

Wheat Market Outlook and Price Report: June 8, 2020
 By Marlene Boersch/ A.P. Temple/ Michael Wilton
 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 June 8, 2020

AMIS¹ view on Global Wheat, June 2020:

Wheat	FAO-AMIS			USDA		IGC	
	2019/20 est	2020/21 f'cast		2019/20 est	2020/21 f'cast	2019/20 est	2020/21 f'cast
		7 May	4 Jun		12 May		28 May
Prod.	762.2	762.6	758.3	764.3	768.6	761.8	766.1
	628.6	628.5	624.3	630.7	633.5	628.2	632.1
Supply	1,034.1	1,035.4	1,034.5	1,043.6	1,063.6	1,022.3	1,040.6
	785.1	777.7	773.8	770.3	778.3	768.5	778.7
Utiliz.	757.5	759.4	754.3	748.5	753.5	747.9	750.3
	632.0	631.0	627.4	622.5	623.5	619.0	619.4
Trade	175.1	176.3	177.5	183.2	186.6	177.9	178.0
	171.3	172.5	173.2	178.2	179.6	173.7	173.8
Stocks	276.2	274.6	280.3	295.1	310.1	274.4	290.3
	149.5	142.1	142.8	144.8	149.8	145.4	155.2

Note: Data shown in the second rows refer to world aggregates without China.

- According to the analysis conducted by AMIS, **wheat production** in 2020 could fall below last year's level following this month's downward revisions in the EU, the Russian Federation and Ukraine, mostly on unfavourable weather conditions.

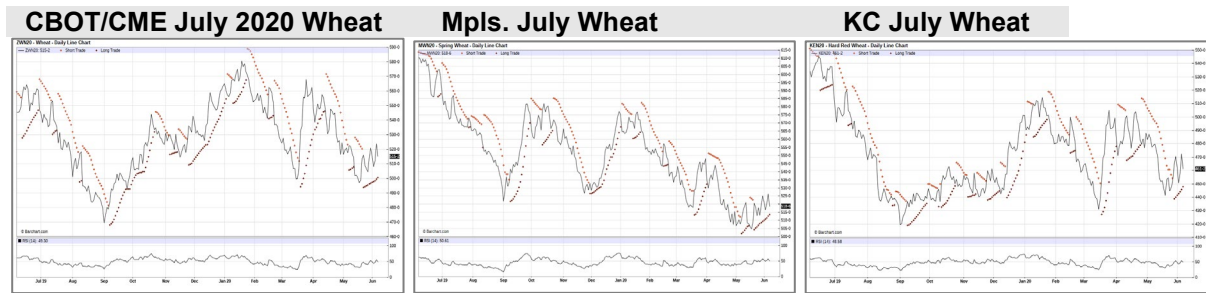
¹ Analysis by the Agricultural Market Information System (AMIS) covers a collective assessment of the market situation and outlook by the ten international organizations and entities that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank, World Food PGM, WTO, OGLAM.

- **Utilization** of wheat in 2020/21 is also forecast to decline compared to 2019/20, as both feed and industrial use are expected to fall.
- **Trade** in wheat forecast for 2020/21 is scaled up m/m, largely on higher projected imports by Iran, Sudan and Egypt; export prospects trimmed for the EU, the Russian Federation and Ukraine, but raised for Australia, Argentina and Canada.
- **Wheat Stocks** (ending in 2021) are forecast higher than last month resulting in a year-over-year gain of 1.5 percent, with China responsible for most of the y/y expansion as well as the m/m increase in the forecast.

