

Wheat Market Outlook and Price Report: January 27, 2020

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

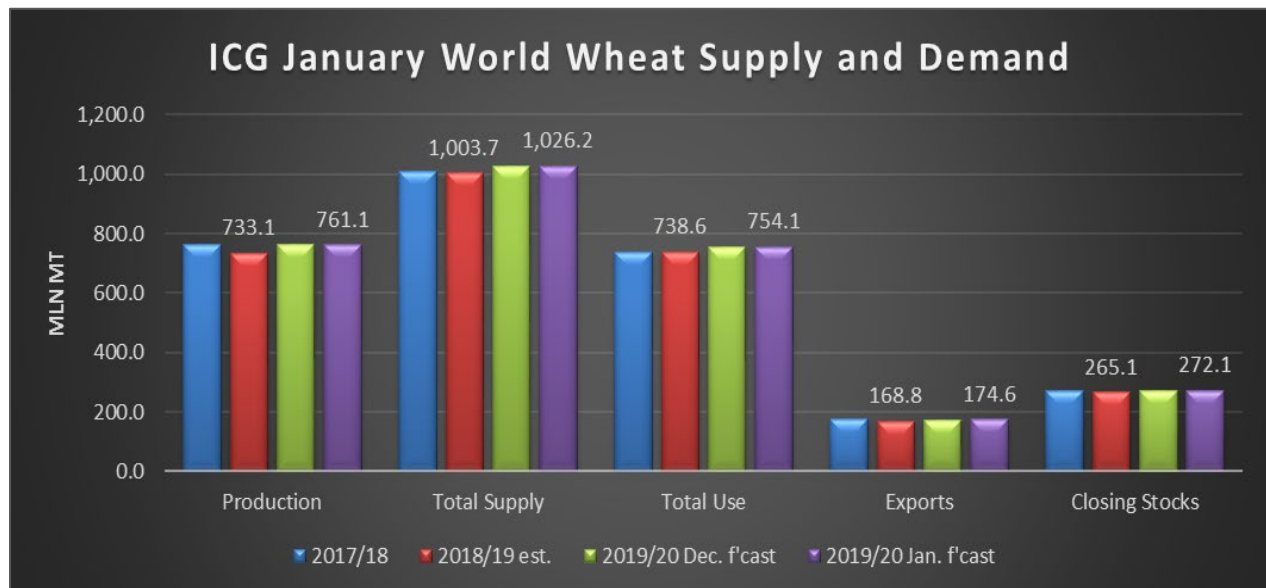
i) Background and Rationale for the Report

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 January 23, 2020

ICG January 23/'20, Estimates of Global Wheat Supply and Use



- **The IGC lowered its forecast for 2019/20 global wheat production** by a moderate 1 million mt to 761 million mt, still well above the previous season's 733 million mt.
- The decrease in production was more than offset by a 2 million mt decrease in consumption to 754 million mt. This caused 2019/20 **carryover stocks to rise 1 million mt to 272 million mt.**
- Included in the January update were early projections for next year. **Wheat area seeded in the 2020/21 season was pegged at 220 million ha, up 1% year/year.**
- Wheat consumption in 2020/21 is projected to increase year/year, but according to the IGC, there could be **further stock accumulation in 2020/21.**

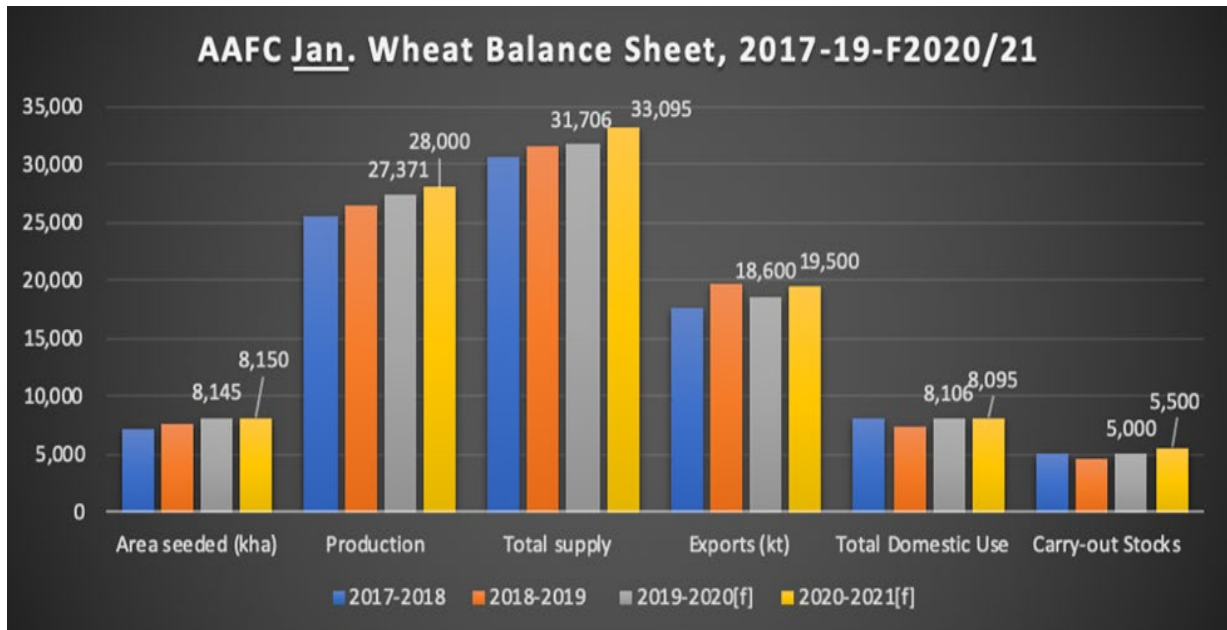
➤ **Global wheat production and trade:**

