

Wheat Market Outlook and Price Report: May 4, 2020

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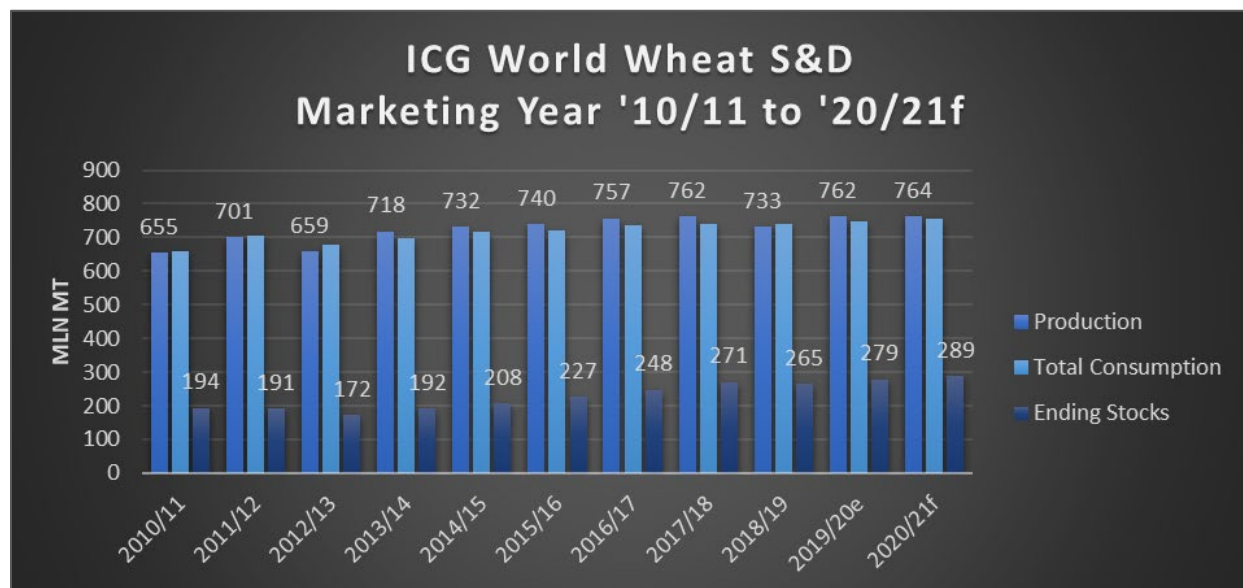
i) Background and Rationale for the Report

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 30, 2020

International Grains Council World Wheat Supply and Demand



- Less than ideal conditions hampering crop prospects in Europe and the Black Sea” caused **ICG to decrease 2020/21 world wheat supply by 4.0 million mt to 764 million mt**, up 2 million mt from last year.
- Disruptions caused by **the COVID-19 pandemic caused consumption to be decreased 5 million mt from last month’s estimate** to 755 million mt, still 7 million mt higher than last year.
- With demand falling further than production, **ICG increased 2020/21 ending stocks by 6 million mt to 289 million mt**, up 10 million mt from ICG’s ending stock number for 2019/20.
- The next USDA-WASDE report is out on May 12th which the trade will want to review before making any significant moves.

➤ **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.

