

Wheat Market Outlook and Price Report: Sept. 8, 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 8, 2020

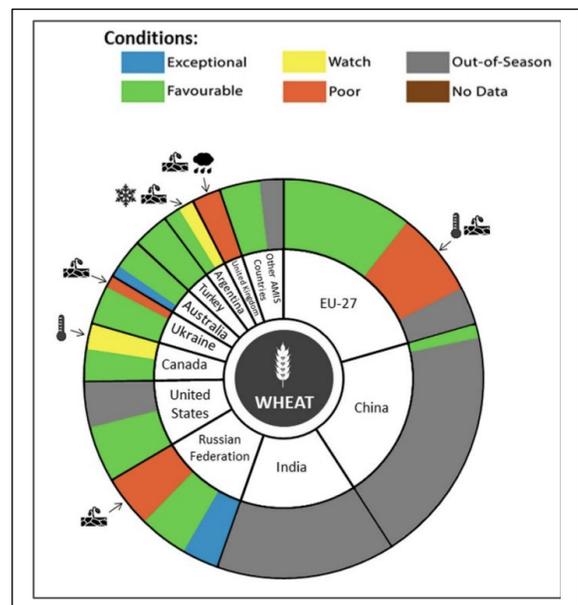
AMIS¹ September Global Wheat market assessment:

Wheat	FAO-AMIS			USDA		IGC	
	2019/20	2020/21		2019/20	2020/21	2019/20	2020/21
	est	2 Jul	3 Sep	est	f'cast 12 Aug	est	f'cast 27 Aug
Supply	761.6	761.5	760.1	764.1	766.0	762.2	763.3
	628.1	627.5	626.1	630.5	630.0	628.7	628.3
Utiliz.	1,033.1	1,036.5	1,036.6	1,048.0	1,066.9	1,023.9	1,042.7
	784.1	775.4	774.9	774.7	779.3	771.7	778.8
Trade	753.0	754.1	756.1	747.2	750.1	744.5	749.1
	627.5	627.2	628.7	621.2	620.1	615.7	617.1
Stocks	181.1	178.7	181.5	190.0	187.7	183.4	181.2
	175.5	174.4	176.8	183.6	180.7	176.6	175.0
	276.6	283.8	282.2	300.9	316.8	279.4	293.6
	148.8	146.3	143.6	149.2	154.1	149.2	155.5

- The latest **global wheat production** forecast for 2020 by FAO-AMIS points to a slight decline y/y following this month's downward revision for the EU, and to a lesser extent Argentina and the US, more than outweighing improved prospects in Brazil, Canada, the Russian Federation, and Ukraine.

¹ 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, UNCTAT, World Bank, WFP, WTO, GEOGLAM.

- **Wheat utilization** in 2020/21 is expected to exceed the 2019/20 level, driven largely by increased food use while feed demand is projected down from last year and industrial use is expected to stagnate.
- **Wheat trade** in 2020/21 (July/June) is seen to scale up amid more robust global import demand and expectation of large export supplies.
- **Wheat ending stocks** (ending in 2021) were trimmed since July but are still rising by 2 percent compared to their opening levels to the second highest level on record; China accounts for most of the anticipated y/y build-up.
- **Wheat conditions –**
 - **EU:** Harvest is wrapping up under mixed conditions, most notably in northern France and Romania, which are experiencing poor conditions due to hot and dry conditions earlier in the season.
 - **UK:** Harvesting is wrapping up under poor conditions after a season full of variable weather.
 - **Ukraine:** Harvest of winter wheat is wrapping up under favourable conditions across most of the country except in the south, where dryness earlier in the season dryness resulted in below-average yields.
 - **Russian Federation:** Harvest is wrapping up for winter wheat with exceptional conditions in the Central and Volga districts while earlier in-season dryness has reduced yields in the southern regions. Spring wheat is under generally favourable conditions with some slightly drier than normal conditions developing.
 - **China:** Harvesting of spring wheat is ongoing under favourable conditions.
 - **US:** Conditions are favourable as winter wheat harvest wraps up in the northern states and spring wheat harvest begins.
 - **Canada:** Winter wheat harvest is wrapping up under favourable conditions. Spring wheat is under generally favourable conditions, however, some dryness in Saskatchewan is causing premature ripening.
 - **Argentina:** Conditions are mixed with favourable conditions in the provinces of Buenos Aires, Entre Ríos, and some parts of Santa Fe, however persistent dryness and frosts are lowering the prospects in the rest of the country.
 - **Australia:** Conditions are generally favourable except for Queensland which experienced persistent dryness. By contrast, New South Wales is showing exceptional conditions with an expansion of sown area.