➤ **Global wheat production and trade:**

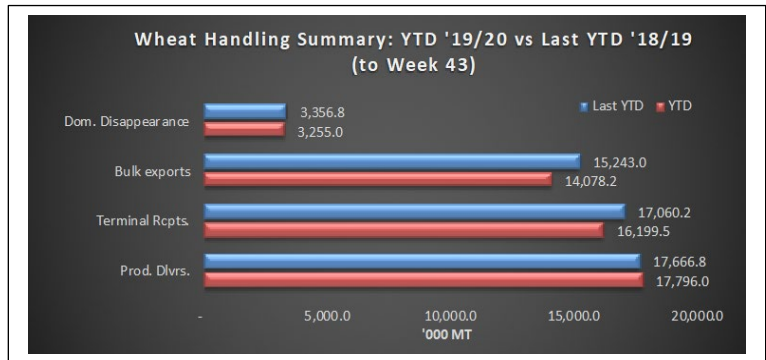
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Jul '20 contract **Chicago winter wheat** closed at 515-2, down 8-4 cents on Friday, *down 5-4 cents for the week.*
- Jul '20 contract **Kansas hard red winter wheat** closed at 461-2, down 11cents in Friday's trade, *down 9-2 cents for the week.*
- **Minneapolis** Jul '20 contract **hard red spring wheat** closed at 518-6 down 11 cents in Friday's trade, *down 6-4 cents for the week,* while Sep '20 hard red spring wheat closed at 530-6, down 6-6 cents on Friday, *down 5-4 cents for the week.*

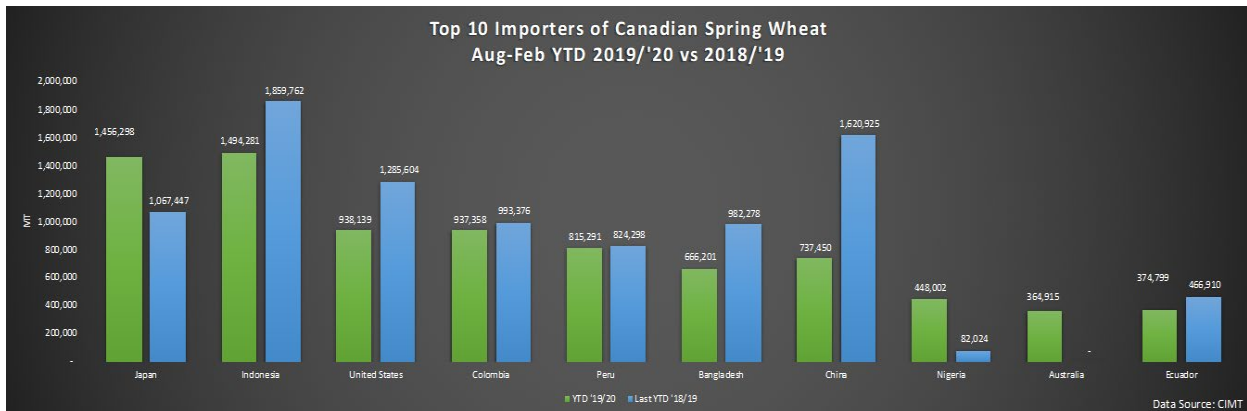


Canadian Wheat:

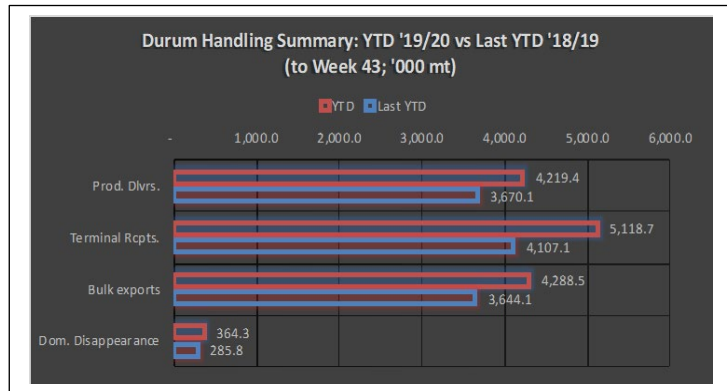
- Seeding progress: **Canada:** Seeding is essentially finished. SK Ag assessed the SK spring wheat condition at 81% in good/excellent condition, 19% in fair, and zero% in poor/ very poor condition.
- **US spring wheat:** Thanks to dry weather across the Northern Plains U.S. spring wheat planting made good progress from last week. 91% of the intended spring wheat area is now planted, up from 81% last week's, but behind the 5-year average of 96%. According to USDA, 80% of US spring wheat is in good to excellent condition, up from last year's 74%.
- **Russia:** Much of Russia looks increasingly dry with temperatures rising above normal. S Ukraine and S Russia have only 0-5 mm rain in the forecast, with building heat (temperatures are expected to rise to 32-35°C over the weekend. June remains a critical month for N Hemisphere crops.
- According to the weekly CGC data, **wheat exports** for week 43 were good again at 450,000 mt, bringing year-to-date exports to 14.1 million mt, still 8% smaller than last years (-1.2 million mt).
- Commercial wheat stocks in Canada are down a bit at 2.2 million mt.



