

## Wheat Market Outlook and Price Report: Nov. 16, 2020

By Marlene Boersch/ A.P. Temple/ Michael Wilton  
Mercantile Consulting Venture Inc.

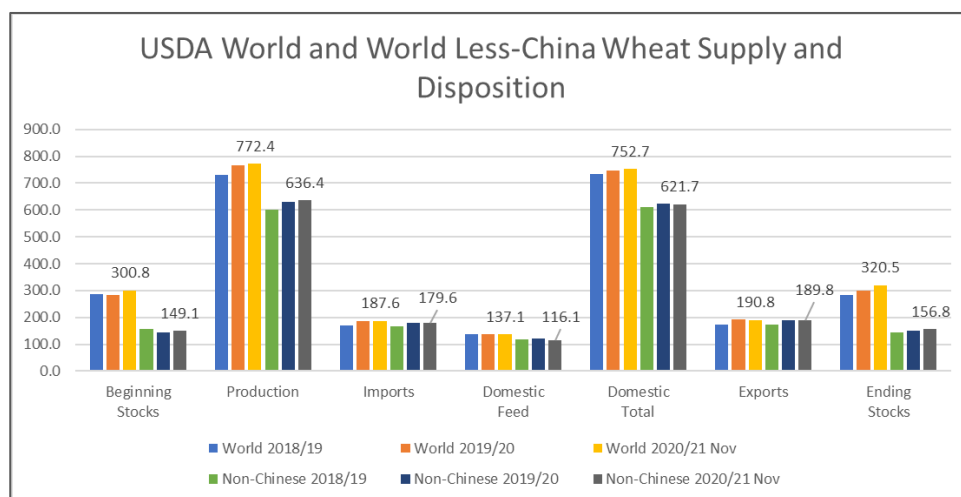
### i) Background and Rationale for the Report

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 November 16, 2020

#### USDA November 10, 2020 Wheat Supply and Disposition:



- In the more recent **update of the world wheat balance sheet**, the USDA is calling for larger supplies, consumption, and exports with lower ending stocks.
- **Supply was 0.7 million mt higher** than October at 1,073 million mt. The increase was from a 1.4 million mt increase in beginning stocks, but lower (-0.7 million mt) production.
- The most significant **production decrease** was in Argentina where a 1 million mt reduction brought supply estimates to an 8-year low of 18 million mt. Total production of 772.4 million mt remains a historical record.
- **World consumption** was raised 1.7 million mt to 752.7 million mt. Most of the increase was from higher feed use in China and the EU.
- **World wheat trade** was raised 0.9 million mt with stronger demand in China, Pakistan, and Turkey. Export increases in Russia and the EU offset decreases in Argentina.
- Offsetting by-class revisions left the **US wheat balance sheet** essentially unchanged.
- Overall, there were no surprises in wheat numbers and **much of the post-USDA gains in wheat was spillover from the bullish USDA corn and bean numbers**

➤ **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 593-4, up 5-2 cents on Friday, *down 8-4 cents for the week.*
- Dec. '20 contract Kansas hard red winter wheat closed at 552-0, up 8-0 cents in Friday's trade, *down 3-2 cents for the week.*
- Minneapolis Dec. '20 hard red spring wheat closed at 554-6, up 5-6 cents on Friday, *down 2-4 cents for the week.*

