

Wheat Market Outlook and Price Report: Sept. 21, 2020

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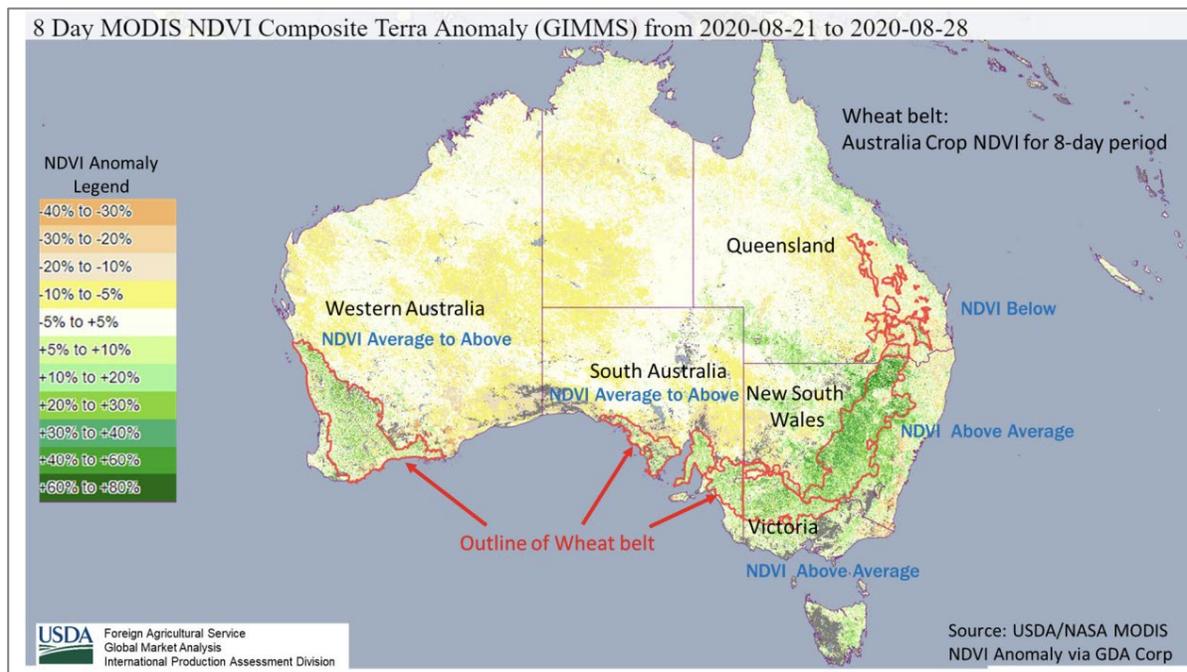
i) Background and Rationale for the Report

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 September 21, 2020

Focus on the Australian wheat production outlook for 2020/21:



- **Australia's wheat production for 2020/21** is forecast at **28.5 million mt**, up 2.5 million mt from last month and *up 13.3 million mt (+88%) from last season*. Area is estimated at 13.0 million ha, unchanged from last month but up 2.8 million ha from last year. Yield is estimated at 2.19 mt/ha, up 10 % from last month, up 47% from last year, and 13% above the 5-year average of 1.94 mt/ha.
- Precipitation has been beneficial since sowing operations commenced in May. Soil moisture in virtually all wheat cropping areas has markedly improved on the relatively dry conditions which prevailed over much of the previous year.
- Wheat production in New South Wales (31% of national production) is the major driver for Australia's remarkable turnaround this season. Satellite imagery reveals far more winter crop fields and those fields are in healthy conditions.

➤ **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 575-0, up 18-6 cents on Friday, *up 33 cents for the week.*
Dec. '20 contract **Kansas hard red winter wheat** closed at 504-2, up 16-6 cents in Friday's trade, *up 33 cents for the week.*
Minneapolis Dec. '20 hard red spring wheat closed at 551-2, up 9-6 cents on Friday, *up 19 cents for the week.*