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 573-4, down 7-0 cents for the day, *up 8-2 cents for the week*.
- Mar '20 contract **Kansas** hard red winter wheat closed at 496-0, down 6-2 cents for the day, *up 1-2 cents for the week*.
- In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 547-4, down 8-2 cents for the day, *down 2-6 cents for the week*, while May '20 hard red spring wheat closed at 557-0, down 7-4 cents for the day, *down 2-2 cents for the week*.

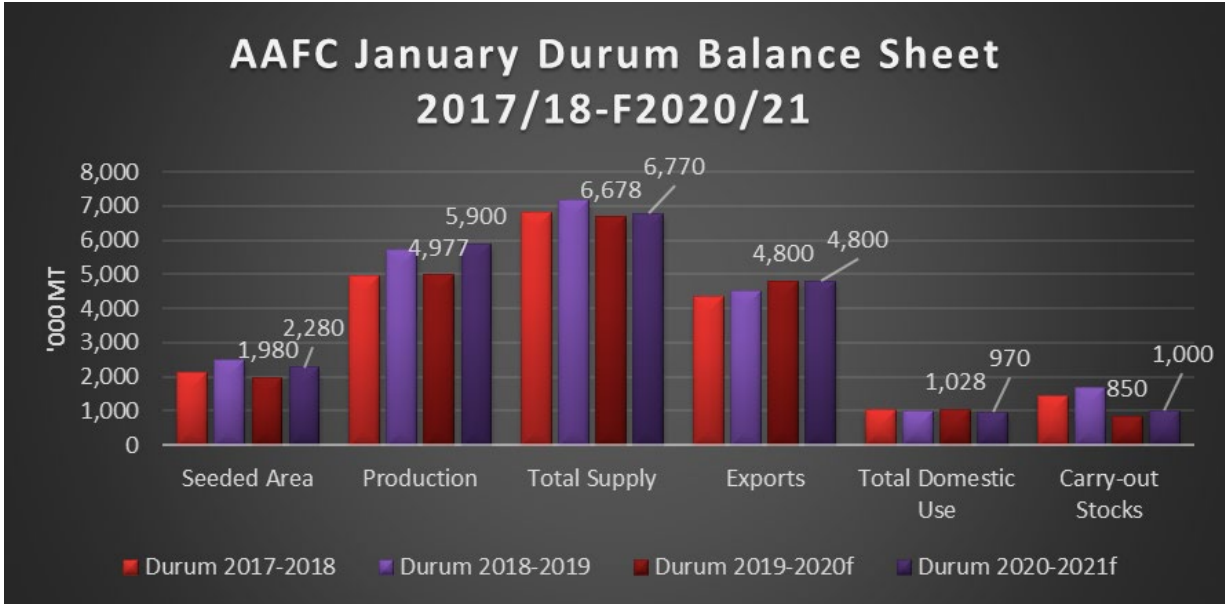
Canadian Wheat:

- AAFC published their January balance sheets. The changes for 2019/20 Canadian wheat were another reduction in their wheat export projection by 200k mt to 18.6 million mt, and an equivalent increase in domestic consumption to from 7.9 to 8.1 million mt. '19/20 ending stocks remained at 5 million mt.

