

Wheat Market Outlook and Price Report: January 6, 2020

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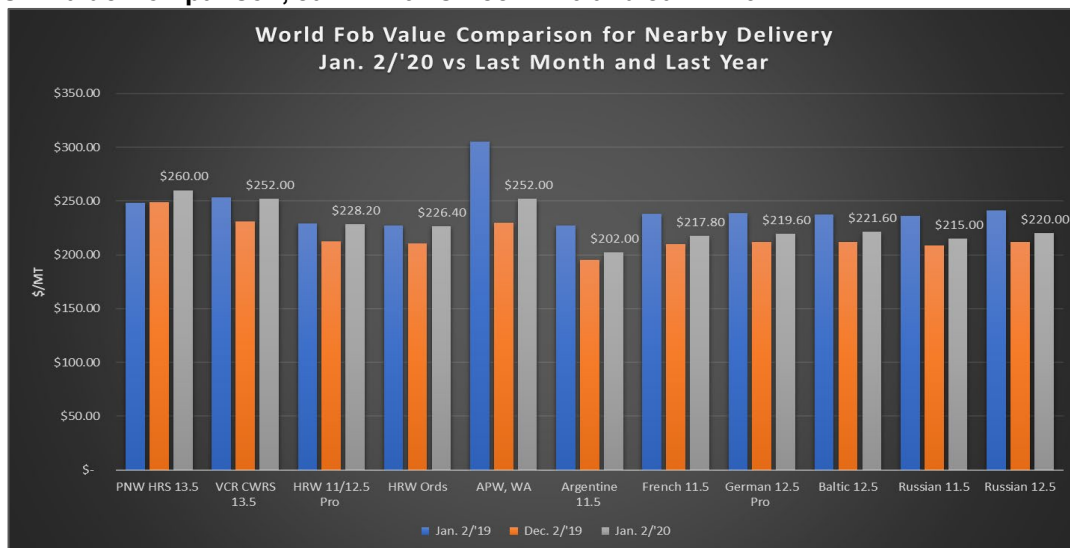
i) Background and Rationale for the Report

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 January 2, 2020

World FOB Value Comparison, Jan. 2/'20 vs Dec. 2/'20 and Jan 2/'19



- **Global wheat cash values continued their steady climb through the holidays** into the new year reaching fresh marketing year highs in most origins last week.
- **Global wheat demand has remained strong** as exports in the EU and US are 60% and 16% respectively higher than last year (while Russian and Canadian exports are lagging behind last year's pace).
- **The slow down in Russian shipments will weigh on wheat values**, but on-going logistical issues and a strong vessel line-up in France, plus big German and Baltic export programs will keep EU premiums firm, providing a floor for European wheat values.
- **Harvest in the Southern Hemisphere is wrapping up**, but Australian values are far too high to be competitive, and it will be several weeks before Argentine exports resume at-large given the recent hike in Argentine export taxes.
- Although it is early, 2020/21 **winter wheat production concerns in the Black Sea, EU and US are adding support to wheat markets.**