CBOT/CME Dec 2020 Wheat



KC Dec. '20 Wheat



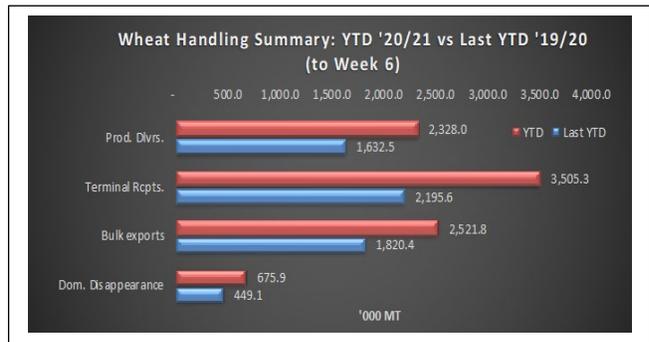
Mpls. Dec. '20 Wheat



- Futures market summary: Technical buying and broader strength in the grains and oilseed complexes supported all wheat futures prices over the week.
- The big question today (Monday) is if the market is doing a 'pullback', or a 'correction'? We think it is mostly profit-taking as there are no news in agriculture that would warrant such a drop.

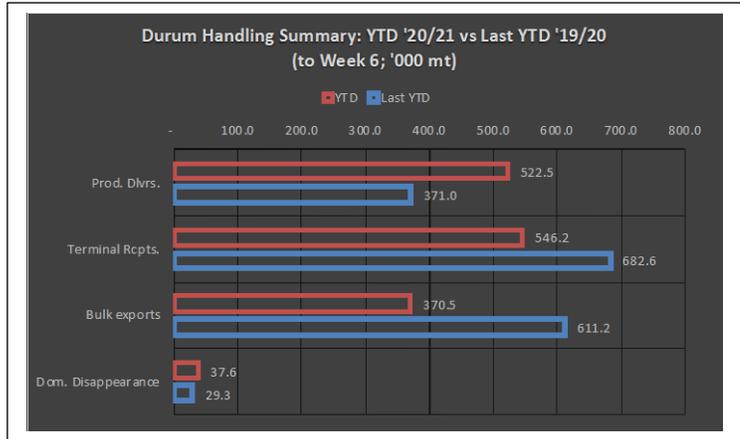
Canadian Wheat:

- **Harvest:** According to SK Ag 55% of SK spring wheat was harvested as of Sept. 14. SK Ag yield projections are at 45 bu/acre for spring wheat. Alberta Ag indicates about a 27% progress on wheat. AB yields are projected at 56 bu/acre.
- **Week 6** grower deliveries were a big 447,000 mt. Weekly wheat export loadings were at 383,000 mt. year-to-date shipments amount to 2.5 million mt, which is 701,000 mt ahead of last years.
- Funds have been moving back into the commodity/ grain markets, and there may be some new fundamental reasons developing to support last week's rise in futures:



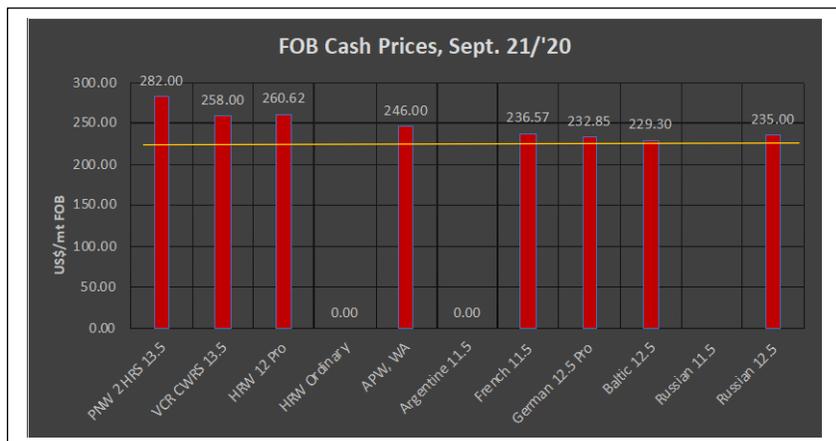
- Fund money re-entering the markets in style
- Excessive dryness in Russia/Ukraine impeding fall seeding/ preventing germination of the seeded fields
- The possibility of a La Nina pattern harming S American wheat/soybeans due to dryness
- The outside chance that China just keeps buying.
- The overall world wheat focus is now on the weather, with planting conditions around the Balkans and Black Sea described as the "worst in years", with no rain in the forecast and farmer defaults on the rise due to the price run-up. Argentina will also need next week's rain to perform.
- *We would hold sales of food and feed grains in the Canadian market for now.*
- In or view Canadian elevator companies are low balling elevator bids to avoid defaults on earlier
- low-priced purchases.