**CBOT Dec. 2020 Wheat (1 yr.)**



**KC Dec. '20 Wheat**



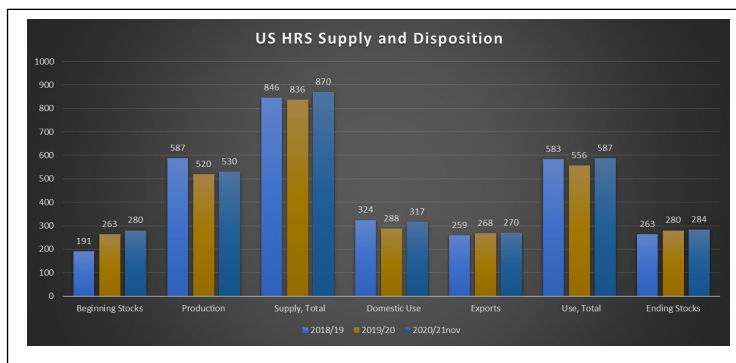
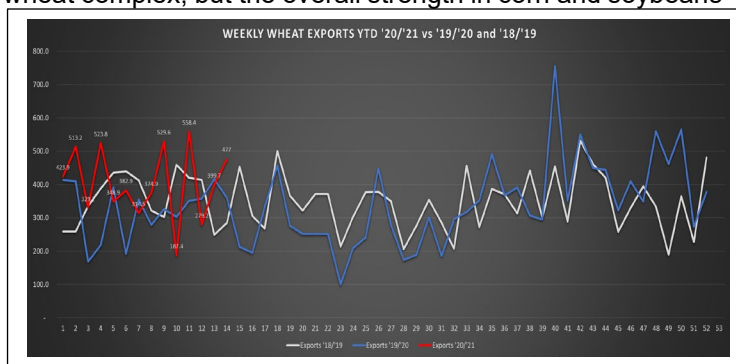
**Mpls. Dec. '20 Wheat**



- **Futures market summary:** Despite initial spillover gains on the bullish USDA corn and bean numbers, USA wheat futures all ended the week lower.

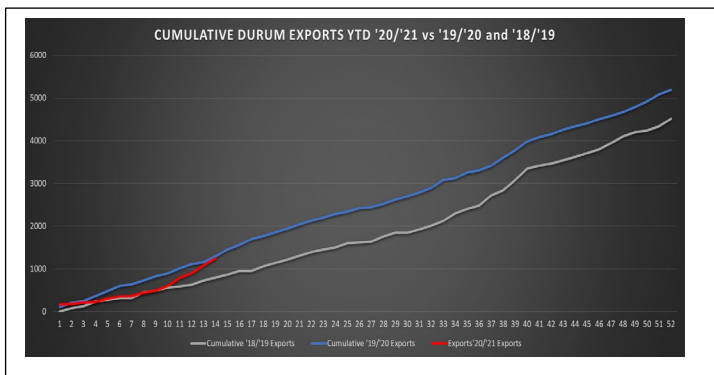
**Canadian Wheat:**

- Wheat futures came against technical selling which pressured wheat futures lower from last week. There is nothing overly bullish in the wheat complex, but the overall strength in corn and soybeans will continue to support wheat markets.
- Canadian week 14 grower wheat deliveries were 487.5,000 mt for a year-to-date total of 6.0 million mt.
- Weekly wheat exports had another strong week at 477.0,000 mt: Year-to-date shipments now total 5.7 million mt, 1.1 million mt (+24%) more than last year.ost of last week's exports were off the West Coast.
- US spring wheat ending stocks were put 4 million bu lower at 284 million bu, now just 4 million bu above last year. The entirety of the decrease was from higher domestic food use.
- Demand remains firm and opportunities to increase Canadian wheat exports this year continue to exist thanks to better rail availability.
- *Demand for Canadian wheat is good and improved rail availability is helping tremendously. Wheat will likely move sideways in the short term, supported by strong demand and reasonable stocks and underpinned by corn and soybean strength.*

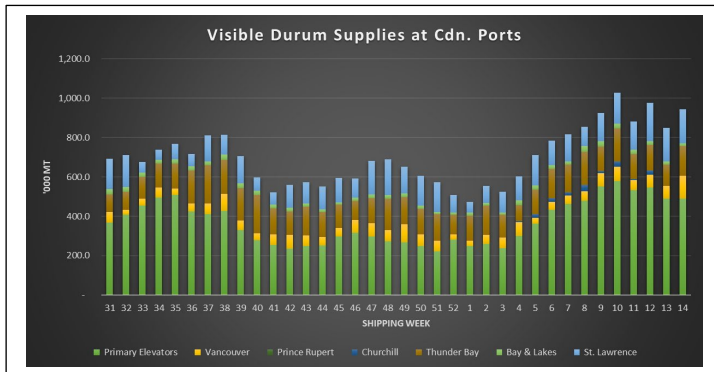


- We would to be sold up to 75 percent of production where local bids exceed full costs.

