.37	\$197.32	1 CPSR 11.5	5.15	\$189.23

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 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)

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				22-06-2020
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	\$339.64	\$382.41		
HRS	\$332.18			
HRW 11.5	\$295.38			
SWW 12.0	\$295.38			
1 CWRS 13.5 ³	\$339.64		\$230.75	\$108.89
2 CWRS 13.0 ³	\$332.18		\$227.08	\$105.10
3 CWRS ³	\$295.38		\$208.71	\$86.68
CPS ³	\$288.42		\$194.01	\$94.41
1 CWAD ⁴		\$375.45	\$275.58	\$99.87
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$203.00	June		
French 11.5 (Rouen)	\$206.61	June		
ASW 10.5 (W Coast)	\$229.00	N/C		
Argentine 12.0	\$225.00	June		

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					22-06-2020
Canadian Funds	Grade				
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS	
Sept/Oct delivery	\$8.85	\$7.85	\$5.80	\$5.80	
Parity Track Rosetown	\$7.35	\$6.35	\$6.35	\$6.35	
Track Bid Rosetown Area	\$6.18	\$5.68	\$5.28	\$5.28	
Gross Margin at Elevator (\$/bu)*	\$1.17	\$0.67	\$1.07	\$1.07	
Gross Margin at Elevator (\$/mt)*	\$43.16	\$24.73	\$39.43	\$39.43	

* to cover elevation, elevator market risk, margin