

Wheat Market Outlook and Price Report: February 24, 2020

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

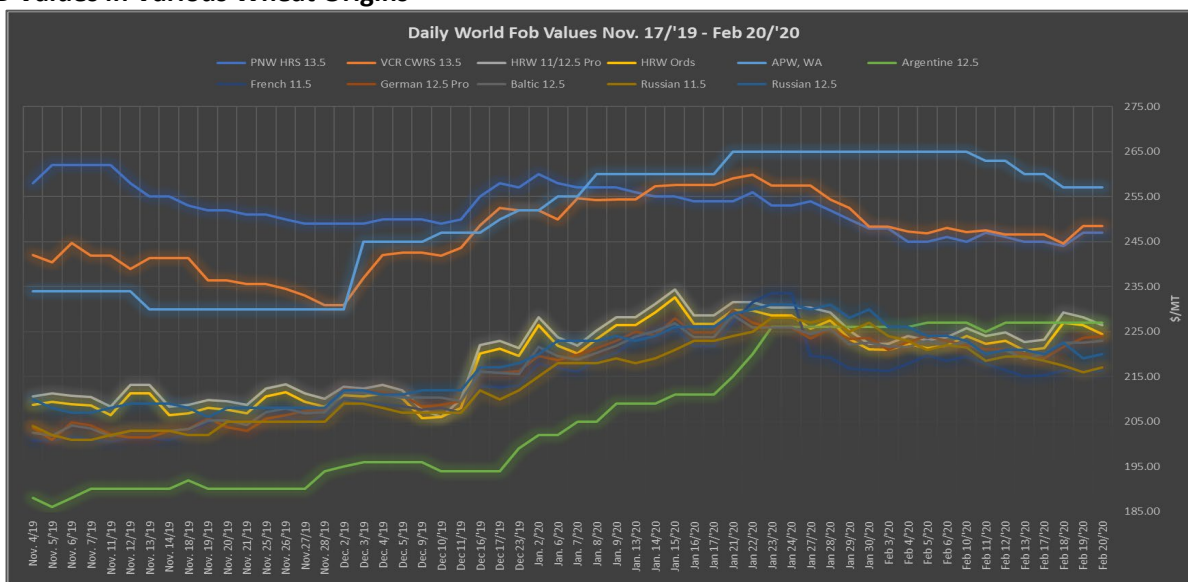
i) Background and Rationale for the Report

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 February 20th, 2020

FOB Values in Various Wheat Origins



- **FOB values in many of the global wheat origins have been slowly coming off their Mid-January highs.** Values have been hit by a combination of Corona Virus fears, an abundance of old crop grain and good new crop weather conditions.
- **France has been the wheat origin of choice this marketing year** as a plentiful crop and logistical advantages (despite rail and port strikes) has made it the cheapest wheat source into countries like Egypt and increasingly so, China.
- While Russian wheat exports have struggled to compete with France for much of the season, **strong prospects for the 2020/21 crop have created a \$20.00/mt old crop/new crop inverse in the Russian wheat market which leaves little incentive for farmers to store old crop.**
- As Argentina is largely sold out of old crop, **US HRW is the most expensive of its class which will hurt export demand.**