- **Durum:** Canadian durum exports have all but recovered from a relatively slow start and are now almost par with last year-to-date. Week 14 durum export shipments were 170.30,000 mt for a total of 1.27 million mt, 4% (-55.2,000 mt) less than last year. Port of origins were split between the West Coast and the Lakes



- The pace of exports has been chipping away at the visible supplies in Canadian handling facilities. The pace of buying and producer deliveries continues to point towards strong movement going forward.

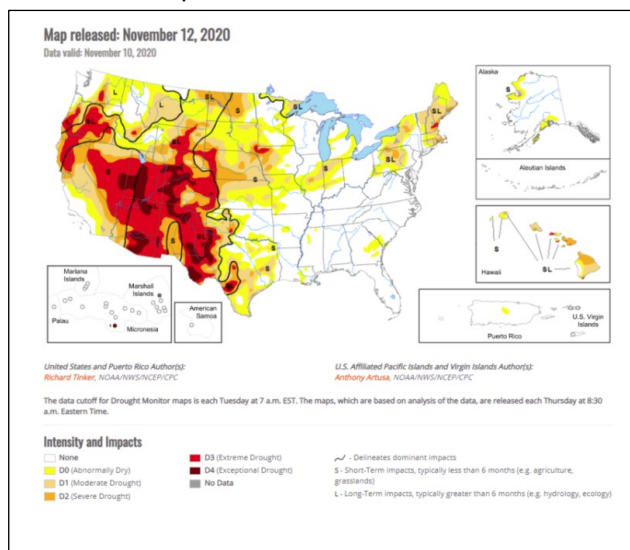


- USDA decreased US durum ending stocks by 3 million bu from October on higher domestic use. 2020/21 carry-out is expected to be 34 million bu, vs last year's 42 million bu; in-line with the 2017/18 MY.

- International demand remains positive and the balance sheet is tight. Global durum prices have been rising, notably in France where much of the durum price action is determined. Prices have been rising in Vancouver, but not as fast. *There seems to be demand for durum in south and south-eastern Saskatchewan at up to \$8.30/bu. We would begin looking at sales starting at \$8.50/bu (# 2 CWAD's).*

## US Wheat:

- The USDA report was largely uneventful for wheat compared to corn and beans. Stocks were slightly (5 million bu) lower, most of this from higher food demand. There were no changes in US feed demand and there were offsetting by-class revisions to exports and imports.
- US winter wheat planting is 93% complete, up 4% from last week and 2% ahead of last year. There was beneficial rain in NW MT, but almost everywhere else remains abnormally dry. Further dry weather and high winds are expected which will continue to parch the already deficient soil.
- US wheat sales were 300,000 mt, just half of last week's amount, for a year-to-date total of 16.8 million mt, 12% ahead of last year. USDA left US wheat exports unchanged at 975 million mt, up 1% y/y.



- The focus of the wheat market will be on corn, and how the EU is going to alleviate its feed problem. The solution to this should be the EU keeping wheat out of export channels. So far, they have been largely unsuccessful. The EU will not export 26 million mt as the USDA says. The combined strength of the corn and bean markets will keep wheat supported.
- US HRS for November is valued at \$290/mt FOB PNW (-\$1/mt from last week), PNW White wheat is at \$255/mt FOB PNW (unchanged from last week).

#### **Australian wheat:**

- Harvest pressure causes Aussie futures to lose A\$10 over the week.
- Early harvest reports indicate “good” quality.
- USDA left the Aussie crop unchanged at 28.5 million mt.
- Australian new crop FOB APW wheat values for Nov. closed \$5/mt higher than the week previous at 260.00/mt *APW*.
- Aussie wheat remains the cheapest into SE Asia by a wide margin.

#### **Argentine wheat:**

- Harvest in Argentina progressed 7% from last week to 16% complete (13% last year). Average yields remain at just 1 tph.
- Crop ratings rose slightly to 15% Gd/Ex, well below last year’s 41% Gd/Ex.
- BAGE left their production estimate unchanged at 16.8 million mt. Rosario GE lowered their estimate 300,000 mt to 16.7 million mt and the USDA decreased their number by 1 million mt to 18 million mt.
- Weather in Argentina continues to be concerningly dry.
- FOB prices in Argentina fell \$1/mt for 11.5 pro wheat with the bid-offer at \$245-\$255 for Nov delivery. Farmers are not sellers adding to the slow trade.