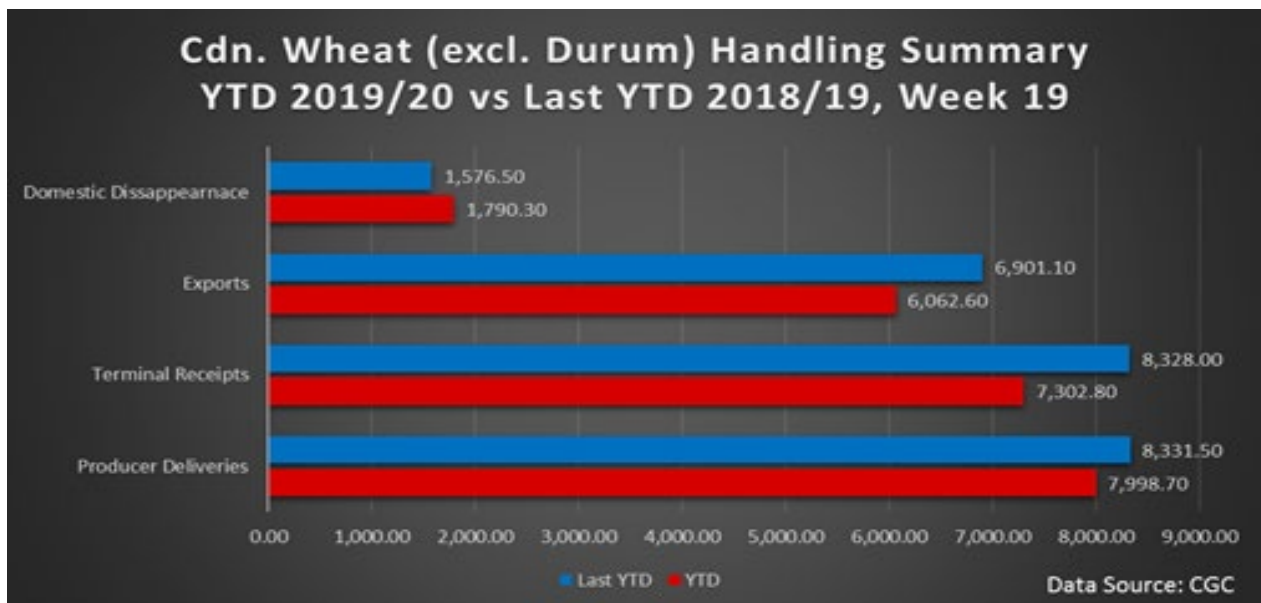
➤ **Global wheat production and trade:**

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 554-4, down -6 cents for the day, *up 5-4 cents for the week*.
- Mar '20 contract **Kansas** hard red winter wheat closed at 475-0, down 10-2 cents for the day, *up 4-4 cents for the week*.
- In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 547-4, down 10-6 cents for the day, *up 1-6 cents for the week*, while May '20 hard red spring wheat closed at 557-0, down 11-2 cents for the day, *up 1-6 cents for the week*.

Canadian Wheat:

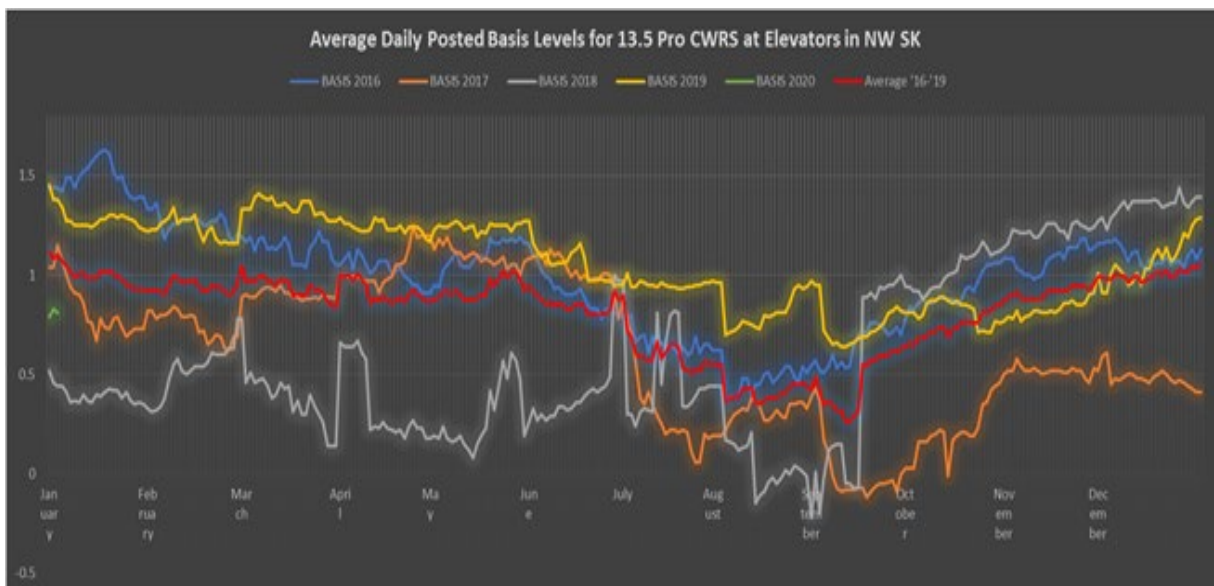
- While the Canadian Grain Commission has not yet updated their commodity handling data since before Christmas, here is a review of where we left off with respect to wheat exports as of week 19 (Dec. 15): Canadian wheat (excl. durum) exports amounted to 6.1 million mt, down a full 839k mt (-12%) from the previous year (while year-to-date EU shipments of soft wheat total 12.8 million mt, up 60% on last year, and US wheat inspections are a season total of 520 million bu, up 16% on last year).



