

Wheat Market Outlook and Price Report: February 10, 2020

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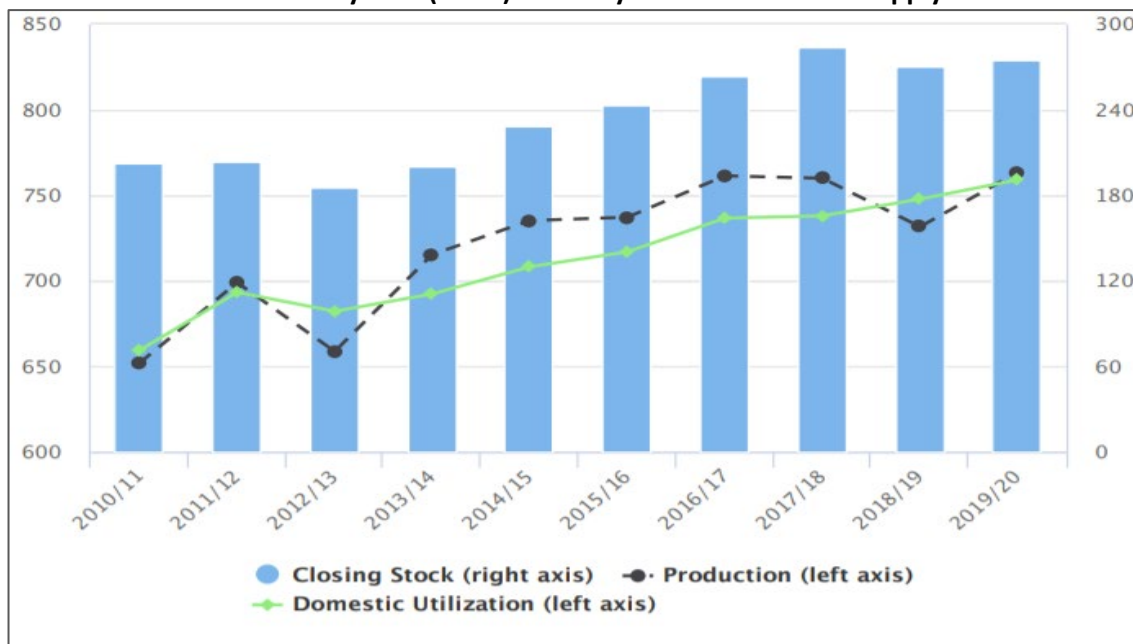
i) Background and Rationale for the Report

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 February 6th, 2020

Agricultural Market Information System (AMIS) February Estimate of World Supply and Demand



- In their latest estimate of world wheat supply and demand, **AMIS cut global wheat production** 3.1 million mt from their December estimate to 763.3 million mt. The reason for the decrease was mainly from lower production in Russia and Australia.
- **Global wheat use was put 800,000 mt higher** because of upward revisions to feed consumption (now 3.2% more than last year).
- **Trade was seen 2 million mt higher** than last month on strong interest in Asian countries and large export programs in Ukraine and the EU.
- In the end, **carry-out stocks were put 3.9 million mt lower** at 274.3 million mt, now 3.6 million mt more than last year's number, the second largest on record.