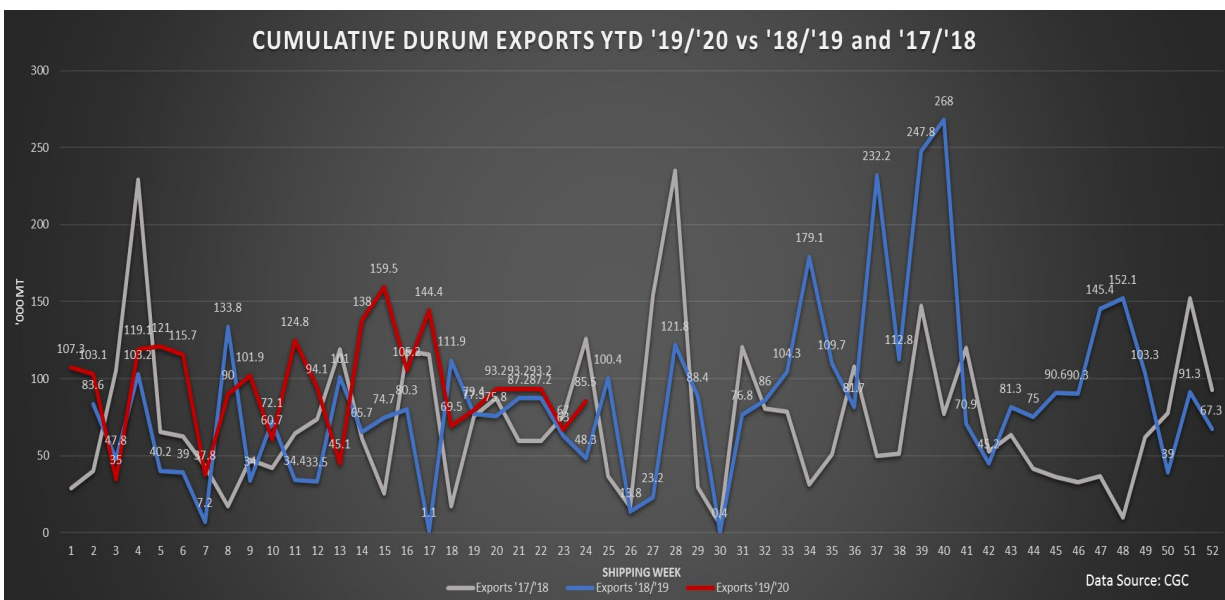


- AAFC also added their first **2020/21 wheat balance sheet** forecast. Seeded acreage to wheat stayed virtually the same, but harvested acreage is 2% bigger than last year's bringing production to 28 million mt (27.4 million mt in '19/20). Supply at 33.1 million mt is 4.4% bigger due to the larger carry-in stocks. 2020/21 exports are projected back up to 19.5 million mt and domestic use stays high at 8.1 million mt. *Ending stocks still increase to 5.5 million mt in this scenario.*
- Canadian producers delivered 231.90k mt of wheat during week 24 ending Jan 19th. Total deliveries are now at 9.70 million mt, down 7% (752,600 mt) from last year.
- Week 24 exports of 210,000 mt were half of the weekly amount needed to reach the AAFC's recently reduced 18.6 million mt estimate. Year-to-date exports are now 7.13 million mt, *16% (-1.37 million mt) less than last year.*
- One quarter of week 24 wheat exports were "Prairie direct", which are shipments to the US.
- *Minneapolis wheat will continue to follow Chicago, but there is potential that the spread will narrow some. There is strong farmer selling at the \$7.00 cash level and we will need both a futures rally and a pick-up in exports to surpass \$7.00.*

- AAFC left 2019/20 durum numbers unchanged except for a 5,000 mt decrease in food/industrial use and an equal 5,000 mt increase in feed use. In their estimates for the **2020/21 crop year**, seeded area was seen rising 15% from last year to 2,280 ha while harvested area was up 18% to 2,235. Yield was seen 0.02 mt/ha higher than last year bringing total production to 5,900k mt, 19% more than last year. This increase is largely offset by very small beginning stocks (850,000 mt) as *total supply is only expected to rise 1% (95,000 mt) from 2019/20.*



- Exports are expected to be the same as last year, but use is expected to fall 6% for an overall 18% increase in ending stocks to 1 million mt.
- Canadian producers delivered 36,400 mt of durum into the system during week 24 for a YTD total of 2.24 million mt, up 32% (546,000 mt) from last year.
- Exports throughout the week were 85,500 mt for a season total of 2.30 million mt, 46% (726k mt) more than last year. Durum exports seasonally start to pick up in late January and peak in early May.