- Notably, year-to-date Canadian durum exports are up by 673,000 mt over last year (+56%) to 1.87 million mt. Thus, Canadian exports of all wheat are just 2% (165,700 mt) lower than last year at 7.93 million mt.

(CGC) Grain Handling Summary Amber Durum		Week 19 (to Dec. 15/19)		
('000 mt)	Producer Deliveries	Terminal Receipts	Exports	Domestic Disappearance
Current Week	103.70	112.00	79.40	15.00
Week Ago	143.60	151.30	69.50	16.60
YTD	1,959.20	2,514.10	1,871.10	156.00
Last YTD	1,367.80	1,517.60	1,198.30	140.50
YTD less Last YTD (k mt)	↑ 591.4	↑ 996.5	↑ 672.8	↑ 15.5
YTD over Last YTD (%)	↑ 43%	↑ 66%	↑ 56%	↑ 11%
Based on weekly CGC Handling Data				

- Basis levels on the prairies were rising into the end of the calendar year (yellow line) but have started the new year sharply lower (green line), maintaining the spread with US levels. So far, futures values have done the work of allowing average posted cash prices in NW SK to rise to around \$6.50/bu for nearby delivery, vs \$6.92/bu last year.

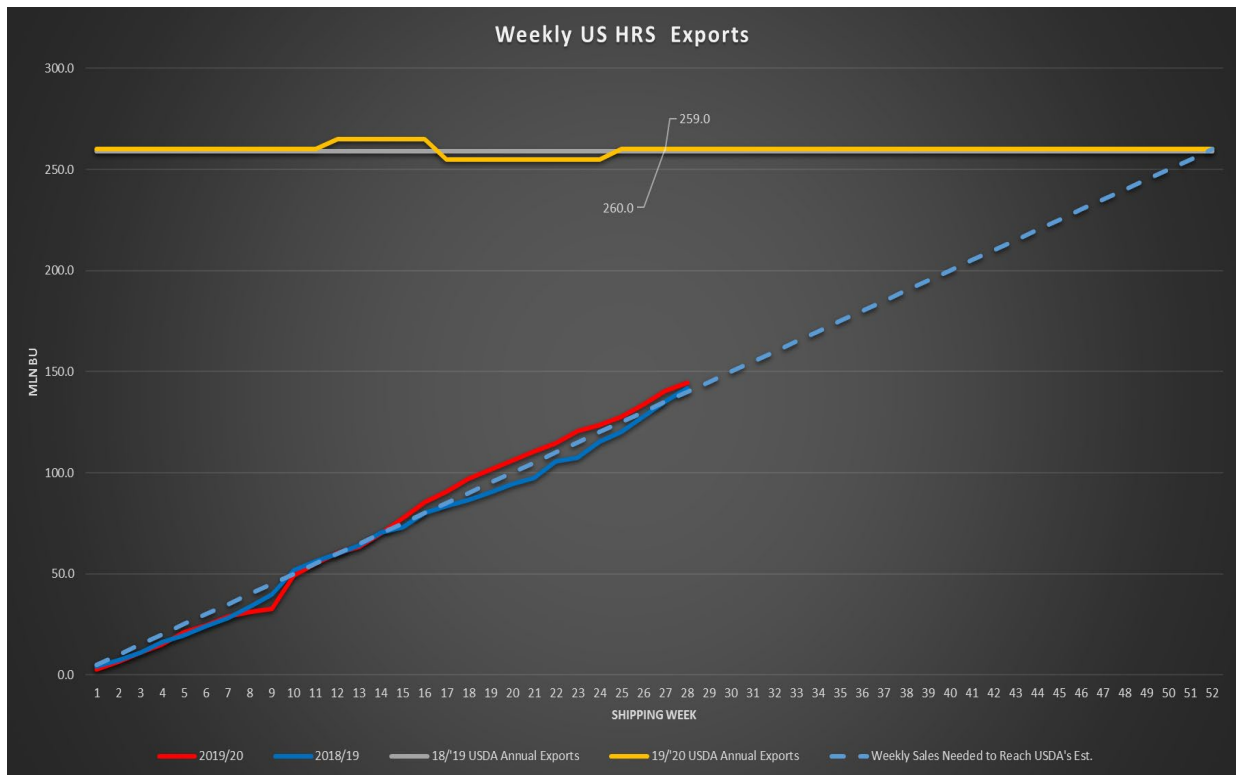
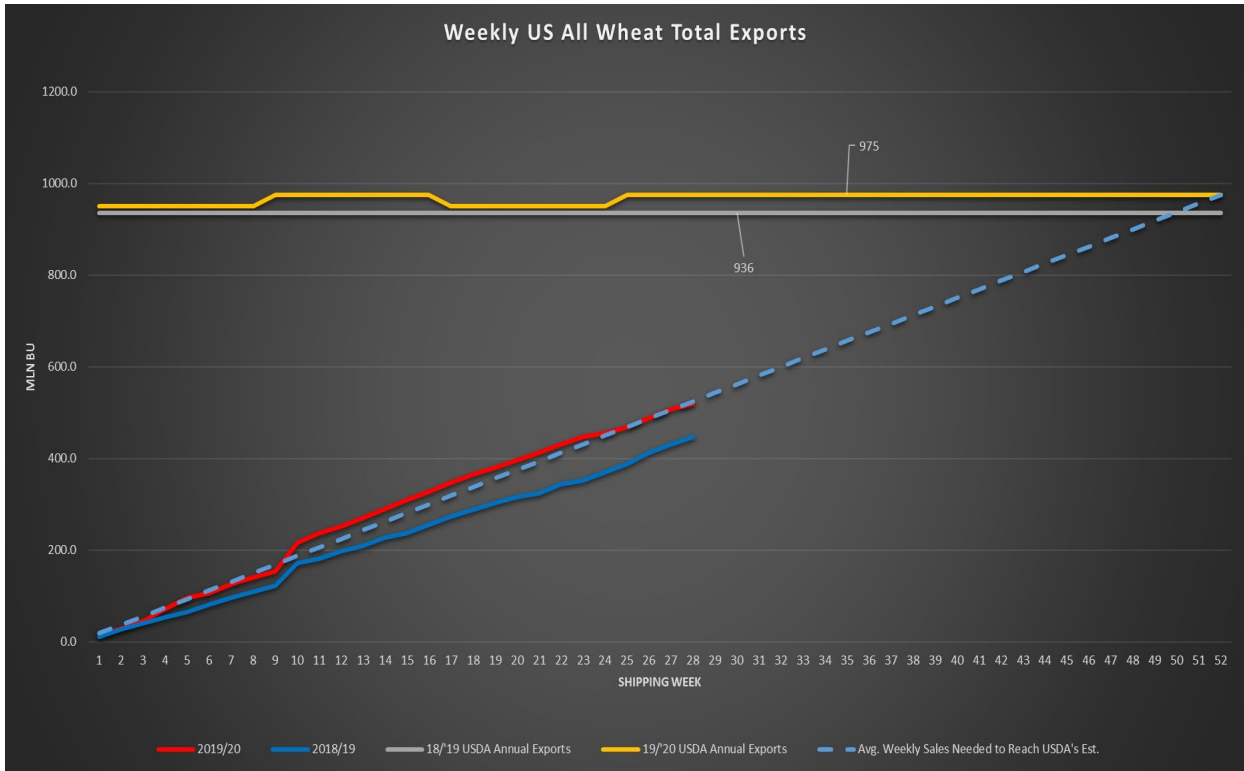