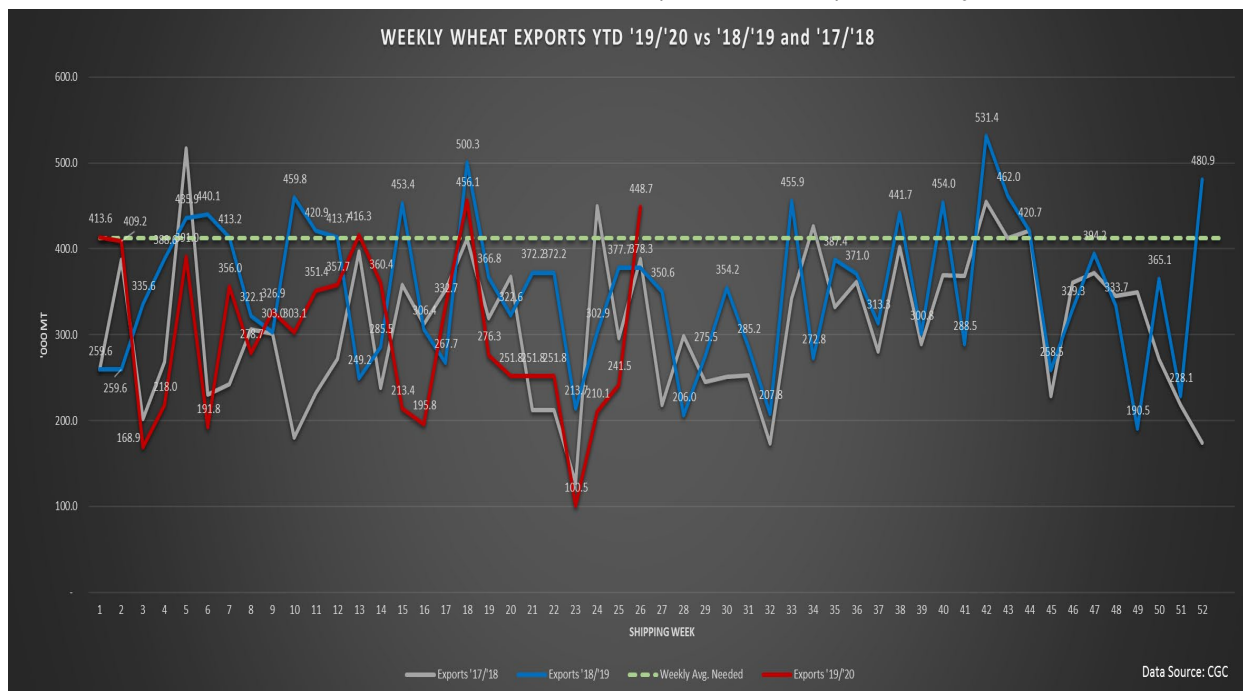
Global wheat production and trade:

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:** Mar '20 contract **Chicago** winter wheat closed at 558-6, up 2-4 cents for the day, *up 5-0 cents for the week*.
- Mar '20 contract **Kansas** hard red winter wheat closed at 472-4, up 4-6 cents for the day, *up 7-0 cents for the week*.
- In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 535-6, up 3-2 cents for the day, *up 1-0 cent for the week*, while May '20 hard red spring wheat closed at 545-4, up 3-0 cents for the day, *up 1-0 cent for the week*.