- *US durum exports have taken a three-week hiatus. Are they running out of durum or are they just taking a break? If the former is true it would send more demand to Canada. So far, prices have not reflected the decrease in durum stocks. **We expect that another round of durum buying should begin in the next few months, which should allow for further price movement.***

US wheat:

- US wheat futures rallied to 18-month highs on Wednesday, just \$0.25 away from a new five-year high. Cold weather in the US Southern Plains supported futures as US wheat followed strong cash values in the EU, Black Sea and Argentina. There was little in the way of fresh news outside of some farmer selling as wheat hit resistance levels near the end of the week and profit taking led to Thurs-Fri's consolidation.
- US commercial sales were at the high end of trade's expectations at 696,000 mt. YTD commercial sales are now 20.3 million mt. As the US Government was shut down this time last week, we do not have last year's numbers to compare with.
- HRS and HRW export basis levels out of the Gulf were supported for the Feb-Mar delivery windows. SRW basis remains steady and high as demand continues to be firm and supply is tight. Minimal farmer selling and higher demand supported HRW and soft wheat export basis in the PNW for nearby and deferred deliveries.

Australian wheat:

- There are reports that *China has bought as much as 500,000 mt of milling wheat from Australia* since the end of December. This is surprising as Aussie wheat has been the most expensive wheat in the world. This actually makes some sense to us. If China needs quality wheat and while they still have issues with Canada over the Huawei executive, Australian wheat is an alternative.
- Australian futures rallied another \$4 last week with FOB replacement up another \$10 from last week to \$265.00/mt.

Argentine wheat:

- Of an Argentine crop of ~19 million mt (the USDA Ag attaché put it at 19.3 million mt on Friday), farmers have sold ~15 million mt, of which exporters own ~13 million mt, against ~12 million mt export licenses. Having bought so much demand early in the season (being the cheapest wheat in world at the time), essentially all of their exportable surplus has been accounted for and there is little left for sale.
- Official FOB prices in Argentina increased by \$10/mt to \$240/mt, but the actual market is \$5-10/mt lower.

EU wheat:

- Matif in Europe rose to new 17-month highs as the rail and port strikes are ongoing. There are increasing concerns about French supplies as 450,000 mt worth of grain is stuck in French ports. Both exports and milling plants are becoming progressively paralyzed, and the agriculture industry is demanding government action.
- With domestic feed millers short and exporters picking up significant incremental demand, pressure in the cash market is leaking into Germany, Poland and the Baltics.
- European farmers may be looking at a big 10-12 million mt drop in the EU wheat crop due to acreage losses and poor growing conditions. The long-term weather outlook shows a potentially hot dry spring and summer for eastern and Southern Europe and the Black Sea.
- Fob values in the EU were again stronger week-over-week with French 11.5 pro bid at \$222.33/mt up \$0.35 cents from last week, German 12.5 pro was bid at \$226.67/mt (+\$1.44/mt from last week) and Baltic 12.5 pro was \$225.56/mt (+\$1.44/mt from last week).

Black Sea wheat:

- The Black Sea rally slowed late last week, but 12.5 pro was still able to gain \$4.00/mt on the week, further widening the spread with German/Baltic origin.
- The Russian Ag Minister kept his position throughout the government reshuffle and continues to suggest export quotas are still on the table (we continue to see little need).
- The Rouble was up another 0.95% from last week to \$/62.16.
- Russian 12.5 pro is now bid at \$231.00/ mt, \$4.00/mt more than last week.

➤ **Significant purchases/ trades:**

- **Algeria** bought 450,000 mt of wheat for March at \$245/mt.
- **Jordan** bought 60,000 mt of July position at \$229.90.
- **Syria** cancelled its 200,000 mt Russian tender.
- **Pakistan** needs 300,000 mt of spot wheat to cover a flour shortage.
- Reports had **nine cargoes of ASW trading to China**. This actually makes some sense to us. If China needs quality wheat and while they still have issues with Canada over the Huawei executive, Australian wheat is an alternative.
- **Lebanon** is looking for a \$4-5 billion loan to finance wheat, fuel and medicine purchases.
- **USA** inspections were 435,000 mt (season total 585 million bushels up 13%), sales were 696,000 mt (season total 745 million bushels up 13%).
- The Baltic Dry index fell 27% on the week and is down 78% from the September highs at close to four-year lows.