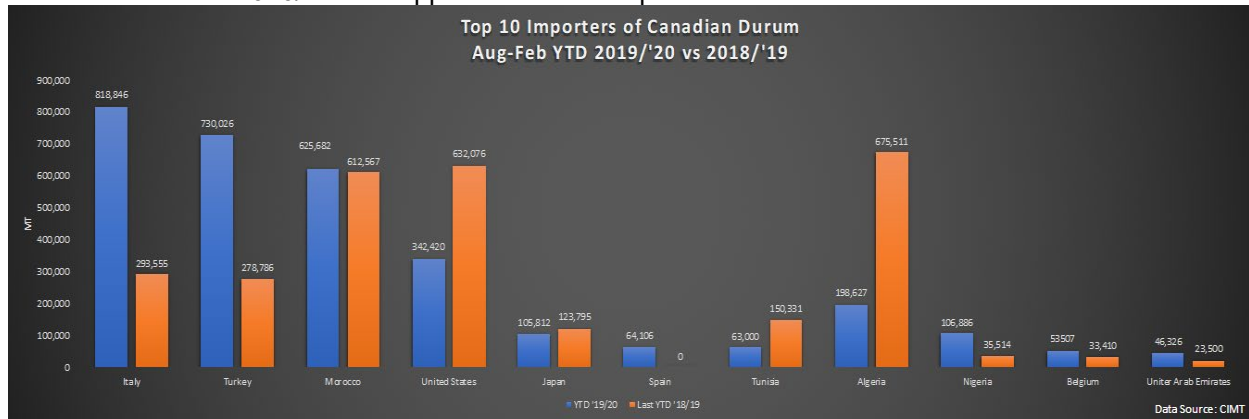
- Canadian wheat stocks (excl. durum) will increase this year compared to last year, and are also expected to increase again in the new crop year.
- StatsCan updated **exports by destination** to include April shipments. At 2.5 million mt for the month, April wheat exports were significantly higher than any other month this crop year. In fact, they were 1.1 million mt higher than in March. The top importer last month was China with 207,000 mt, followed by Colombia (170,000 mt), Japan (156,000 mt), the US (155,000 mt), and Peru (116,000 mt). Nevertheless, year-to-date exports to the end of April are still 10% (-1.5 million mt) behind last years.
- The weaker Canadian dollar in April, and above-average demand due to Covid-19 helped demand. Exports through Thunder Bay are up 30% over last years.
- Conversely, the recent strengthening of the Canadian dollar to .748 cents to the US dollar is causing some headwinds to grain exports.
- *Our suggestions remain the same: Liquidate old crop, hold new for the present.*