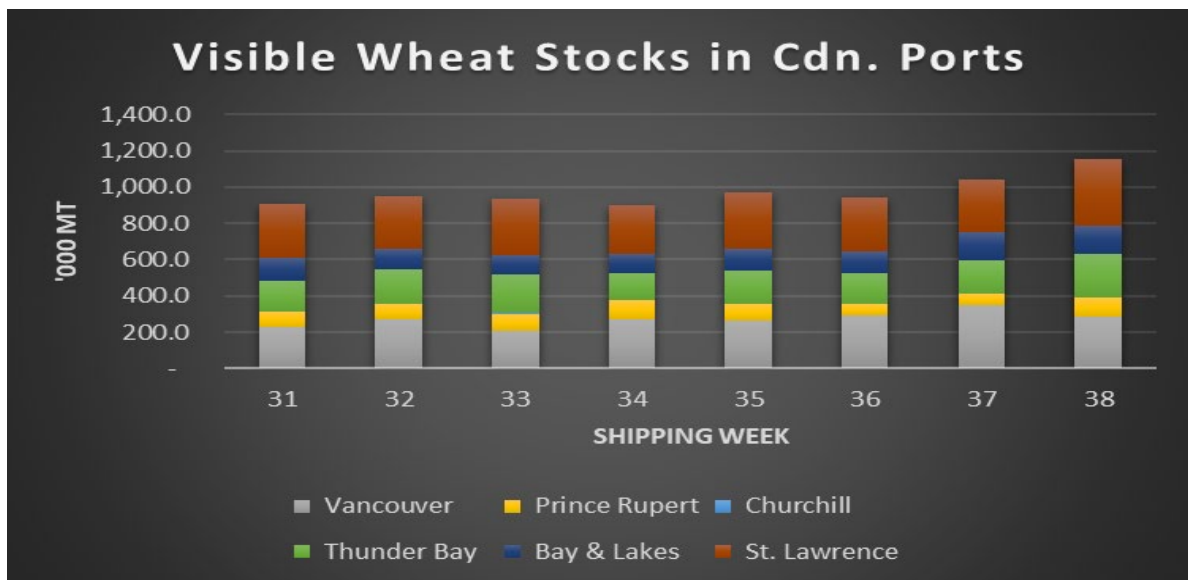
- **Futures:** Jul '20 contract **Chicago** winter wheat closed at 519-4, down 7-6 cents on Friday, *down 14-0 cents for the week*.
- Jul '20 contract **Kansas** hard red winter wheat closed at 483-0, down 5-0 in Friday's trade, *down 0-2 cents for the week*.
- **Minneapolis** Jul '20 contract hard red spring wheat closed at 506-6, down 8-6 cents in Friday's trade, *down 6-4 cents for the week* while Sep '20 hard red spring wheat closed at 517-6, down 8-0 cents on Friday, *down 6-6 cents for the week*.

Canadian Wheat:

- Canadian producers delivered 509,100 mt of wheat into the Canadian elevator system during week 38 ending April 26th. Total deliveries are now 15.95 million mt, in-line with last year.

(CGC) Grain Handling Summary Wheat (excl. Durum)		Week 38		(to Apr. 26/'20)	
('000 mt)	Producer Deliveries	Terminal Receipts	Exports	Domestic Disappearance	
Current Week	509.10	484.90	307.00	50.80	
Week Ago	524.90	497.70	391.20	59.50	
YTD	15,949.40	13,472.90	11,590.10	2,980.70	
Last YTD	16,004.80	14,644.90	13,206.40	2,892.80	
YTD less Last YTD (k mt)	↓ -55.4	↓ -117.2	↓ -1616.3	↑ 87.9	
YTD over Last YTD (%)	↓ 0%	↓ -8%	↓ -12%	↑ 3%	
Based on weekly CGC Handling Data					