- Canadian elevators continue to be content to let futures do the heavy lifting to trigger farmer selling. Basis levels seasonally fade away from the start of the new year into harvest time but we still maintain that Canadian elevators will need to improve basis levels as high quality wheat becomes more difficult to find.
- **Given the wheat values that have traded in recent weeks, Canada could do well by doing more wheat business, particularly in durum and lower grade wheat.**
 - **Durum was traded for values that reflect ~US\$280/mt parity Thunder Bay. Accounting for the exchange rate and backing off 112 car rail freight rates and actual handling expenditures calculates to C\$318.90/mt (\$8.68/bu) at the elevators in central SK. The current posted bid is \$8.00, for a generous \$24.98/mt margin after costs.**
 - **Traded feed wheat values reflect \$212.00/mt FOB Vancouver which backs off to \$6.14/bu at the elevator in Central SK vs the current bid of \$5.42 for a generous \$26.45/mt margin after costs.**
- *Turkey will tender for 100,000 mt of durum on Jan. 14th and Morocco will tender Jan. 9th for 354,000 mt of US durum, which will be positive for Canadian prices.*

US wheat:

- The USDA's crop update showed HRW December ratings to be well down from the November levels, while SRW was mostly better (ratings will be done for selected states on a monthly basis until the full by-state weekly reports restart in April).
- US export sales for the week ending December 26th were at the low end of the 300,000-600,000 mt expectations at 312,900 mt, 56% less than the previous week. Total US wheat commitments are 6% more than last year at 18.854 million mt while YTD export inspections are 16% more than last year at 519.9 million bu. US HRS wheat has accounted for 144.4 million bu of the total exports (up 2% year-over-year) while total HRS commitments of 5.49 million mt are 4% (197,500 mt) more than last year.

Cumulative Weekly US Exports of All Wheat and HRS



- The US durum export program has also been strong (88% more than last year at 621,000 mt) which has the USDA projecting 2019/20 durum ending stocks will fall to a 5-year low of 700,000 mt.



- Traders are optimistic that a trade deal could cause China to fulfill its TRQ obligations in wheat which would bring wheat imports to 9.6 million mt annually vs the usual world-wide imports of 3-4 million mt. While this would be positive for wheat, Chinese purchase from the US will be split between old and new crop which will limit upside, but will non-the-less limit the burden on 2019/20 ending stocks.

Australian wheat:

- Australian wheat futures have returned to 3-month highs on extremely low volume.
- As the bush fires continue, the total size of the burned area is approaching 6 million ha (15 million acres). The fires will have limited impact on wheat as harvest is essentially complete.
- Most of the Australian crop will be kept for feed use and we expect Australia to continue being consistent importers of Canadian milling wheat until new crop.
- Australian FOB values jumped another \$2/mt over the holidays and are now \$252.00/mt.

Argentine wheat:

- Argentine export taxes on grains were confirmed at the higher level of 15%, but with reported discussions between the Ag Minister and farmers about the possibility of applying lower taxes to growers located farther from the ports.
- There was a large run up of applications for export licenses leading into the implementation of the tax hike but after the increase, just 300,000 mt worth of licenses have been issued.
- Harvest in Argentina is almost done at 92% having advanced 3% from last week. BAGE left the Argentine crop unchanged at 18.5 million mt.
- Argentine FOB wheat values (12% pro) range from \$200-210/mt.