- **Durum:** Seeding is essentially finished, and SK Ag reports durum to be 77% in good to excellent condition, 20% in fair condition, and 3% in poor/very poor condition. – Not a bad start, but rain is needed south of Regina and in SW SK.
- **US durum:** North Dakota reports durum wheat planting was 87% complete as of May 31, near 83% last year. 52% was emerged was, ahead of 47% last year, but behind the 625 average.
- Exports for week 43 were 106,000 mt for a season total of 4.3 million mt, **18% (+644,000 mt) bigger than last year.**
- We continue to expect export sales for durum to remain strong into the summer.
- **Exports by destination:** StatsCan shows April durum exports at 578,000 mt, which is the biggest export month of the year by some margin. Italy was the biggest buyer for the month with 128,000 mt. Algeria bought 89,000, Morocco bought 75,000 mt, Tunisia bought 54,000 mt, and the US bought 53,000 mt of Canadian durum. The list of buyers last month shows off the prevailing problems in North Africa. [See graph next page].
- There is no change in our assessment of the durum balance sheet as discussed last week. We expect durum acres to have increased by 15% this spring, but demand should be sufficient for the increase, given we draw 2019 crop stocks down this summer. For the '20/21 crop year, Mercantile is projecting 800,000 mt ending stocks based on the bigger acreage increase.

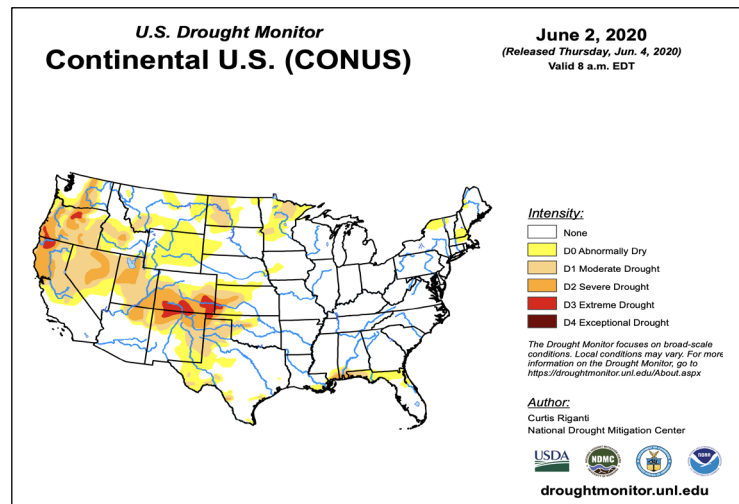


- Tightening stocks will continue to support old crop bids. Durum demand is strong which will keep exports steady until the EU crop starts being harvested. Moderate stocks and strong export demand in 2020/21 are supportive to new crop durum.



US wheat:

- US wheat conditions: Hot, dry weather increased drought stress across the western Great Plains. Abnormal dryness spread in western South Dakota, western Nebraska and eastern Wyoming. Moderate drought increased in the Texas Panhandle and extreme drought spread in eastern Colorado and the Oklahoma Panhandle. Beneficial precipitation reduced dryness in eastern Washington. Looking ahead, dry weather is expected to persist across the western Great Plains. Warmer temperatures, heavy precipitation and potential flooding are expected in the Mississippi Valley following Tropical Storm Cristobal.



- *The new crop U.S. wheat harvest is underway* in parts of Texas, southern Oklahoma Arkansas and North Carolina. According to USDA, as of June 1, 3% of the country's total winter wheat area is harvested.
- Spring wheat: Dry weather across the Northern Plains helped boost U.S. spring wheat planting, and 91% of the intended spring wheat area is seeded. This is up from last week's 81% seeded, but behind the 5-year average of 96%. USDA says 80% of the country's spring wheat is in good to excellent condition, up from last year's 74%.
- US sales: This is the last full week of current crop wheat. Combined old & new sales of 617,000 mt were closer to the high end of expectations of 150,000 – 850,000 mt. 2019/20 US wheat exports through April were at a three-year high and the 2nd highest since 2013/14.
- The FOB value for 13.5 pro HRS in the PNW for June dropped by \$1.50/mt from last week at \$241.00/mt. North American wheat remains expensive relative to alternative origins.