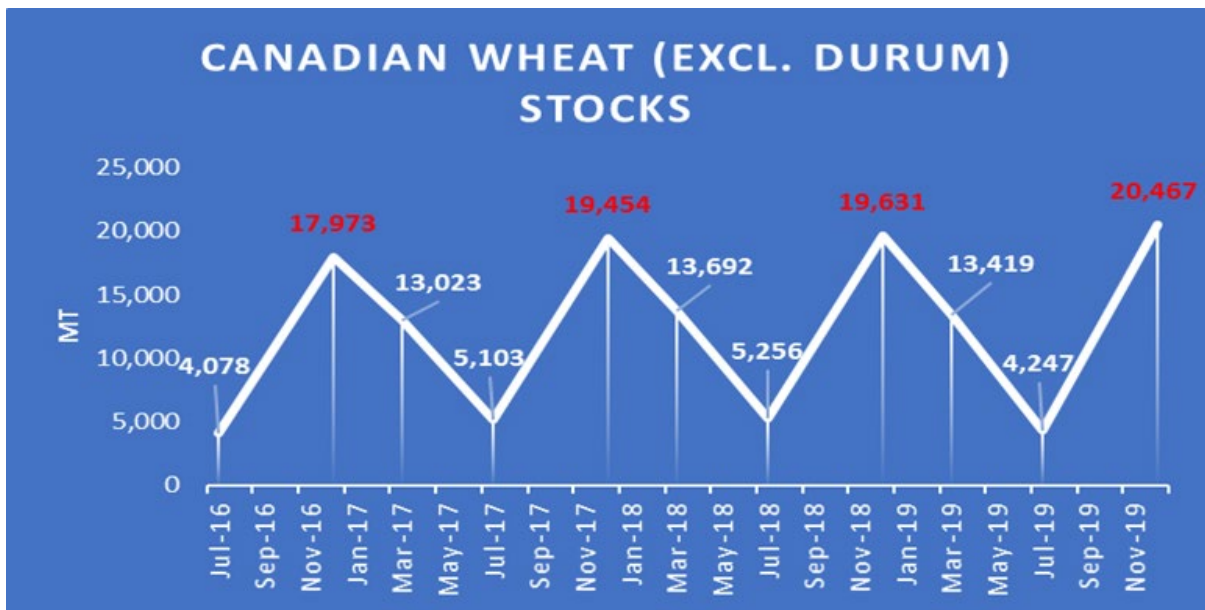
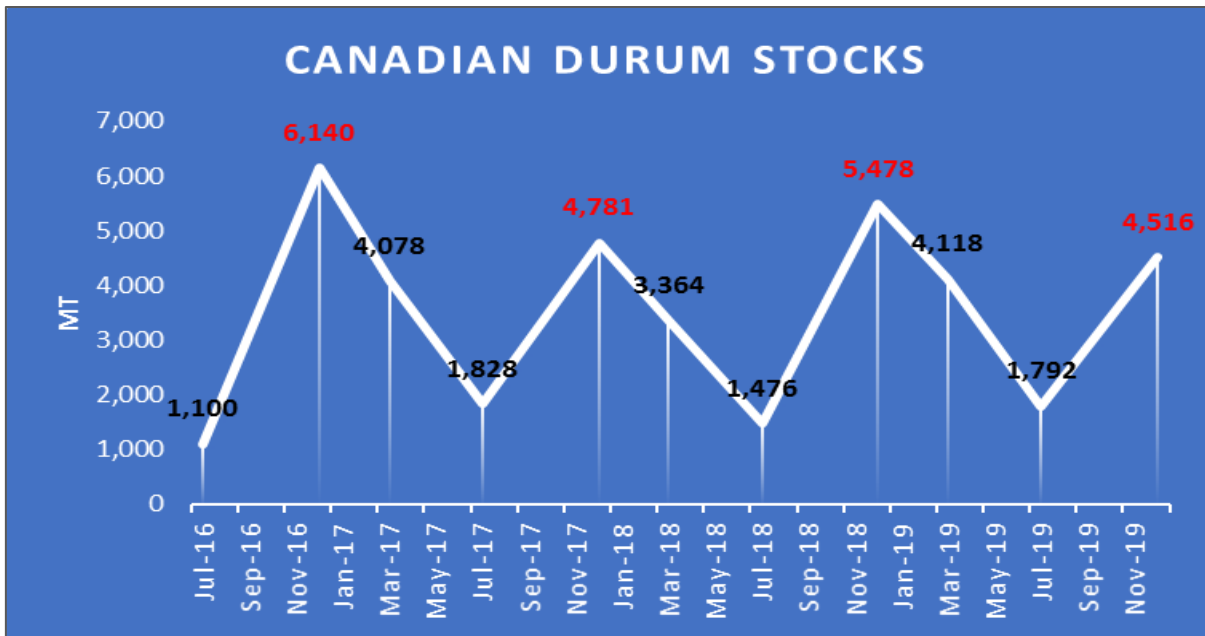
Canadian Wheat:

- Canadian producers delivered 458,900 mt of wheat during week 26 ending Feb 2nd. Total deliveries are now at 10.66 million mt, down 6% (670,600 mt) from last year.
- Exports throughout week 26 were the second largest of the season at 448,700 mt for a year-to-date season total of 7.87 million mt, *down 15% (1.38 million mt) from last year*.