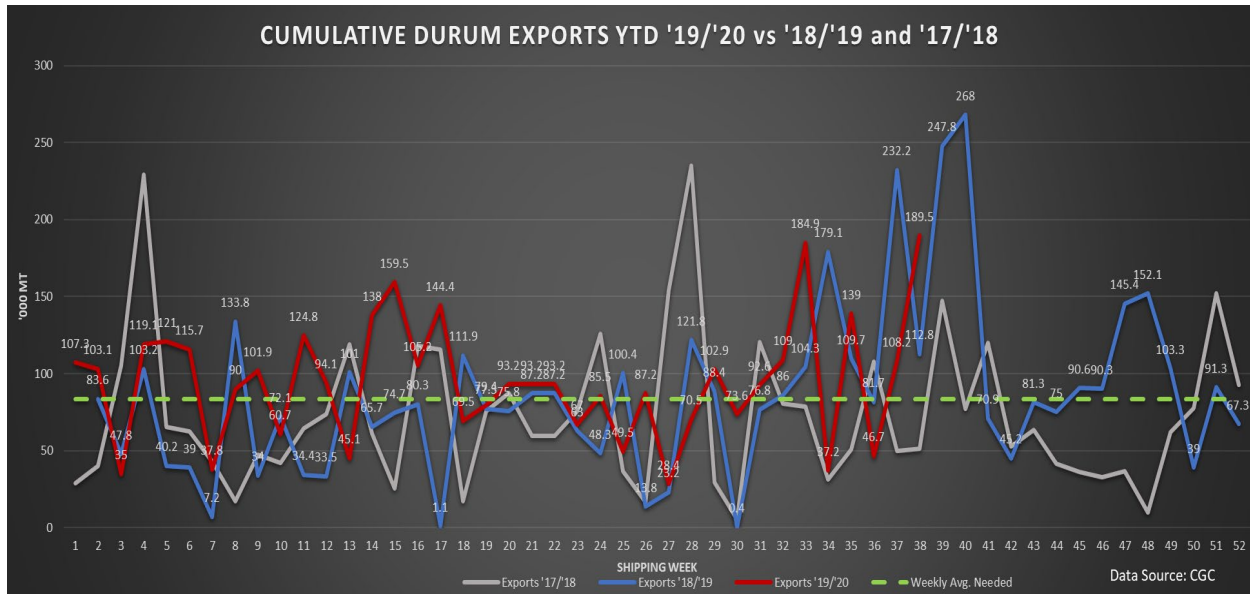
- Exports throughout the week were 307,000 mt for a total of 11.59 million mt, down 12% (1.62 million mt) from last year.
- Visible supplies in export locations increased to 1.16 million mt in week 38. The majority of this is sitting in Eastern ports. These stocks should be moved over the next few weeks.



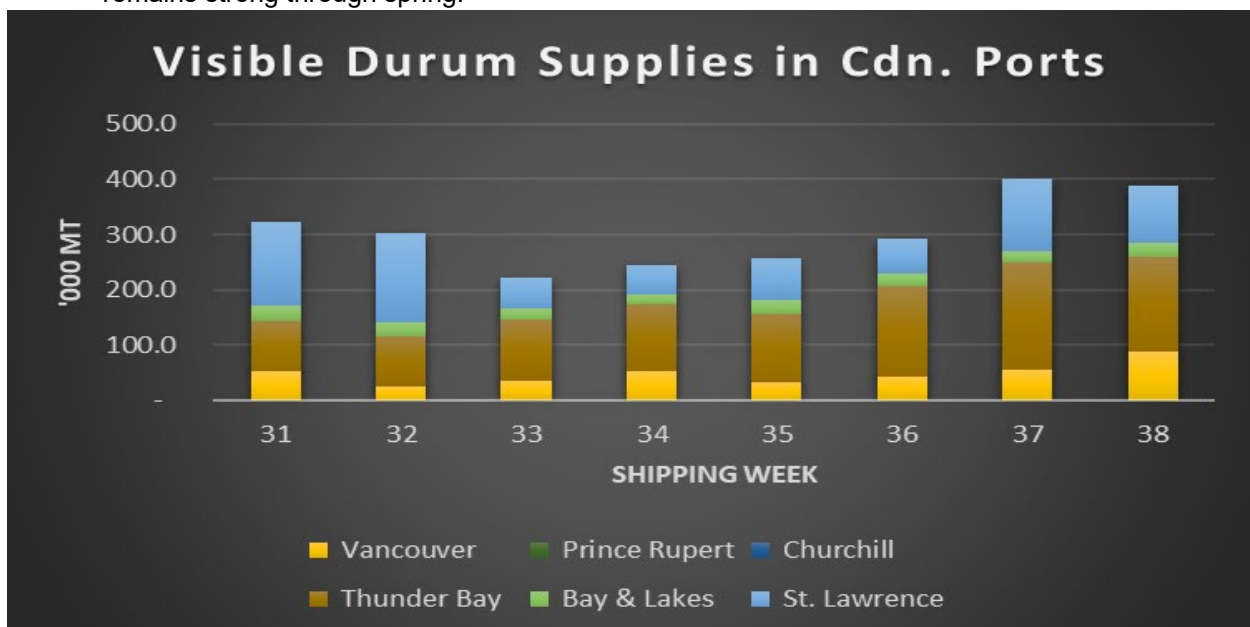
- *Seasonal patterns have Minneapolis futures falling through mid-late April before improving into early-mid June. Support levels are holding so far, and a large fund short should add support. Further delays in spring planting and weather concerns in winter wheat will be beneficial, but there is*