➤ 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 550-2, down 3-0 cents on Friday, *up 1-6 cents for the week*.
Dec. '20 contract **Kansas hard red winter wheat** closed at 472-4, down 3-2 cents in Friday's trade, *up 0-4 cents for the week*.
Minneapolis Dec. '20 **hard red spring wheat** closed at 542-4, down 1-2 cents on Friday, *up 2 cents for the week*.

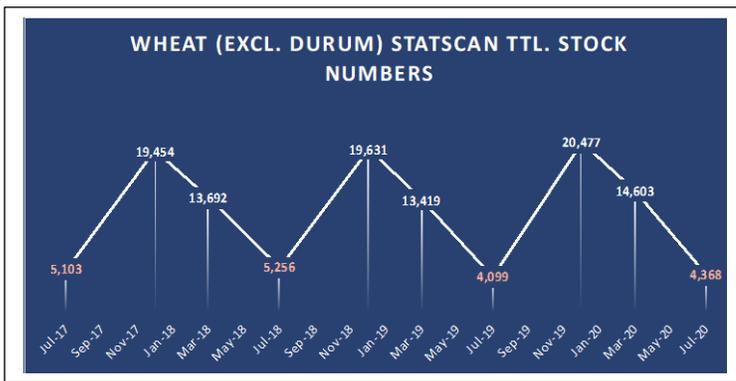


- Futures market summary: There was short covering and technical buying late in the week.

Canadian Wheat:

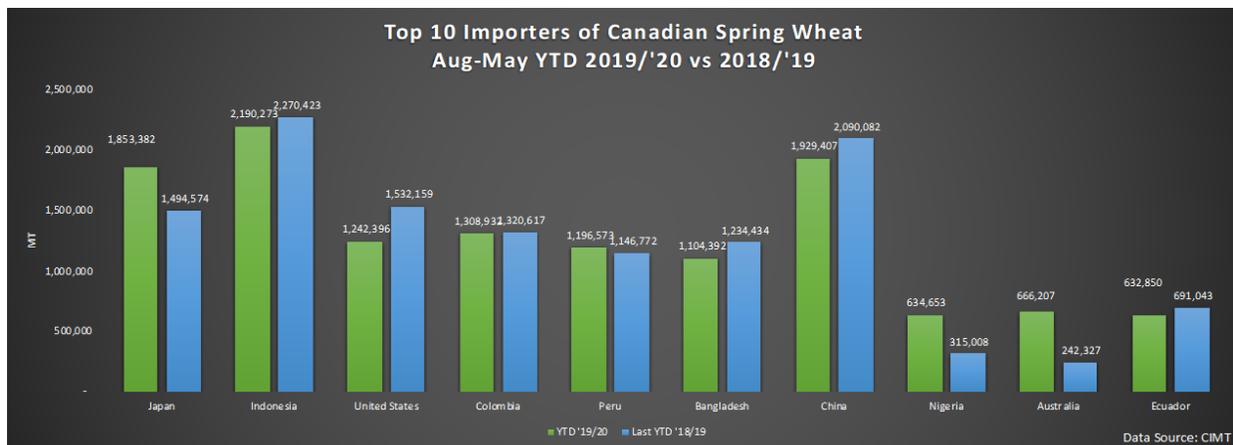
- Harvest: According to the Saskatchewan Ministry of Agriculture, 19% of Saskatchewan spring wheat was harvested as of Aug. 31st. Alberta Ag indicates about a 10% progress on wheat.
- Topsoil moisture conditions continue to deteriorate in most areas due to strong winds and lack of moisture. Most crop damage this past week was due to diseases such as ergot, lack of moisture and strong winds blowing swaths around. There were some reports of light frost, but damage appears to be minimal. Reported yields vary from low average to way above average.