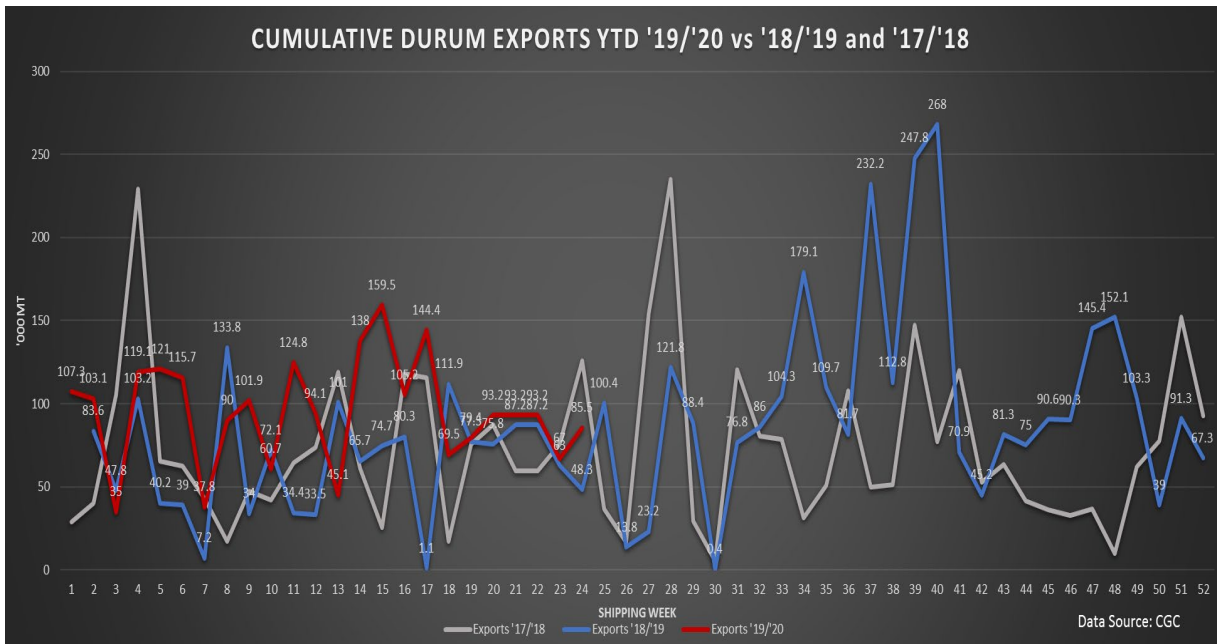
- As deliveries were still larger than exports, the visible was higher than last week and non-durum wheat sitting in port locations was down by just 100,000 mt, to 1.06 million mt. *So, elevators are well supplied for now and do not need to improve basis levels.*
- Stats Canada put Canadian December 31, all wheat stocks at 24.98 million mt, 500,000 mt more than trade's average guess but 127,000 mt (0.5%) less than last year. The reason for this decrease was that durum stocks of 4.52 million mt were 962,000 mt (18%) less than last year. *Non-durum stocks of 20.47 million mt are 836,000 (4%) more than last year.*
- While durum stocks are going to be tight, the lack of non-durum exports will cause carry-out to be over 5 million mt which is plenty. Stats Canada's stock numbers do not include any production remaining in the field that may be spring thrashed. This wheat will be feed quality at best and will not affect the exportable surplus.

Canadian Durum and Non-Durum Wheat stocks



- Canadian producers delivered 109.8k mt of durum into the system during week 26 for a year-to-date total of 2.42 million mt, up 29% (541,000 mt) from last year.
- Exports throughout the week were 87,200 mt for a season total of 2.44 million mt, 43% (737,600 mt) more than last year. Durum exports seasonally start to pick up in late January (when the seaway reopens) and peak in early May. The current export pace is on track to meet AAFC's 4.8 million mt export estimate.

- *Global durum demand will continue to remain strong until the EU harvest begins in Mid-2020. Offers in Vancouver are starting to recover again as prices climb in many of the key EU markets. Prices will continue to improve as the old crop situation becomes tighter.*



US wheat:

- US wheat sales for the week were 339,000 mt; at the low end of expectations and down 48% from the week previous. Year-to-date commercial sales are 21.3 million mt, ~17% ahead of last year (this time last year the US government was shut down and weekly sales/inspections were not being reported).
- There were reports suggesting that China will likely invoke a disaster clause in Phase 1 which would allow them to avoid repercussions of not meeting purchase targets. They will probably not make this announcement until the end of the first quarter of the year. China has continued to buy EU wheat which is the cheapest in the world.
- USDA has said that numbers used on the 11th will not be based on any specific input from the Phase 1 deal. This will likely keep a lid on prices. *Trade is expecting US wheat stocks to fall to 954 million bushels vs the current 965 million bu.*

Australian wheat:

- On-going rains in Australia is replenishing depleted soil and water systems, pressuring Aussie futures prices down A\$8 from last week.
- The FOB market was essentially unchanged at \$260.00/mt.