➤ **Wheat Market Outlook:**

Significant events:

- **Wheat futures prices** ended mixed week-over-week as concerns over tightening global supplies supported SRW futures while technical selling pressured HRS and HRW futures. SRW futures gained three cents over last week to close at \$5.73/bu. HRW futures lost eight cents to end at \$4.86/bu. HRS futures fell 12 cents to close at \$5.47/bu. CBOT corn futures fell two cents to end at \$3.87/bu. CBOT soybean futures lost 27 cents to close at \$9.02/bu.
- **Global wheat prices are on the rise.** On January 22, Algeria's state grains agency, OAIC, purchased 400,000 mt of milling wheat for around \$245/mt C&F for delivery in March and February, according to trade estimates. Traders estimate Algeria paid closer to \$228/MT C&F for about 500,000 mt of milling wheat in its last tender on December 5, 2019.
- According to AgriCensus, **China has booked as many as nine cargoes of Australian milling wheat since late December** for March to May delivery. This is despite the fact that certain classes of Australian wheat are some of the most expensive in the world. Traders believe China has imported as much as 500,000 tonnes of Australian wheat in 2019/20 or 6% of USDA's 8.40 million tonnes forecast for total Australian wheat exports this marketing year.
- **Weather Around the World:**
 - The **South American** forecast provides a progressively wetter outlook for central and Northern **Brazil**, whilst the south and most of **Argentina** will stay dry. Once again temperatures remain below normal in Brazil but above in Argentina. **Europe** will see increasing rain moving in from the west, there will be light snows in S **Russia** and Northern **Ukraine**. Once again there will be no threat from any frost/freeze with temperatures above/much above normal everywhere.

➤ **Outlook:**

While most origins show an increase in exports, Canada's year to date shows a 16% decline. Wheat charts remain positive, as Russian/ FSU/ EU prices remain firm while the French rail strike is affecting EU offers. We don't see current crop wheat prices lower in the short term. CBOT old crop wheat continues to be short, whereas new crop looks overpriced to us. **We think \$7.00 or better for 2CWRS should be sold and CBOT Dec futures represent good value for hedging new crop spring wheat 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)		Mar. '20 (bu.)	Mar. '20 (mt.)
1 CWRS 13.5	\$6.40	\$235.16	1 CWRS 13.5	\$6.51	\$239.20
1 CWAD 13.0	\$7.19	\$264.19	1 CWAD 13.0	\$7.24	\$266.03
1 CPSR 11.5	\$5.73	\$210.54	1 CPSR 11.5	\$5.86	\$215.32
SW Sask			SW Sask		
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	\$6.40	\$235.16
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.24	\$266.03
1 CPSR 11.5	\$5.51	\$202.46	1 CPSR 11.5	\$5.80	\$213.12
NE Sask			NE Sask		
1 CWRS 13.5	\$6.19	\$227.45	1 CWRS 13.5	\$6.30	\$231.49
1 CWAD 13.0	\$7.51	\$275.95	1 CWAD 13.0	\$7.60	\$279.25
1 CPSR 11.5	\$5.48	\$201.36	1 CPSR 11.5	\$5.62	\$206.50
SE Sask			SE Sask		
1 CWRS 13.5	\$6.18	\$227.08	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$7.53	\$276.68	1 CWAD 13.0	\$7.62	\$279.99
1 CPSR 11.5	\$5.42	\$199.15	1 CPSR 11.5	\$5.62	\$206.50

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				January 27, 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	\$353.03			
HRS	\$347.02			
HRW 11.5	\$308.48			
SWW 12.0	\$314.29			
1 CWRS 13.5 ³	\$353.03		\$234.06	\$118.97
2 CWRS 13.0 ³	\$347.02		\$204.66	\$142.36
3 CWRS ³	\$308.48		\$162.41	\$146.07
CPS ³	\$307.51		\$203.19	\$104.32
1 CWAD ⁴			\$284.77	
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$231.00			
French 11.5 (Rouen)	\$222.33			
APW 10.5 (W Coast)	\$265.00			
Argentine 12.5	\$225-\$233			
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 green triangles are shown. *

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					January 27, 2020
Canadian Funds					
PNW value/Vancouver	1CWRS13.5	2CWRS	Grade 3CWRS	Winter wht.	CPS
May/June delivery	\$9.42	\$9.26	\$8.21	\$8.37	\$8.37
Parity Track Rosetown	\$7.93	\$7.76	\$6.71	\$6.87	\$6.87
Track Bid Rosetown Area	\$6.37	\$5.57	\$4.42	\$5.53	\$5.53
Gross Margin at Elevator (\$/bu)*	\$1.56	\$2.19	\$2.29	\$1.34	\$1.34
Gross Margin at Elevator (\$/mt)*	\$57.21	\$80.59	\$84.31	\$49.33	\$49.33
* to cover elevation, elevator market risk, margin					