- **Durum:** 86% of durum was harvested in SK as of Sept. 14. SK Ag yield projections are at 38 bu/acre for durum. Alberta Ag did not update their estimate on the harvest progress for durum wheat.
- US durum: The US northern durum harvest is now 86% complete in North Dakota and 80% in Montana, well ahead of last year. The crop looks good with few quality issues observed so far. The durum harvest is expected to wrap up in the next 7-10 days.
- **Week 6** durum deliveries were 116,000 mt. Export shipments amounted to 50,000 mt. year-to-date shipments at 371,000 mt trail last years by 241,000 mt.
- *Longer term international demand prospects for durum look positive and should roughly match the demand seen during 2019/20. But our large durum crop will weigh on the market initially.*
- We note that Tunisia is currently tendering for 50,000 mt of durum wheat for Oct./Nov.
- *We would target sales at around \$7.75/bu, which would represent a decent premium over spring wheat*



US Wheat:

- **US harvest progress:** The PNW SW harvest is nearly complete. Spring wheat and northern durum producers also made good harvest progress, and the 2020 HRS crop is nearly complete with less than 5% of the crop remaining, well ahead of last year's pace. U.S. farmers have now planted 10% of the total intended winter wheat area for harvest in 2021, 4 points ahead of this time last year.
- **Net sales** of 336,000 mt for 2020/2021 were down 31% from the previous week and 42% from the prior 4-week average. US export bookings for the had been expected to come in at 300,000 to 700,000 mt, so definitely were at the low end of expectations. Increases in sales were primarily for Indonesia.
- *The rally in wheat futures further reduced the competitiveness of US wheat on the export market, and this week's sales were the lowest in 2 months.*
- The FOB value for 13.5 pro HRS in the PNW for October increased by \$11.00/mt from last week to \$282.00/mt, while PNW White wheat increased by \$10.00/mt to \$235.00/mt.



Australian wheat:

- New crop Australian wheat futures closed up A\$8/mt and made their highest weekly close in over 3 months, even before Friday's worldwide price rally.
- The final jury is still out on the size of the new crop, and it increasingly looks like regional differences between WA and the east could be substantial.
- Australian new crop FOB APW wheat values for Dec. increased to 246.00/mt.

Argentine wheat:

- In their weekly update, BAGE reported a sharp drop in crop ratings with Gd/Exc falling to just 14% from 22% last week and 44% last year. About 40% of the crop is seen as Poor against 37% last week and just 18% last year. Private crop estimates are starting to drop to 17-18 million mt. BAGE talked of abandonment and 50% yield declines in the north, but surprisingly kept their crop at 21 million mt (USDA is at 19.5 million mt).
- Argentine new crop 11.5 pro wheat for Dec. rose \$10/mt to \$210-220/mt. *It remains the world's cheapest wheat December onwards.*

EU wheat:

- Matif Dec wheat traded up €6/mt to its highest level for 5 months and made its highest weekly close since November 2018.
- year-to-date EU soft wheat shipments advanced by 638,000 mt to 3.58 million mt, still down 42% compared to last year.
- *The big news for France was the apparent agreement by Algeria to open the door to Russian/Black Sea wheat.*
- FOB values in the EU were all up over the week. French 11.5 pro wheat increased by \$7.30/mt to US\$236.57/mt, German 12.5 pro increased by \$6.12/mt from last week to \$232.852/mt, and Baltic 12.5% pro wheat rose \$6.11mt to \$229.30/mt

Black Sea wheat:

- Russian yields continued to suggest a crop of around 82 million mt (USDA is using 78 million mt), but *existing short holders* continue to get squeezed as farmers are not selling due to ongoing dryness (and they have been very successful so far in forcing prices higher). Logistics also remain a problem due to rail movement running at capacity. FOB costs go up by \$3 in October. However, shipments remain huge.
- Black Sea futures rose \$7/mt and FOB values also increased sharply by \$10/mt with the bid-offer on Russian 12.5 pro at \$232-238/mt.

➤ Significant purchases/ trades:

- **Saudi Arabia** bought 745,000 mt of wheat for Nov-Jan arrival at \$247/mt basis Jeddah (Dammam freight premium \$7.50);
- **GASC (Egypt)** bought 235,000 mt 10-20 Nov Russian/Polish wheat at \$249.50 (basis 180 days L/C);
- **Pakistan** bought 215,000 mt wheat at \$274-277 and returns Wednesday for 300,000 mt;
- **Jordan** bought 120,000 mt wheat for FH Nov at \$254.75;
- **Turkey (TMO)** bought 440,000 mt wheat at \$240.50-248.
- **Tunisia** tendered Friday for 11.5 pro wheat but passed (cheapest offer \$257).
- **USA export sales** were 336,000 mt (season total 483 million bushels up 7%).
- **EU soft wheat shipments** advanced by 638,000 mt to 3.58 million mt, still down 42% on last year.
- ***Almost 2 million mt of wheat traded during the past week. As we predicted, wheat values improved as the protein values continue to take off.***