- StatsCan published their July 31 **stock numbers** on Friday [see Table page 16]. Wheat (excl. durum) stocks actually increased over last years to 4.4 million mt due to the very slow wheat export pace during the first half of the crop year. This will burden this years' balance sheet accordingly!



- StatsCan also published the **July export numbers**. At 2.2 million mt for the month, July was the third biggest wheat shipping month of the crop year, third only to April with 2.55 million mt and May with 2.3 million mt. Too bad we cannot consistently hit the 2 million mt tonne mark.

The July number brings the crop year total to 19.4 million mt, which is 346,000 mt higher than last years wheat exports. It also surpasses the AAFC augmented target of 18.7 million mt and shows what happens when more rail capacity becomes available. Volume gains over last year were made to Japan, Nigeria and Australia, while exports to the US, China and Bangladesh fell short relative to the previous year.



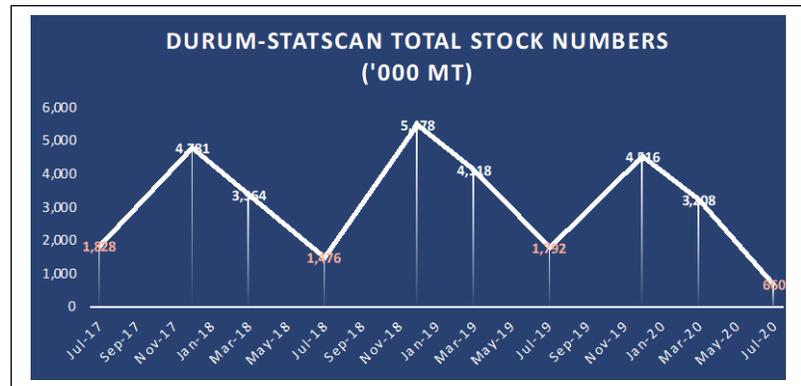
- Meanwhile, year-to-date shipments in the new crop year are off to a fairly decent start with 1.8 million mt of wheat loaded during the first four shipping weeks of the new crop year.
- Monday is a holiday in the US, ABARES (Australia) is out on Tuesday, the USDA is out on Friday, in the meantime traders will be keeping close attention to Southern Hemisphere weather.

(CGC) Grain Handling Summary Wheat				Wk. 4	(Aug. 30/'20)
{'000 mt)	Prod. Dlvs.	Terminal		Bulk exports	Dom. Disappearance
		Repts.			
Wk. 4	417.3	568.4		523.8	112.8
Week ago	337.5	548.5		329.2	145.9
YTD	1,469.2	2,577.2		1,789.9	476.5
Last YTD	1,079.9	1,515.7		1,237.8	306.9
YTD less Last YTD	389.3	1,061.5		552.1	169.6
YTD over Last YTD	136%	170%		145%	155%

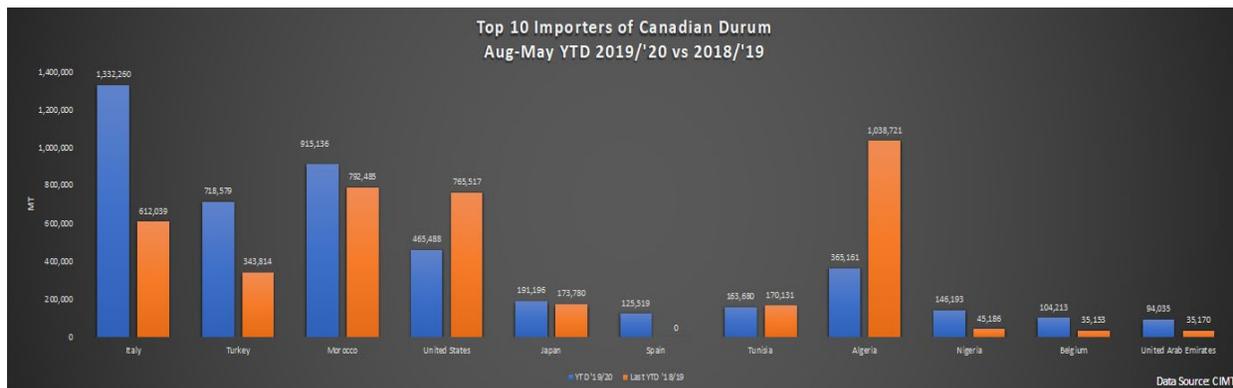
Mercantile based on weekly CGC Handling Data