nothing in the mix to promote a strong rally. The Canadian dollar has fallen through some important support levels. If able to fall through \$0.70, the next support would be \$0.68 which could allow for additional basis improvement.

- Canadian producers delivered 122,600 mt of durum into the system during shipping week 38 for a year-to-date total of 3.82 million mt, 15% (502,500 mt) more than last year.



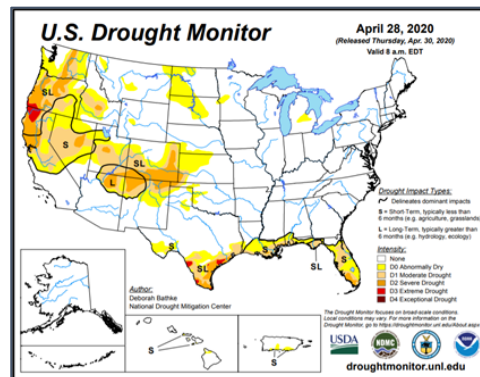
- Durum exports throughout the week were 189,500 mt for a season total of 3.63 million mt, 24% (706,300 mt) more than last year. Most of the durum exported in week 38 was out of Thunder Bay (101,500 mt) and the St. Lawrence (74,300 mt).
- Visible durum supplies in export locations have decreased slightly, suggesting that movement remains strong through spring.



- Tightening stocks will continue to support old crop durum bids. Durum demand is strong, which will keep exports steady until the EU crop starts being harvested.
- For new crop, we need at least 5.5 million durum acres in Canada to replenish supplies. If Stats Canada does not reflect this in their seeded acreage report next week, durum prices could improve further. Moderate stocks and strong export demand in 2020/21 are bullish new crop durum.

US wheat:

- US winter wheat crop conditions lost 3 points from last week to 54% Gd/Ex (vs last year's 64%). The most significant decrease was in KS who lost 6 points over the week to 40% GD/Ex (58% last year). The decrease in condition was from frost and expanding drought. Twenty-one percent of the crop has headed. Slightly behind the 25% average.
- Current moisture maps suggest that crop conditions will be lower again this week as abnormal dryness is expanding in W KS, SW NE, W OK, and central SD.
- Spring wheat planting is 14% complete, up 7% from last week, down 4% from last year. Four percent of the crop has emerged vs the 7% average.
- US wheat inspections were 501,000 mt for a season total of 827 million bushels, down 4% from last year vs the USDA's projected 5% increase. Sales for the 2019/20 marketing year were strong at 467,000 mt for a season total of 953 million bushels, 2% more than last year vs the USDA's 5% increase. There is little demand for US wheat, and it looks worse for new crop, as the other origin markets remain inverted (deferred prices are lower).
- FOB values for 13.5 pro HRS in the PNW were unchanged from last week at \$235.00/mt.



Australian wheat:

- Australia saw beneficial rains over their expanded wheat area. This caused Aussie futures values for new crop to fall A\$22 over the week to an 11-month low.
- Spring planting will begin in roughly 3 weeks.
 - *Strong production in Australia will come in direct competition with Canadian wheat into Asia.*
- Aussie APW WA FOB fell \$5.00/mt on the week to \$285.00/mt.