#### **EU wheat:**

- Grain stocks in the EU are tightening. Strong demand from China is stealing barley from domestic markets and wheat is having to make up some of the shortage in corn imports.
- Great Britain’s imports rose sharply in Sept (337,212 mt). Year-to-date imports are more than twice last year’s amount.
- As of Nov. 9, EU and UK soft (non-durum) wheat exports total 7.84 million mt, down 24% on the year due to reduced production.
- USDA put EU exports 500,000 mt higher at 26 million mt. The EU will not be able to reach this.
- USDA put EU feed use 1 million mt higher. The USDA has not yet fully addressed the EU’s inability to source corn.
- Stratégie Grains, a European agriculture consultancy, expects EU and UK winter wheat planted area for next year’s harvest will rebound 9% from 2019/20 on drier, more favorable planting conditions.
- FOB prices were mixed in the EU: French 11.5 pro closed at \$259.41/mt, up 58 cents from last week. German 12.5 pro was \$0.58/mt higher to \$255.59/mt. Baltic 12.5 pro lost \$4.00/mt on the week to \$251.00.

#### **Black Sea wheat:**

- Russia says it will allow 15 million mt of grain exports from Feb 15 through end June, which will equate to 38-39 million mt of wheat exports over the full season. The market paid not attention to this. In our view this statement is more inclined to get more export dollars and strengthen their domestic currency.
- Russia’s export cap may speed offers over the next 2-3 month. Especially since Russian wheat is too expensive into SE Asia vs Aussie origin beyond December.

- Black Sea futures were flat, but FOB values were nominally \$4/mt lower to finish the week. Russian 12.5 pro was bid at \$251/mt, \$4/mt higher than last week.

➤ **Significant purchases/ trades:**

- **Saudi** bought 860,000 mt of Feb-Mar arrival at an average \$276 basis Jeddah and \$279.50 basis Dammam.
- **Algeria** bought 600,000 mt of Jan shipment at around \$274.50.
- **Turkey** bought 550,000 mt Nov-Dec at around \$255-257 FOB parity basis Russia.
- **USA** inspections were 304,000 mt (season total 430 million bu, up just 2%), sales were 301,000 mt (season total 627 million bu, up 12%).
- **Iran** reportedly bought Dec-Jan wheat but with no details.
- **Pakistan** returns next week for 400,000 mt.
- **EU** soft wheat shipments advanced 950,000 mt to 7.48 million mt, but this remains 20% down on last year.

➤ **Wheat Market Outlook:**

**Significant events:**

- **USDA's WASDE report on Tuesday** reduced the **corn** yield to 175.8 bushels per acre from 178.4 bpa which reduced ending stocks to 1.7 billion bu from 2.17 billion in October. In **soybeans** they reduced the yield to 50.7 bpa from 51.9 bpa which reduced ending stocks to 190 million bu instead of 290 in October. The corn estimate was a surprise to the trade and futures rose immediately. Despite initial spillover gains on the bullish USDA corn and soybeans numbers, USA wheat futures all ended the week lower. The USDA left the US wheat supply demand relatively unchanged.
- **The wheat trade was in very good volume** during the week and the market has not yet adjusted to the increased wheat usage for feed which will be necessary in the EU. We expect countries like Egypt, where wheat is a staple, will increase their stockpiling
- **Increased export elevation availability** for January and February deliveries pressured Pacific Northwest (PNW) and Gulf HRS and HRW export basis from last week. PNW soft white (SW) export prices and Gulf SRW export basis also fell this week. The Great Lakes – St. Lawrence Seaway System will be closed from early January to mid-March 2021.
- **USDA forecasts China will import 13.0 MMT of corn** from all suppliers in 2020/21, nearly double last month's estimate of 7.0 MMT and last year's volume of 7.60 MMT. Increased corn exports to China could continue to limit U.S. export elevation capacity for all agricultural commodities out of the PNW and Gulf.
- **Weather Update:**
  - **Argentina** looks almost completely dry for the coming week but precipitation in **Brazil** should be near normal except for the far south. However, cumulative rainfall so far this season across South America remains much below average and crops are well behind. **Western Europe** will remain warm and in a drier than normal pattern. The **Black Sea** will also be mostly dry but with snow in South West Russia. However, this will not be widespread and crops everywhere are heading into their toughest week so far. This weekend's daytime temperatures fell to -10°C, night-time lows in the early part of the week will be -15°C, and they will drop to -20°C by Thursday. In the **USA**, some rain will fall late week in the central Plains but elsewhere it will stay generally dry with temperatures well above seasonal norms. **Australia** will be dry in the west but will see additional showers on the east coast.