- *The markets remain confused on the real size of EU and others European wheat production. We do not see any reason for wheat prices to drop much in the short term. We would recommend NOT selling 2CWRS wheat at lower than \$6.75 or better basis Saskatchewan. For durum, we would target sales at around \$7.75/bu, which would represent a decent premium over spring wheat.*
- **Durum:** Harvest - About 37% of durum was harvested in Saskatchewan as of Aug. 31st. We heard of some early yields in southern Saskatchewan that were unusually good. However, there are also reports of problems like such as ergot, lack of moisture and strong winds blowing swathes around.
- US durum update: The Northern durum harvest is now 53% complete in North Dakota and 46% in Montana, well ahead of last year. Producers are reporting that generally later planted fields and fields that received timely moisture are higher yielding. Overall, the crop looks good with few quality issues observed so far. Ratings for the unharvested northern durum crop dropped to 60% good to excellent.

- **The StatsCan stocks report** from last Friday should be supportive of durum, although the drop in stocks was expected. It shows that by July 31, Canadian durum stocks fell to 660,000 mt, a mere 37% of the previous year's stocks. The low carry-in stocks will be helpful to the '20/21 durum balance sheet in view of the big crop this year.



- StatsCan also published the **July export numbers**, which were 569,000 mt for durum, the second biggest export month of the crop year.
- Total '19/20 durum exports added to 5.3 million mt, 17% higher than the 4.5 million mt shipped the previous year.
- Compared to last year, major gains were made into Italy, Turkey and Morocco. Canada did lose significant volume to Algeria and into the US.



- *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. We would target sales at around \$7.75/bu, which would represent a decent premium over spring wheat.*

US Wheat:

- But despite weekly **US harvest progress**: The HRW harvest has officially wrapped up; SW harvest is progressing under hot, dry conditions and data continue to reflect low protein, low moisture and good test weight. HRS harvest is nearly 80% complete and this year's crop currently grades at U.S. No. 1 Northern Spring. The first northern durum samples are in with data reflecting an improved crop over 2019.
- **Weekly US sales**: Net sales of 585,400 mt for 2020/2021 were down 23 percent from the previous week, but up 4 percent from the prior 4-week average. The trade expected sales between 350,000 and 600,000 mt. Year-to-date commercial sales now total 12.5 million mt, 9% ahead of last year's pace.
- But despite weekly export sales coming in at the top end of expectations and the numbers confirming 250,000 mt to China (125,000 mt each of HRW and HRS), US wheat futures closed lower and are ~15¢ off the mid-week highs. There was some position squaring ahead of the holiday in the US on Monday, Tuesday brought the Australian ABARES crop update, and on Wednesday the September USDA report is issued.
- Wheat markets traded in a narrow range and most of the cash trade was again done by other origins; North American wheat is not competitive except to China.
- The next WASDE report is due on the 11th of September, so we don't expect to see much interest in the markets until the details of this report are digested.
- The FOB value for 13.5 pro HRS in the PNW for October dropped by \$3.00/mt from last week to \$272.00/mt, while PNW White wheat dropped by \$1.00/mt to \$227.00/mt.

Australian wheat:

- The 4-week weather outlook remains critical for the 2020 wheat crop.
- This morning ABARES said they expect a big jump in the production of wheat this year wheat, *with output almost doubling from 15.165 to 28.91 million mt!* Average production is around 25 million mt.
- Australian wheat has been buying volume demand into Asia, but buyers have now pulled back following the 2-week \$10 rally.
- Ahead of the ABARES report, December (new crop) APW was priced around \$238.00/mt FOB Western Australia, unchanged from last week.