EU wheat:

- The planting season has passed and many parts of the EU are now snow covered, so the market will have to wait until next season to assess the condition of the wheat crop and continue speculations about winter wheat production and spring wheat area.
- Stratégie Grains (SG) forecasts total 2019/20 EU wheat production at 153 million mt (5.62 billion bu), up 12% year-over-year as gains in common wheat production more than offset losses in durum

output. SG expects total EU wheat exports to reach 29.6 million mt (1.09 billion bu), up 37% from last year, if realized.

- As the French rail strike continues, logistical issues in France will become an increasing problem as the country is expected to have a large export program to Morocco in January given Morocco's recent removal of import taxes.
- While the slow down in Russian exports will weigh on wheat values, logistical issues and a strong vessel line-up in France, plus big German and Baltic export programs should keep EU premiums firm.
- FOB values in the EU were again stronger week-over-week with French 11.5 pro bid at \$216.68 down \$0.86 from the week previous, German 12.5 pro bid at \$220.51 (+\$0.26) and Baltic 12.5 pro was bid at \$219.95 (+\$0.26).

Black Sea wheat:

- The Ukraine will not back at work until Monday and Russia is away until January 9th.
- Russian exports continue to slow. However, strong EU values should provide a floor for Black Sea values.
- The debate about Ukrainian planting continues as the govt's est. area is unchanged while trade has acreage down 5-10% year-over-year.
- APK-Inform raised its forecast of Ukraine's 2019/20 wheat harvest by 1.3% to 28.3 MMT while other reports suggest that late-seeded new crop winter wheat there could be vulnerable to adverse winter weather.
- Russian wheat export prices were on the rise this week up to \$213/220.00/mt FOB. Russia's Agricultural Minister was quoted last week saying Russia is considering a new system for restricting grain exports.

➤ **Significant purchases/ trades:**

- **USA** export inspections at 312,000 mt, sales of 313,000 mt were at the low end of expectations for a season total 692 million bu, up 6%.
- **Jordan** tenders Jan 7th for 120,000 mt of hard wheat.
- **Morocco** tenders Jan 9th for 354,000 mt of USA durum.
- **Turkey** tenders Jan 14th for 550,000 mt of milling wheat and 100,000 mt of durum.
 - **Durum interest should have a positive effect on North American prices**

➤ **Wheat Market Outlook:**

Significant events:

- **Technical buying, concerns of tightening supplies in major exporting countries and news that China could buy more U.S. wheat following a Phase 1 trade agreement on January 15th supported US wheat futures over the holidays.** Since December 20, soft red winter (SRW) futures gained 12 cents to close at \$5.54/bu. Hard red winter (HRW) futures gained 13 cents to close at \$4.75/bu. Hard red spring (HRS) futures rose 11 cents to end at \$5.47/bu. CBOT corn futures lost 12 cents to close at \$3.86/bu. CBOT March soybean future gained three cents to close at \$9.41/bu.
- **Last week began slow** as most markets continued in the holiday mood and both cash and futures traded in a narrow range and in light volume. That was until Thursday when it was **announced that the USA had retaliated against Iran for attacks on its Bagdad Embassy. Markets sold off heavily Friday following the increased Iran tensions and the USA's season low export sales.**
- **Cheaper rail rates and increased farmer selling** over the past two weeks due to higher futures prices pressured HRS and HRW export basis out of the Pacific Northwest (PNW) and Gulf for nearby and deferred deliveries. **Tight, diminishing exportable supplies supported SRW export basis** for January and February deliveries. The Great Lakes – St. Lawrence Seaway System will close for the season on December 31, 2019 and will re-open in March 2020.
- **January 10th is the next USDA/WASDE report.** We do not expect any significant revisions for wheat. While corn production should be revised lower, we are afraid that exports will also fall which likely leave ending stocks essentially unchanged.