➤ **Outlook:**

Crop concerns in the Black Sea and USA are real, but the extent of any real damage will not be known until spring. The EU has a rationing job to do on increased wheat for feed/less exports given its shortage of corn supply. Downside on wheat appears to be limited given the increasingly bullish outlook for corn and beans amidst a building La Nina. However, in the short term there is plenty of wheat on offer and the EU's

need to ration exports is not yet a real market factor. Wheat will be choppy and short term it may need to rely on corn for its price support - which in turn will depend on South American weather. In the longer term we see stronger wheat prices.

***We see no need to chase prices. We hear bids of \$7.50 for 2 cwsr in Manitoba. Where there are good margins, we would be 75 percent sold.***

### 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)		Feb. '21 (bu.)	Feb. '21 (mt.)
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	\$6.77	\$248.76
1 CWAD 13.0	\$7.90	\$290.28	1 CWAD 13.0	\$8.03	\$295.05
1 CPSR 11.5	\$6.14	\$225.61	1 CPSR 11.5	\$6.29	\$231.12
SW Sask			SW Sask		
1 CWRS 13.5	\$6.45	\$237.00	1 CWRS 13.5	\$6.63	\$243.61
1 CWAD 13.0	\$7.98	\$7.73	1 CWAD 13.0	\$7.95	\$292.11
1 CPSR 11.5	\$6.05	\$222.30	1 CPSR 11.5	\$6.20	\$227.81
NE Sask			NE Sask		
1 CWRS 13.5	\$6.37	\$234.06	1 CWRS 13.5	\$6.53	\$239.94
1 CWAD 13.0	\$7.95	\$292.11	1 CWAD 13.0	\$8.17	\$300.20
1 CPSR 11.5	\$5.96	\$218.99	1 CPSR 11.5	\$6.11	\$224.51
SE Sask			SE Sask		
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	\$6.49	\$238.47
1 CWAD 13.0	\$8.01	\$294.32	1 CWAD 13.0	\$8.16	\$299.83
1 CPSR 11.5	\$5.93	\$217.89	1 CPSR 11.5	\$6.07	\$223.04

**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 Basis<sup>1</sup> (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)
- 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)

---

<sup>1</sup> 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 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				November 16, 2020
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$332.51	\$324.82		
HRS	\$329.54			
HRW 11.5	\$338.27			
SWW 12.0	\$299.83			
1 CWRS 13.5 <sup>3</sup>	\$332.51		\$235.53	\$96.98
2 CWRS 13.0 <sup>3</sup>	\$329.54		\$220.46	\$109.08
3 CWRS <sup>3</sup>	\$338.27		\$200.25	\$138.02
CPS <sup>3</sup>	\$293.11		\$223.77	\$69.34
1 CWAD <sup>4</sup>		\$369.51	\$293.95	\$75.55
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$251.00			
French 11.5 (Rouen)	\$259.41			
APW 10.5 (W Coast)	\$260.00			
Argentine 12.5	\$245-\$255			

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency  
<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price  
<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS  
<sup>4</sup> Values derived to Lakehead FOB



**ADDENDUM**

**Futures Driven Basis Calculation, Canadian Dollars per MT**

Canadian Wheat - World Price Parities					November 16, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.87	\$8.79	\$9.02	\$7.98	\$7.98
Parity Track Rosetown	\$7.37	\$7.29	\$7.53	\$6.48	\$6.48
Track Bid Rosetown Area	\$6.41	\$6.00	\$5.45	\$6.09	\$6.09
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$0.96</b>	<b>\$1.29</b>	<b>\$2.08</b>	<b>\$0.39</b>	<b>\$0.39</b>
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$35.27</b>	<b>\$47.36</b>	<b>\$76.31</b>	<b>\$14.35</b>	<b>\$14.35</b>

\* to cover elevation, elevator market risk, margin