Argentine wheat:

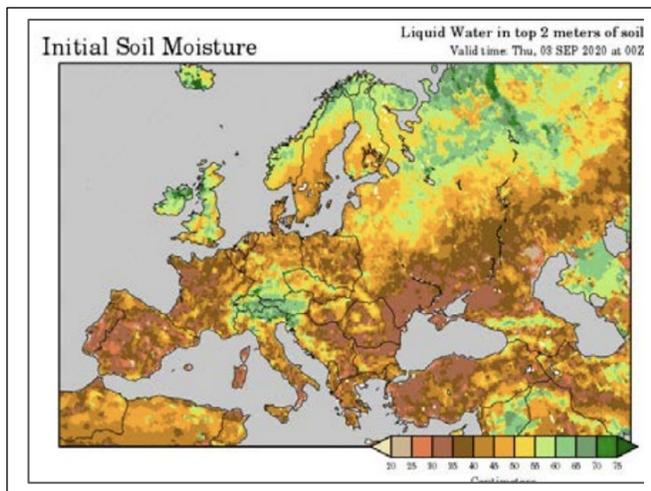
- BAGE lowered crop ratings another by 1% to just 17% Gd./Exc. (compared to 47% last year), and again talked of some irreversible yield loss, but they did not alter the production estimate.
- Soil moisture improved from 38% favourable last week to 46% (vs. 56% last year). "Dry" regions fell from 62% to 54% (vs. 42% last year), and the rain probably averted a major problem.
- Argentine 11.5 pro wheat for Dec. rose \$2/mt to \$205-210/mt.

EU wheat:

- Matif increased by €1-2/mt over the past week.
- French wheat still too expensive to trade other than to China; goes nowhere, Baltic wheat premiums are still €5-6/mt lower than German wheat, so Baltic wheat is taking the bulk of non-EU demand (Algeria, Saudi), while German wheat is filling UK demand (the UK had its worst harvest in 40 years).
- FOB values in the EU were mixed over the week. French 11.5 pro wheat increased by \$0.61/mt to US\$229.66/mt, German 12.5 pro fell by \$1.73/mt from last week to \$220.02/mt, UK 11.0 pro fell \$0.92/mt to \$244.26/mt.

Black Sea wheat:

- There was good volume Russian wheat offered to Egypt (GASC), but in a \$10/mt price range, with even the cheapest price reflecting around \$216/mt FOB for 12.5 pro wheat.
- Ukrainian traders put in just two offers, both at \$5 above the Russian prices, and clearly the trade has no more appetite for going short in front of the farmer.
- The Russian Ag Ministry reported that at least 10% of winter grain acreage is facing significant soil moisture deficits with farmers unable to plant, and we would surmise that Ukraine and much of the EU are in a similar situation, with soils baked hard. Ukraine talked of July-Aug moisture deficits of 50-80%.
- Reports indicate farmers in Romania are defaulting on their commitments to deliver wheat due to crop losses following the drought. Some reports suggest ad hoc defaults while others say the government has been asked to declare a nationwide force majeure. - This will serve to firm up wheat values in the Black Sea region.
- Baltic wheat is competitive with Russian nearby wheat, and Australian wheat picks up the baton December onwards. But while that is relevant for new business, there are shorts in the Black Sea and until they are covered, that market will stay firm, which should offer some selling opportunities.
- Nearby cash values for Russian wheat were higher by \$7.50/mt with Russian 12.5 pro wheat at \$217.50/mt.



➤ Significant purchases/ trades:

- **Egypt** (GASC) bought 55,000 tonnes of Russian wheat for Nov 5-15 at \$240.50/mt, around \$12 above their previous purchase.
- The **Philippines** bought 110,000 tonnes of Nov-Dec feed wheat (probably Australian) at \$255/mt.
- **Korea** passed at its feed wheat tender (cheapest offers were \$250 against \$246 paid last time).
- **USA** inspections were 516,000 tonnes (season total 248 myn bushels, up 2%), sales were 585,000 tonnes (season total 458 myn bushels, up 9% on last year with all the increase due to China).
- **EU** soft wheat shipments advanced to 2.94 million tonnes, still down 44% on last year.
- Looking ahead, **Turkey** returns on Sept 15th for 500,000 mt 12.5 pro wheat for a very tight Sept 23 -Oct 16 shipment period,
- **Pakistan** tendering open Sept. 15 for 175,000 mt Dec arrival.
- **Ethiopia** is on Sept 30th for 80,000 mt under World Bank financing.