Argentine wheat:

- Official FOB prices in Argentina were \$240.00/mt plus an additional \$4-5/month carry, but the market is largely non-existent.
- The prices reflect a huge tax burden, but the country is essentially sold out. Old crop farmer sales are 15.6 million mt, of which exporters own 14 million mt with 12 million mt worth of licences (vs an exportable surplus of 13 million mt).

EU wheat:

- MATIF milling wheat rose €2 from last week and French premiums hit fresh season highs as the French vessel line-up continues to grow and ports struggle to refill the depleted pipeline after a record January export program (despite the strikes).
- Chinese buyers secured at least two additional vessels of French wheat for delivery in March to April. These sales are in addition to the 1.30 million mt of French wheat already exported to China since July 2019. This is in stark contrast to the 5-year annual export number of 29,000 mt of French wheat to China.
- According to International Grains Council (IGC) estimates, China is expected to import 3.60 MMT from all origins in 2019/20 and as French wheat is the cheapest, they will continue to get the lions share of the business.
- In addition to France taking Chinese demand, another Mexican vessel was added to the French line-up.
- At the end of last week French 11.5 pro FOB was \$0.39/mt lower week/week at \$218.18/mt. German and Baltic 12.5 pro values also fell \$2.67 from last week to \$222.56/mt and \$221.46/mt respectively.

Black Sea wheat:

- More estimates of the 2020/21 Russian crop are out, this time at 79.5 million mt, 6 million mt more than the 2019/20 crop year, indicating no concern of current condition of the winter crop.
- Russian wheat exports in 2020/21 are expected to be 37 million mt vs the current range of estimates for 2019/20 from 32.9 (IKAR) to 36 (Russian Agriculture Ministry).
- IKAR recently said that 2019/20 exports could fall below 32 million mt because of the “impact of the coronavirus on trade flows.”
 - *We are increasingly skeptical of the Agriculture Ministry’s 36 million mt export number which implies that there is 14 million mt of remaining exportable surplus. We think wheat remaining to be exported is closer to 8 million mt.*
- Wheat exports in Ukraine now total 15.9 million mt, 30% more than last year. This leaves another ~4.5 million mt of wheat to export over the next 5 months.
- FOB values in the Black Sea are down \$5.00/mt from last week with Russian 12.5 pro bid at \$233.00/mt and Ukrainian feed at \$220.00/mt.

Significant purchases/ trades:

- Outside of **China** securing another two vessels from France, we heard of very few sales as traders wait for the next price direction to be established.
- **US** commercial sales of 339,000 mt were down 48% from last week’s 646,000 mt and at the low end of trade’s 200,000-700,000 mt expectation. Year-to-date commercial sales for delivery in 2019/20 total 21.3 million metric tons million mt.
- **EU** soft wheat shipments advanced to 16.4 million mt over the week, up 65% against the USDA’s 33% increase.

➤ Wheat Market Outlook:

Significant events:

- **Short-covering and technical buying supported all wheat futures prices** week-over-week. Soft red winter (SRW) futures gained 5 cents on the week to end at \$5.59/bu. Hard red winter (HRW) futures added 7 cents to close at \$4.72/bu. Hard red spring (HRS) futures gained two cents to end at \$5.36/bu.
- **The February 4 Drought Monitor** reported moderate precipitation which alleviated areas under abnormal dryness and moderate drought in south-central Kansas, but southwest Kansas and eastern Colorado remain very dry. According to USDA data, beneficial precipitation in north-central Texas helped improve the state’s HRW growing conditions.
- **Texas winter wheat in good to excellent condition jumped to 30%** last week, up from the previous 20%. Looking ahead, heavy precipitation is expected to alleviate dry areas in northeastern Oregon and the Idaho Panhandle.