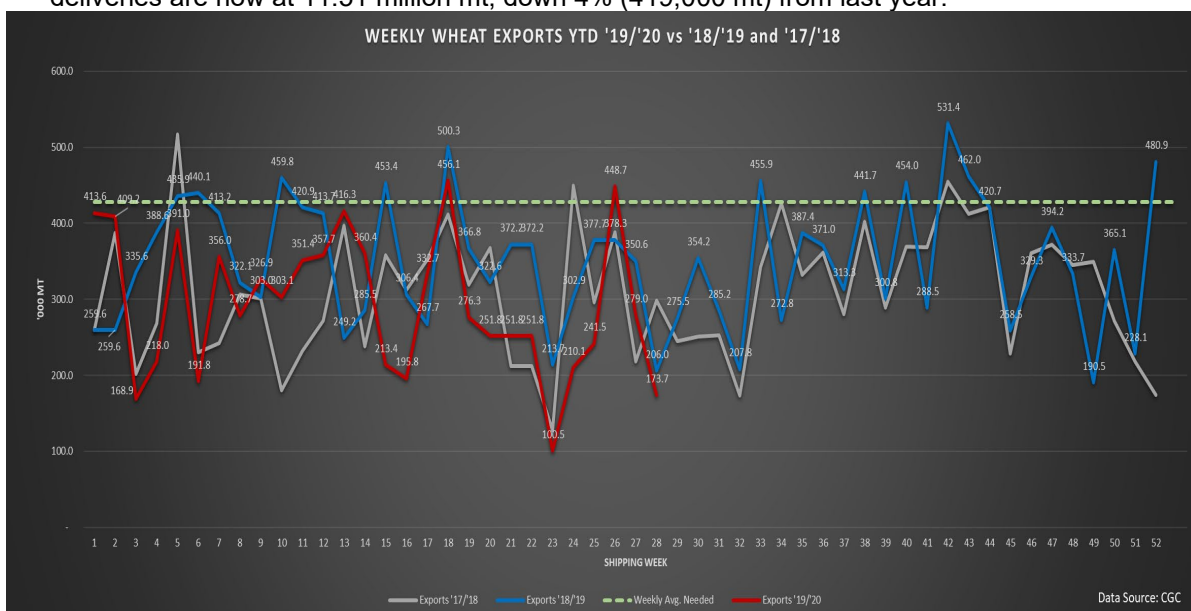
➤ **Global wheat production and trade:**

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 551-4, down 9-0 cents for the day, *up 6-6 cents for the week*.
- Mar '20 contract **Kansas** hard red winter wheat closed at 468-4, down 5-2 cents for the day, *up 2-4 cents for the week*.
- In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 526-0, down 3-4 cents for the day, *down 0-6 cents for the week*, while May '20 hard red spring wheat closed at 538-2, down 1-6 cents for the day, *up 2-0 cents for the week*.

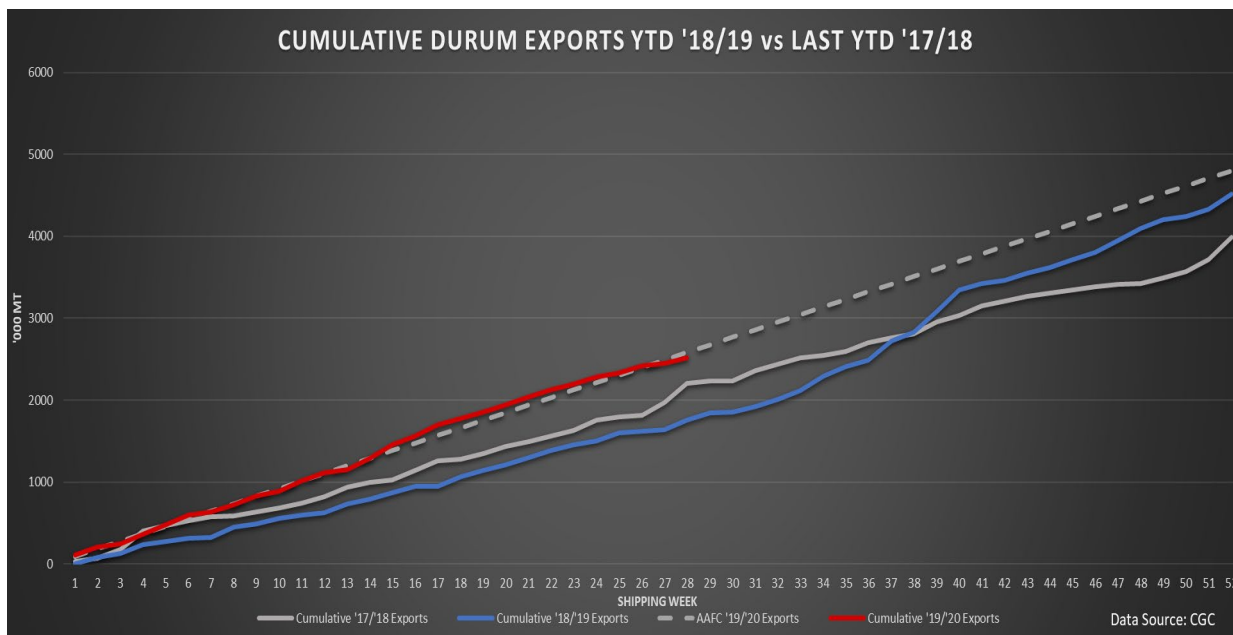
Canadian Wheat:

- The backlog of ships caused by the rail blockades has caused a shortage of anchorage availability at the West Coast. Justin Trudeau announced Friday that the rail blockades must end. This morning OPP moved in on the blockade in Tyendinaga Ontario, arresting the remaining protestors.
- Canadian producers delivered 369,000 mt of wheat during week 28 ending Feb 16th. Total deliveries are now at 11.51 million mt, down 4% (419,000 mt) from last year.



- Exports throughout the week were just 173.7 million mt for a YTD total of 8.33 million mt, 15% (1.48 million mt) less than last year. Average sales needed to reach the AAFC's 18.6 million mt estimate is now at 427,800 mt (green line) which will not be met (current average weekly exports this MY are 297,600 mt). *We are being forced to decrease our export estimate from 18 million mt to 17.5 million mt.*
- **Canadian wheat exports are down 15% year to date at a time when we are carrying 3 million mt in the visible and at least 20 million mt on farm.**
- *Cash values in the Prairies were consistent from last week helped by the uptick in futures. There is little in the mix to promote a rally in futures prices and the rail back-log is going to prevent much basis improvement (especially in the short-term). Watch for short-lived specials at individual elevators as they occasionally try and find coverage for shipping programs.*

- Canadian producers delivered 91,500 mt of durum into the system during week 28 for a YTD total of 2.6 million mt, up 25% (531,000 mt) from last year.

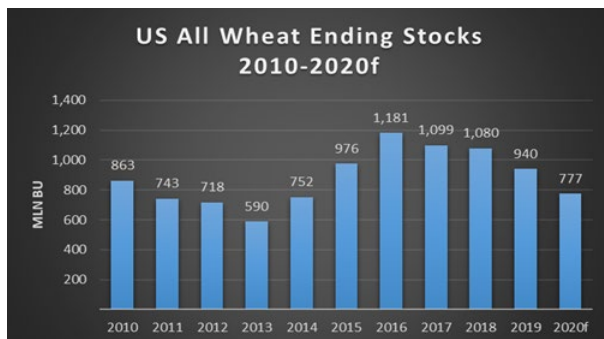


- Exports throughout the week were 70,500 mt for a season total of 2.56 million mt, 38% (706,000 mt) more than last year. Durum exports have not been immune to the rail disruption. After the backlog is sorted out, durum exports should seasonally pick up into spring.
- European prices continue to support a strong durum export program. The export programs in Canada and the US is leading to low carry-out numbers which should play a bigger roll in old crop prices once exports seasonally ramp up again into spring.*
- For new crop durum, the small carry-out in the US will cause them to import more normal levels of Canadian durum, and current forecasted 2020/21 planted area estimates in North America are not enough to fully offset the draw down in stocks. Crops in the EU and Morocco are not off to a good start, which makes us hopeful for another strong export program to the EU next year.*

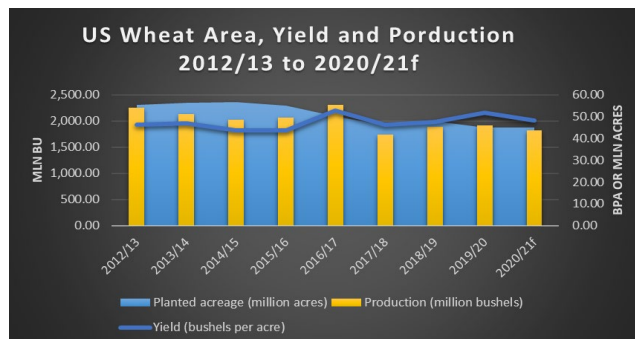
US wheat:

- US commercial sales of 346,000 mt were below trade's 400,000-600,000 mt expectations for a year-to-date total of 22.3 million mt, 4% more than last year (vs the USDA's current forecast of a 7% increase). US FOB prices continue to struggle against fierce competition. There are more reports of China buying French and Aussie origin.
- The USDA Outlook Conference put 2020/21 wheat area at the lowest level since 1919 at 45 million acres, down 160,000 acres from last year. Yield was put 7% lower at 48.2 bpa. Given these numbers and the average abandonment rate of 16%, we estimate production will be 1.82 bln bu, 5% less than last year.
- The USDA Outlook is forecasting that all-wheat ending stocks in 2020/21 will be 777 million bu, just 75% of the current estimate for 2019/20 and the lowest level since 2016.