Argentine wheat:

- Rain in Argentina followed by a dry spell have created prime planting conditions just ahead of wheat seeding.
 - *Most of Argentina's non-S American wheat exports go to Asia in competition with Canadian wheat.*
- FOB values were nominally unchanged at \$230.00-\$240.00/mt. Farmers are sold out of old crop while exporters are long ~15 million mt.

EU wheat:

- European crop monitor MARS said western European winter wheat development and spring wheat sowing have been hurt by the driest spring since 1979. MARS lowered its forecast of the average soft (non-durum) wheat yield in the EU to 87.3 bushels/acre (5.87 MT/ha), down slightly from last month.
 - *Widespread rain has alleviated dryness in France and Germany, the European Union's two largest wheat-producing countries.*
- French crop ratings fell for the third week in a row to 57% Gd/Ex, down 1% from last week.
- MARS is expecting durum yields to fall 1.5% below the 5-year average to 3.43 tph.
- Condition ratings for the French durum crop improved by 2% from last week to 65% Gd/Ex, vs 71% last year.
- FOB values in the EU were mixed: French 11.5 pro was \$1.71/mt higher at \$221.52, German 12.5 pro lost \$3.91/mt over the week to \$225.64/mt while Baltic 12.5 pro lost \$3.93/mt from last week at \$223.99/mt.

Black Sea wheat:

- Black Sea markets were ill-defined over confusion on export restrictions. Ukraine has announced that it would abandon its export quota while Russia's export quota is full.
 - There was question if Russian traded wheat to Saudi last weekend would be allowed, but by the end of the week the shipment had "found" quota space.
 - While there is rain in the forecast for Ukraine, Russia looks like it will miss out entirely.
- APK-Inform cut Ukraine's 2020/21 wheat harvest estimate to 24.5 MMT, down from last month's 26.7 MMT forecast on dry weather conditions. If realized, Ukraine's 2020/21 harvest would drop 16% from last year.
- We have FOB values in the Black Sea unchanged at \$228.00/mt for Russian 12.5 pro and \$214.00/mt for Ukrainian feed.

➤ Significant purchases/ trades:

- **Saudi Arabia** bought 655,000 mt of wheat for Jul-Aug arrival, mostly of EU origin.
- **Ethiopia** got offers at both its 400,000 mt and 200,000 mt tenders, but we have no details.
- **USA** inspections were 501,000 mt (season total 827 million bushels, down 4%), sales were 467,000 mt (season total 953 million bushels, up 2% against the USDA's 5% increase).
- **EU** shipments advanced 800,000 mt for an all-wheat total of 29.5 million mt, up 61% on last year.

➤ Wheat Market Outlook:

Significant events:

- **Ethanol production fell another 5% from last week, 48% less than last year!** Stocks also fell (5%) for the first time since the crash in fuel prices. *Perhaps production/use has found a new equilibrium.*
- MARS released a special statement on the N African durum crop. **For Morocco, MARS is estimating that durum yields are expected to fall 20% below the 5-year average** as significant damage has been inflicted on crops. Moisture deficits extend into Algeria and Tunisia, where MARS is still estimating average crop yields. While it is too late for Moroccan crops, rain could improve conditions in Algeria and Tunisia. - *Canadian durum exports to Morocco in 2020/21 should be strong.*
- **Iran has cancelled its feed contracts and have rejected 3 wheat vessels as they lack the money to pay for them.**
- **The Egyptian wheat harvest is well under way.** Egypt expects to harvest 9.20 MMT of wheat this season, up 5% from last year. So far, the government has procured 1 million mt of the expected 3.6 million mt local wheat procurement program.
- **Weather Around the World:**
 - The bulk of the **USA** show a drier than average week which will be favorable for corn and bean plantings, but dryness in the Plains will remain an issue for winter wheat. Temperatures are expected to be well below normal everywhere with potential risks from frost/freeze particularly in the north. Weekend rain in was generally less than expected over **Western Europe** and the **Black Sea** was mostly dry. The coming week keeps overall light rains in the west, but the east, **Balkans, Ukraine** and **Russia** will see widespread cumulative precipitation of 20-50 mm. Except for **France** and **Iberia**, temperatures look below normal everywhere for the coming week. **Argentina** and central-southern **Brazil** look almost completely dry this week, which will bring further concern for the Safrinha crop. Fortunately, temperatures remain mostly cool. **Australia** looks much drier than last week's forecasts indicated.