➤ Wheat Market Outlook:

Significant events:

- The **ABARES** update today put the Australian wheat crop at 28.9 million mt, up from 15.17 million mt last year.
- US/ N American wheat is **not competitive** except to China.
- **Australian wheat** has been buying volume demand into Asia, but buyers have now pulled back following the 2-week \$10 rally.

- In **Argentina**, soil moisture improved from 38% favourable last week to 46% (vs. 56% last year). "Dry" regions fell from 62% to 54% (vs. 42% last year), and the rain might have averted a major problem.
- There was **good volume Russian wheat offered** to Egypt (GASC), but in a \$10/mt price range, with even the cheapest price reflecting around \$216/mt FOB for 12.5 pro wheat. Ukrainian traders put in just two offers, both at \$5 above the Russian prices, and clearly the trade has no more appetite for going short in front of the farmer.
- The Russian Ag Ministry reported that at least 10% of winter grain acreage is facing **significant soil moisture deficits** with farmers unable to plant, and we would surmise that Ukraine and much of the EU are in a similar situation

➤ **Outlook:**

Monday was a holiday in the US, ABARES (Australia) came out on Tuesday on the high side, the USDA report is out on Friday, and in the meantime, traders will be keeping close attention to Southern Hemisphere weather. - *The markets remain confused on the real size of European wheat production and conditions for fall seeding. We do not see any reason for wheat prices to drop much in the short term.*

We would recommend NOT selling 2CWRS wheat at lower than \$6.75 or better basis Saskatchewan. For durum, we would target sales at around \$7.75/bu, which would represent a decent premium over spring wheat.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	08-09-2020
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)	
1 CWRS 13.5	\$6.14	\$225.61	1 CWRS 13.5	6.43	\$236.26	
1 CWAD 13.0	\$7.34	\$269.70	1 CWAD 13.0	7.51	\$275.95	
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a	
SW Sask			SW Sask			
1 CWRS 13.5	\$6.00	\$220.46	1 CWRS 13.5	6.29	\$231.12	
1 CWAD 13.0	\$7.38	\$271.17	1 CWAD 13.0	7.52	\$276.31	
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a	
NE Sask			NE Sask			
1 CWRS 13.5	\$5.89	\$216.42	1 CWRS 13.5	6.18	\$227.08	
1 CWAD 13.0	\$7.27	\$267.13	1 CWAD 13.0	7.50	\$275.58	
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a	
SE Sask			SE Sask			
1 CWRS 13.5	\$5.87	\$215.69	1 CWRS 13.5	6.15	\$225.98	
1 CWAD 13.0	\$7.41	\$272.27	1 CWAD 13.0	7.60	\$279.25	
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a	

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

nearly 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)
 - 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.

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.”

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				08-09-2020
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	\$325.03	\$379.28		
HRS	\$316.80			
HRW 11.5	\$301.30			
SWW 12.0	\$265.93			
1 CWRS 13.5³	\$325.03		\$220.10	\$104.93
2 CWRS 13.0³	\$316.80		\$201.72	\$115.07
3 CWRS³	\$301.30		\$187.03	\$114.27
CPS³	\$259.15		\$197.32	\$61.84
1 CWAD⁴		\$372.50	\$263.09	\$109.41
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$217.50	August		
French 11.5 (Rouen)	\$229.66	August		
ASW 10.5 (W Coast)	\$238.00	December		
Argentine 12.0	\$207-212.00	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				08-09-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.44	\$8.02	\$5.35	\$5.35
Parity Track Rosetown	\$6.94	\$6.52	\$5.56	\$5.56
Track Bid Rosetown Area	\$5.49	\$5.09	\$5.37	\$5.37
Gross Margin at Elevator (\$/bu)*	\$1.45	\$1.43	\$0.19	\$0.19
Gross Margin at Elevator (\$/mt)*	\$53.31	\$52.50	\$6.85	\$6.85
* to cover elevation, elevator market risk, margin				