- **January 15th is slated for the signing of Phase 1**, but even if it takes place, there will not be any breakdown of ag purchases which will leave traders and analysts left to continue speculating. There is optimism that China will greatly increase corn purchases (from \$200 million in 2017 to \$1,260 million) but buying will be shared between old crop and new which will moderate the impact.
- **Weather Around the World:**
 - The coming week calls for normal rainfall across **Brazil** with no excessive heat, while Northern **Argentina** will turn warmer and stay generally dry. In the **USA**, heavy precipitation will be confined to the Delta and south-east, with the Plains staying dry. Temperatures remain well above normal. **Europe** maintains these extensive dry and unusually warm conditions, particularly in the **Black Sea**.

➤ **Outlook:**

January 10th will bring the USDA report, Jan 15th may bring a trade deal signing but it won't bring any commodity split so it could be somewhat irrelevant. The WASDE report could be a non-event or bring some surprises - it is hard to judge when it comes to the USDA.

We expect that the ***durum buying interests will have positive effects on Canadian durum prices.*** Canadian bids continue to lag world levels. We are left to wait and see if there is enough demand remaining to pull up lagging Canadian exports and price levels.

We don't recommend sales until we can see whether there are further developments in the USA/Iran conflict or before details of a USA/China trade deal and the WASDE report is released.

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	\$6.29	\$231.12	1 CWRS 13.5	\$6.45	\$237.00
1 CWAD 13.0	\$7.18	\$263.82	1 CWAD 13.0	\$7.21	\$264.92
1 CPSR 11.5	\$5.66	\$207.97	1 CPSR 11.5	\$5.79	\$212.75
SW Sask			SW Sask		
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$7.21	\$264.92
1 CPSR 11.5	\$5.39	\$198.05	1 CPSR 11.5	\$5.73	\$210.54
NE Sask			NE Sask		
1 CWRS 13.5	\$6.02	\$221.20	1 CWRS 13.5	\$6.21	\$228.18
1 CWAD 13.0	\$7.48	\$274.85	1 CWAD 13.0	\$7.55	\$277.42
1 CPSR 11.5	\$5.39	\$198.05	1 CPSR 11.5	\$5.52	\$202.83
SE Sask			SE Sask		
1 CWRS 13.5	\$6.08	\$223.40	1 CWRS 13.5	\$6.26	\$230.02
1 CWAD 13.0	\$7.49	\$275.21	1 CWAD 13.0	\$7.55	\$277.42
1 CPSR 11.5	\$5.33	\$195.85	1 CPSR 11.5	\$5.54	\$203.56

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)

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.”

- 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 6, 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	\$344.43			
HRS	\$338.58			
HRW 11.5	\$300.13			
SWW 12.0	\$302.51			
1 CWRS 13.5 ³	\$344.43		\$231.49	\$112.94
2 CWRS 13.0 ³	\$338.58		\$205.77	\$132.81
3 CWRS ³	\$300.13		\$167.19	\$132.94
CPS ³	\$295.84		\$200.99	\$94.85
1 CWAD ⁴			\$293.95	
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$220.00			
French 11.5 (Rouen)	\$216.68			
APW 10.5 (W Coast)	\$252.00			
Argentine 12.5	\$200-210.00			
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. *

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					January 6, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.19	\$9.03	\$7.99	\$8.05	\$8.05
Parity Track Rosetown	\$7.70	\$7.54	\$6.49	\$6.55	\$6.55
Track Bid Rosetown Area	\$6.30	\$5.60	\$4.55	\$5.47	\$5.47
Gross Margin at Elevator (\$/bu)*	\$1.40	\$1.94	\$1.94	\$1.08	\$1.08
Gross Margin at Elevator (\$/mt)*	\$51.29	\$71.16	\$71.29	\$39.86	\$39.86

* to cover elevation, elevator market risk, margin