Australian wheat:

- Australian January 2021 wheat futures hit their lowest level since February 2018 midweek as the AUD soared back to the January highs.
- Good rains and expanded acreage seem to be leading towards a big crop and export campaign this year. *Private crop estimates remain optimistic for 2020 Australian wheat production (25+*

million mt compared the USDA's 24 million mt) based on the wet forecast for the winter months. Some say production could reach 26 million mt.

Argentine wheat:

- Politics were the prime focus here: There were again reports that the Argentine Govt was about to raise export taxes by the additional 3% for which they already have congressional approval, and there was also talk of an imminent devaluation of the Peso.
- BAGE assessed plantings at 30% complete (compared 20% last year), and the pace remains rapid as dryness persists.
- Argentine old crop offers were non-existent. The bid-offer on new crop wheat (11.5 pro) increased another \$3-4/mt to \$193-200/mt, with the premium for 12.5 pro wheat at \$4/mt.

EU wheat:

- The weather forecast for central Europe turned wetter with cool temperatures. The recent rains were mostly called "crop stabilising" rather than "crop improving", as the major areas of N France got very little, and the jury is still out on the overall EU crop.
- EU shipments advanced by almost 600,000 mt for an all-wheat total 33 million mt, up 31% on last year.
- FOB values in the EU were firm: French 11.5 pro was \$1.76/mt higher at \$212.54/mt, while German 12.5 pro wheat gained \$0.58/mt over the week to \$225.08/mt.

Black Sea wheat:

- The current forecast is showing hot dry conditions for the Black Sea region.
- Egypt (GASC) bought 120,000 mt of Ukrainian wheat. - The sale reflected around \$203/mt for Ukrainian 12 pro wheat. Following the GASC tender, Black Sea wheat firmed to \$205 for Russian July 12.5 pro wheat and \$206 for August wheat with the discount for 11.5 pro still around \$7/mt.

➤ **Significant purchases/ trades: -The trading is becoming quiet. -**

- **Egypt** (GASC) bought 120,000 mt Ukrainian 12% protein wheat for July 10-25 at \$220.65/mt.
 - The GASC purchase brought up some interesting points: There were no Romanian offers; there was just a single French wheat offer; there were no non-Russian companies offering Russian wheat. Limited farmer selling and the strength of the Ruble (3- month highs) lifted the overall market.
- **Jordan** bought 60,000 mt wheat for LH Oct at \$233.50/mt.
- Combined old & new sales of 617,000 mt were closer to the high end of expectations of 150,000 – 850,000 mt.

➤ **Wheat Market Outlook:**

Significant events:

- Matif bounced around following varying exchange rates and the changeable weather forecasts, which began the week wet across the EU and Black Sea, before turning hotter and drier midweek, but then adding rain back in Friday.
- The Egyptian (GASC) tender for July shipment only brought forward only a single French wheat offer, no Romanian wheat offer, and there were no non-Russian companies offering Russian wheat. GASC bought Ukrainian wheat.
- In the EU, the jury is still out on the size of the wheat crop with 3 months of weather still to get through before the spring wheat harvest comes in.
- The Southern Hemisphere could use some rain.