Outlook for US Wheat Ending Stocks



Outlook for US Wheat Area, Yield and Production



Australian wheat:

- ABARES put the 2019/20 Aussie wheat crop at 15.17 million mt -the lowest level in 12 years vs the USDA's (too high) 15.6 million mt estimate. As many private estimates are around that 15 million mt level, ABARES is probably close.
- Ongoing rain across the major cropping regions continue to promote optimism for a strong 2020 season as planting starts in a couple months.
- There was a large increase in wheat vessels at Aussie ports, but it is unclear how much of these are for export and how much is to be transferred to Eastern regions.
- Aussie FOB lost another \$3.00/mt last week, now bid at \$257.00/mt.

Argentine wheat:

- The Argentine market continues to be quiet as there is very little old crop wheat remaining.
- Official FOB values remain at \$225-\$235/mt, unchanged from last year.

EU wheat:

- EU exports continue to be very large vs last year and Saudi's tender today for 715,000 mt of Apr-Jul position wheat will most likely be EU origin.
- According to AHDB in the UK, 2020 wheat area is expected to be the lowest level in 40 years as the excessively wet planting season has prevented field work.
- These wet conditions have extended into Continental Europe as Cocereal is forecasting that 2020/21 EU wheat production will fall 5% from last year. Most of the decreases are expected in France (-10% at 35.7 million mt), Germany (-3% at 22.2 million mt) and Denmark. The decreases will be slightly offset by an 15% increase in Romania (to 9.1 million mt) and Poland.
- The second update of French 2020/21 wheat area confirmed initial guesses of a 5.6% decline in soft wheat area.
- French 11.5 pro FOB values were \$0.44/mt higher than last week at \$216.78/mt. German values also rose \$0.17 from last week to \$221.51/mt while Baltic 12.5 pro values lost \$0.37 from last week to \$219.88/mt.

Black Sea wheat:

- The Black Sea crop continues to look excellent. There was some concern expressed about dryness, but there is nothing of significance yet.
- The current range of estimates for the 2020/21 Russian crop is 75-85 million mt, but it is far too early to call as critical growth happens in May-June.
- Russian 12.5 pro FOB was unchanged from last week at \$220.00/mt while Ukrainian feed was \$2.00 lower at \$215.00/mt.

➤ **Significant purchases/ trades:**

- **Thailand** bought 50,000 mt of feed wheat for Apr-May at \$243.50. *We are not sure why this was not sold by Canada as it traded at good values.*
- **Turkey** bought 250,000 mt of March soft wheat at \$223-235.
- **Syria** tendered for 200,000 mt Russian wheat, we did not hear of any results (they bought nothing at their previous two tenders).
- **USA** inspections were 502,000 mt (season total 651 million bu up 12%), sales were 346,000 mt (season total 818 million bushels, up just 4%).
- **EU** Soft wheat shipments advanced to a total 18 million mt (up 58%), all wheat is 19 million mt (up 55%).
- **Saudi Arabia** is tendering for 715,000 mt of wheat for Apr-Jun arrival (we expect this will be done as Russian/FSU wheat).

➤ **Wheat Market Outlook:**

Significant events:

- **India's agricultural ministry** this week confirmed the country is set to produce a record wheat crop of 106.2 million mt, 12% more than the 10-year annual average. Wheat and other grain stocks in India are at high levels with limited storage space, the government said. History shows a distinct pattern of increasing wheat exports when Indian wheat stocks build. India's wheat export pace has been steady for several years but to date in 2019/20, Indian wheat exports of about 500,000 mt already exceed total exports for the entire 2018/19 marketing year.
- **AgriCensus** reported today that the second week of protests in Canada against a planned natural gas pipeline have **blocked railroads** and potentially slowed movement of grain and other goods to Canadian ports. AgriCensus quoted a spokesperson from the Vancouver Fraser Port Authority that the demand for anchorages is currently exceeding the availability because of the disruptions in rail operations, causing a backlog of ships waiting to get into port.
- **Feb. 21/'20 Justin Trudeau said that after two weeks of blockades on rail lines, "the barricades must come down."** He reiterated that he has no power to order the RCMP to do anything and reiterated his desire for a peaceful resolution, but the announcement is largely seen as a signal for the RCMP to act.
- **Feb. 24/'20 Ontario Provincial Police moved in to break up the blockade on the CN rail line at Tyendinaga Ontario.** Several people were arrested after the RCMP had given a 12:00AM deadline for the blockades to be taken down.
- **Weather Around the World:**
 - **US** temperatures fell below normal this week but posed no threat to crops. Precipitation was again mostly concentrated in the Delta and southeast but with some snow in the Plains, which was welcome. **Europe** showed no change with temperatures much above normal everywhere and snow cover largely disappearing. Precipitation was mostly near normal in the north, but dryness is a growing issue in the south and across into **North Africa**. The **Middle East** also remained dry.

➤ **Outlook:**

According to the USDA's US wheat outlook report, the US supply/demand tightened considerably. However, current estimates of wheat exports will not happen given the current premiums for US wheat over other origins. The negative outlook for corn will make it even tougher for wheat to maintain domestic usage. The funds are said to be long 9 million tonnes in Chicago, which they will need to sell before new crop. From here on, the market focus will increasingly turn to Northern Hemisphere and European weather, which presently is good for increased production. *Given more normal crops in Australia, we would expect world wheat supplies to expand in 2020/21 despite any USA reduction.*

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	\$6.27	\$230.38	1 CWRS 13.5	\$6.41	\$235.53
1 CWAD 13.0	\$7.19	\$264.19	1 CWAD 13.0	\$7.27	\$267.13
1 CPSR 11.5	\$5.49	\$201.72	1 CPSR 11.5	\$5.66	\$207.97
SW Sask			SW Sask		
1 CWRS 13.5	\$6.12	\$224.87	1 CWRS 13.5	\$6.30	\$231.49
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$7.26	\$266.76
1 CPSR 11.5	\$5.29	\$194.38	1 CPSR 11.5	\$5.58	\$205.03
NE Sask			NE Sask		
1 CWRS 13.5	\$6.03	\$221.57	1 CWRS 13.5	\$6.16	\$226.34
1 CWAD 13.0	\$7.48	\$274.85	1 CWAD 13.0	\$7.60	\$279.25
1 CPSR 11.5	\$5.26	\$193.27	1 CPSR 11.5	\$5.42	\$199.15
SE Sask			SE Sask		
1 CWRS 13.5	\$6.07	\$223.04	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$7.48	\$274.85	1 CWAD 13.0	\$7.63	\$280.36
1 CPSR 11.5	\$5.20	\$191.07	1 CPSR 11.5	\$5.39	\$198.05

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)

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.”

- 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.

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

Relevant FOB Prices and Export Basis				February 24, 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	\$347.12	#VALUE!		
HRS	\$341.00			
HRW 11.5	\$306.49			
SWW 12.0	\$307.95			
1 CWRS 13.5 ³	\$347.12		\$219.36	\$127.76
2 CWRS 13.0 ³	\$341.00		\$189.97	\$151.04
3 CWRS ³	\$306.49		\$147.71	\$158.77
CPS ³	\$301.10		\$185.56	\$115.54
1 CWAD ⁴		#VALUE!	\$284.77	#VALUE!
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$220.00			
French 11.5 (Rouen)	\$216.78			
APW 10.5 (W Coast)	\$257.00			
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 24, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.26	\$9.09	\$8.15	\$8.19	\$8.19
Parity Track Rosetown	\$7.76	\$7.60	\$6.66	\$6.70	\$6.70
Track Bid Rosetown Area	\$5.97	\$5.17	\$4.02	\$5.05	\$5.05
Gross Margin at Elevator (\$/bu)*	\$1.79	\$2.43	\$2.64	\$1.65	\$1.65
Gross Margin at Elevator (\$/mt)*	\$65.92	\$89.20	\$96.94	\$60.56	\$60.56

* to cover elevation, elevator market risk, margin