- **Chinese wheat futures surged to their highest level since May 2019** as the ongoing coronavirus epidemic across the country has boosted short-term demand for wheat-based food. “The lockdowns in China increased consumers’ demand for flour products, driving up ZCE wheat futures,” China-based consultancy JC Intelligence said in a report on February 4th.
- **Weather Around the World:**
 - **South America** is less than perfect but overall central and Northern Brazil will continue to see more rains whilst Southern **Brazil** and almost all of **Argentina** looks dry. In the Black Sea, **Ukraine** and **Russia** have received generalized snow cover this weekend which should afford protection against the current sub-zero temperatures, but much warmer conditions set in as the week progresses and the snow cover rapidly recedes. Western **Europe** remains warm and wet. Precipitation in the **USA** continues in the Delta, south-east, and Southern Plains, with temperatures dropping below normal in many regions bringing more snow in the Lakes states and upper Midwest.

➤ **Outlook:**

Trade will be quiet ahead of the USDA report tomorrow, but expectations have already been tempered with announcements that numbers will not reflect input from the phase one deal. *Trade is expecting a minor tightening of the global and domestic wheat situation.* Additional demand is moving into the EU; there seems to be a growing belief that Russia’s remaining surplus is closer to the 8 million mt rather than the 14 million mt originally thought, Ukraine only has around 4.5 million mt left to ship and the Baltic is rapidly running out. Thursday, old crop values are likely to remain firm. End users will keep ending stocks to a minimum while the old-new crop inverse remains. **Sell old crop at \$7.00 per bushel or better for 2CWRS in SK.** As there is strong selling at these levels, the upside past \$7.00 is limited. We hope you followed our earlier advice to sell current crop and hedge some new crop acres.

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)		Apr. '20 (bu.)	Apr. '20 (mt.)
1 CWRS 13.5	\$6.39	\$234.79	1 CWRS 13.5	\$6.53	\$239.94
1 CWAD 13.0	\$7.19	\$264.19	1 CWAD 13.0	\$7.28	\$267.50
1 CPSR 11.5	\$5.63	\$206.87	1 CPSR 11.5	\$5.76	\$211.65
SW Sask			SW Sask		
1 CWRS 13.5	\$6.27	\$230.38	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$7.26	\$266.76
1 CPSR 11.5	\$5.40	\$198.42	1 CPSR 11.5	\$5.48	\$201.36
NE Sask			NE Sask		
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.30	\$231.49
1 CWAD 13.0	\$7.49	\$275.21	1 CWAD 13.0	\$7.61	\$279.62
1 CPSR 11.5	\$5.45	\$200.25	1 CPSR 11.5	\$5.54	\$203.56
SE Sask			SE Sask		
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.34	\$232.96
1 CWAD 13.0	\$7.49	\$275.21	1 CWAD 13.0	\$7.63	\$280.36
1 CPSR 11.5	\$5.37	\$197.32	1 CPSR 11.5	\$7.47	\$274.48

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)
 - 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.

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.”

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

Relevant FOB Prices and Export Basis				February 10, 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	\$353.98	#VALUE!		
HRS	\$347.86			
HRW 11.5	\$311.38			
SWW 12.0	\$317.75			
1 CWRS 13.5 ³	\$353.98		\$233.69	\$120.28
2 CWRS 13.0 ³	\$347.86		\$204.30	\$143.56
3 CWRS ³	\$311.38		\$162.04	\$149.34
CPS ³	\$310.89		\$202.83	\$108.07
1 CWAD ⁴		#VALUE!	\$284.77	#VALUE!
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$223.00			
French 11.5 (Rouen)	\$218.18			
APW 10.5 (W Coast)	\$265.00			
Argentine 12.5	\$225-\$235			
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				

*Note: The Great Lakes are closed, thus there are no bids posted were #VALUE is shown. *

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities						February 10, 2020
Canadian Funds	1CWRS13.5	2CWRS	Grade 3CWRS	Winter wht.	CPS	
PNW value/Vancouver						
May/June delivery	\$9.45	\$9.28	\$8.29	\$8.46	\$8.46	
Parity Track Rosetown	\$7.95	\$7.78	\$6.79	\$6.96	\$6.96	
Track Bid Rosetown Area	\$6.36	\$5.56	\$4.41	\$5.52	\$5.52	
Gross Margin at Elevator (\$/bu)*	\$1.59	\$2.22	\$2.38	\$1.44	\$1.44	
Gross Margin at Elevator (\$/mt)*	\$58.45	\$81.72	\$87.50	\$53.08	\$53.08	

* to cover elevation, elevator market risk, margin