➤ **Outlook:**

The focus will remain primarily on the weather forecasts for the EU and Black Sea, which look increasingly favourable. Dryness in the US Plains and possible frost next week in the north will be watched, but Southern Hemisphere weather is improving.

Wheat is losing demand to cheap corn. For spring wheat, further delays in spring planting and weather concerns in winter wheat will be beneficial, but there is nothing in the mix to promote a strong rally. The Canadian dollar has fallen through some important support levels. If able to fall through \$0.70, the next support would be \$0.68 which could allow for additional basis improvement.

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)		Jul. '20 (bu.)	Jul. '20 (mt.)
1 CWRS 13.5	\$6.40	\$235.16	1 CWRS 13.5	\$6.35	\$233.32
1 CWAD 13.0	\$7.83	\$287.71	1 CWAD 13.0	\$7.78	\$285.87
1 CPSR 11.5	\$5.86	\$215.32	1 CPSR 11.5	\$5.83	\$214.22
SW Sask			SW Sask		
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	\$6.20	\$227.81
1 CWAD 13.0	\$7.80	\$7.73	1 CWAD 13.0	\$7.74	\$284.40
1 CPSR 11.5	\$5.78	\$212.38	1 CPSR 11.5	\$5.74	\$210.91
NE Sask			NE Sask		
1 CWRS 13.5	\$6.14	\$225.61	1 CWRS 13.5	\$6.05	\$222.30
1 CWAD 13.0	\$8.17	\$300.20	1 CWAD 13.0	\$8.08	\$296.89
1 CPSR 11.5	\$5.62	\$206.50	1 CPSR 11.5	\$5.57	\$204.66
SE Sask			SE Sask		
1 CWRS 13.5	\$6.20	\$227.81	1 CWRS 13.5	\$6.14	\$225.61
1 CWAD 13.0	\$8.15	\$299.46	1 CWAD 13.0	\$8.04	\$295.42
1 CPSR 11.5	\$5.56	\$204.30	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				May 4, 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	\$356.77	\$324.15		
HRS	\$350.09			
HRW 11.5	\$335.54			
SWW 12.0	\$322.08			
1 CWRS 13.5 ³	\$356.77		\$226.34	\$130.43
2 CWRS 13.0 ³	\$350.09		\$206.13	\$143.96
3 CWRS ³	\$335.54		\$171.23	\$164.32
CPS ³	\$314.83		\$206.87	\$107.96
1 CWAD ⁴		\$390.95	\$312.32	\$78.62
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$228.00			
French 11.5 (Rouen)	\$221.52			
APW 10.5 (W Coast)	\$280.00			
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				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						May 4, 2020
Canadian Funds	Grade		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$9.51	\$9.33	\$8.93	\$8.57	\$8.57	
Parity Track Rosetown	\$8.02	\$7.83	\$7.44	\$7.07	\$7.07	
Track Bid Rosetown Area	\$6.16	\$5.61	\$4.66	\$5.63	\$5.63	
Gross Margin at Elevator (\$/bu)*	\$1.86	\$2.22	\$2.78	\$1.44	\$1.44	
Gross Margin at Elevator (\$/mt)*	\$68.20	\$81.72	\$102.08	\$52.98	\$52.98	
* to cover elevation, elevator market risk, margin						