➤ **Wheat Market Outlook:**

Significant events:

- **USA wheat futures** rose 20-35 cents per bushel on the back of widespread institutional buying across the commodity spectrum (fund buying of CBOT wheat was estimated at 30,000 contracts taking their net long to around 50,000 as of Friday (6.8 million mt)).
- The market awaits final conformation and details, but **Algeria** seems to have agreed to raise the insect damage tolerance for Black Sea wheat.
- It was not clear if any of the Saudi or Pakistan tenders were based on **Australian wheat execution**, but new crop Aussie futures closed up Australian \$8.00/mt and made their highest weekly close in over 3 months.
- **Matif Dec traded** up 6 euros to its highest level for 5 months and made its highest weekly close since November 2018.
- **Russian yields** continued to suggest a crop of around 82 million mt, and the Ruble made its lowest weekly close since April.

➤ **Outlook:**

The wheat market seems to be progressively about weather. The prospects for rain in Western Europe are improving, but there is little rain showing for the Black Sea area. There are reports that the fields that have been planted are simply not germinating or emerging. It also seems that the impact of dryness and frosts on crops in Argentina may have been underestimated, although BAGE still has not lowered its production number. Australia looks good in the east, but WA remains dry.

FOB prices are higher everywhere, but we note that the rally has further reduced the competitiveness of US wheat on the export market, and this week's US sales were the lowest in 2 months.

We would hold sales of food and feed grains in the Canadian market for now. In our view the elevator companies are not yet giving fair market value.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 21-09-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)
1 CWRS 13.5	\$6.41	\$235.53	1 CWRS 13.5	n/a	
1 CWAD 13.0	\$7.22	\$265.29	1 CWAD 13.0		
1 CPSR 11.5	\$5.83	\$214.22	1 CPSR 11.5		
SW Sask			SW Sask		
1 CWRS 13.5	\$6.27	\$230.38	1 CWRS 13.5	n/a	
1 CWAD 13.0	\$7.23	\$265.66	1 CWAD 13.0		
1 CPSR 11.5	\$5.76	\$211.65	1 CPSR 11.5		
NE Sask			NE Sask		
1 CWRS 13.5	\$6.13	\$225.24	1 CWRS 13.5	6.32	\$232.22
1 CWAD 13.0	\$7.20	\$264.56	1 CWAD 13.0	7.46	\$274.11
1 CPSR 11.5	\$5.61	\$206.13	1 CPSR 11.5	5.80	\$213.12
SE Sask			SE Sask		
1 CWRS 13.5	\$6.13	\$225.24	1 CWRS 13.5	6.29	\$231.12
1 CWAD 13.0	\$7.27	\$267.13	1 CWAD 13.0	7.48	\$274.85
1 CPSR 11.5	\$5.64	\$207.24	1 CPSR 11.5	5.82	\$213.85

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/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 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)
- 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.

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.”

- 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				21-09-2020
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	\$326.57	\$382.79		
HRS	\$319.24			
HRW 11.5	\$313.86			
SWW 12.0	\$273.28			
1 CWRS 13.5 ³	\$326.57		\$224.14	\$102.43
2 CWRS 13.0 ³	\$319.24		\$205.77	\$113.47
3 CWRS ³	\$313.86		\$191.07	\$122.79
CPS ³	\$266.44		\$206.50	\$59.94
1 CWAD ⁴		\$375.95	\$271.91	\$104.04
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$235.00	August		
French 11.5 (Rouen)	\$236.57	August		
ASW 10.5 (W Coast)	\$240.00	December		
Argentine 12.0	\$215.00	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				21-09-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.50	\$8.36	\$5.45	\$5.45
Parity Track Rosetown	\$7.01	\$6.86	\$5.75	\$5.75
Track Bid Rosetown Area	\$5.60	\$5.20	\$5.62	\$5.62
Gross Margin at Elevator (\$/bu)*	\$1.41	\$1.66	\$0.13	\$0.13
Gross Margin at Elevator (\$/mt)*	\$51.64	\$60.96	\$4.95	\$4.95
* to cover elevation, elevator market risk, margin				