- **Global Wheat News:**

- Warm, dry winter conditions increased the pace of **Ukrainian winter wheat development** and farmers are expected to get an early jump on the 2020/21 harvest. According to APK Inform, a Ukrainian agriculture consultancy, the Ukrainian wheat harvest started several days earlier than last year. Ukrainian farmers are now expected to produce 23.2 MMT of wheat in 2020, 18% less than last year because abnormal winter conditions persisted into the spring, pressuring crop production estimates. Total wheat exports are expected to fall 25% on the year to 14.9 MMT.
- **Australian wheat production** and export estimates for the 2020/21 marketing year are well above last year as beneficial precipitation supported planted area and crop development. “While it’s still around six months until the grain is in the bin, all the hallmarks of an above-average season are now falling into place,” said Cheryl Kalisch-Gordon, senior grains analyst at Rabobank. According to Rabobank, wheat planted area is up 33% on the year and total wheat production is expected to reach 24.0 MMT, up 58% from last year, if realized. USDA expects Australian wheat exports could reach 15.0 MMT in 2020/21, 83% greater than last year, if realized.
- **Argentinian wheat planting** for the 2020/21 season jumped week-over-week to 30% complete as farmers took advantage of dry weather ahead of weekend rains, the Buenos Aires Grain Exchange (BAGE) said in its weekly crop report. Production is now estimated at 21.0 MMT from a planted area of 6.80 million hectares (16.8 million acres).
- **Kazakhstan’s** Ministry of Agriculture now estimates the country’s 2020/21 wheat output will jump 18% from last year to 13.5.0 MMT on increased planted area and favorable spring wheat planting conditions. USDA expects Kazakh wheat exports will reach 6.60 MMT in 2020/21, up 14% from last year, if realized.
- The US attaché in **India** increased India’s MY 2020/21 **wheat production** estimate to a record 107 MMT due to greater than expected yields despite unseasonal rains at the time of harvest. Sources report record yields in most wheat growing states, although there have been reports of grain quality (lustre loss) getting affected and higher than normal moisture content at the time of sale.
- The **Baltic Dry Index** (BDI), an assessment of the average cost to ship raw materials like grains, coal and iron ore, jumped 25% on the week to end at 632.
- The **U.S. Dollar Index** fell 2% from last week’s 99.06 to end at 96.95.

➤ **Outlook:**

June is a very determinant month in the growing season of N Hemisphere crops, so the hot and dry forecast for the Black Sea area and the precipitation for the EU area will be monitored carefully. Southern Hemisphere grains could use some rain as well. This could help wheat prices despite the pressure from the approach of harvest.

The next USDA/ WASDE June report is on Thursday, so we don’t see selling pressure while this report is imminent.

Our suggestions remain the same: Liquidate old crop, hold new for the present.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	08-06-2020
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Sept.'20 (bu.)	Sept.'20 (mt)	
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	6.21	\$228.18	
1 CWAD 13.0	\$7.72	\$283.66	1 CWAD 13.0	7.33	\$269.33	
1 CPSR 11.5	\$5.70	\$209.44	1 CPSR 11.5	5.47	\$200.99	
SW Sask			SW Sask			
1 CWRS 13.5	\$6.19	\$227.45	1 CWRS 13.5	6.07	\$223.04	
1 CWAD 13.0	\$7.70	\$282.93	1 CWAD 13.0	7.26	\$266.76	
1 CPSR 11.5	\$5.59	\$205.40	1 CPSR 11.5	5.36	\$196.95	
NE Sask			NE Sask			
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	5.97	\$219.36	
1 CWAD 13.0	\$8.03	\$295.05	1 CWAD 13.0	7.47	\$274.48	
1 CPSR 11.5	\$5.55	\$203.93	1 CPSR 11.5	5.34	\$196.21	
SE Sask			SE Sask			
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	5.96	\$218.99	
1 CWAD 13.0	\$8.03	\$295.05	1 CWAD 13.0	7.45	\$273.74	
1 CPSR 11.5	\$5.51	\$202.46	1 CPSR 11.5	5.28	\$194.01	

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 Basis² (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)

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.”

- 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				08-06-2020
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	\$338.87	\$378.21		
HRS	\$329.03			
HRW 11.5	\$301.49			
SWW 12.0	\$299.52			
1 CWRS 13.5 ³	\$338.87		\$227.81	\$111.05
2 CWRS 13.0 ³	\$329.03		\$207.24	\$121.79
3 CWRS ³	\$301.49		\$188.86	\$112.62
CPS ³	\$292.63		\$203.19	\$89.44
1 CWAD ⁴		\$371.33	\$275.58	\$95.75
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$205.00	June		
French 11.5 (Rouen)	\$212.54	June		
ASW 10.5 (W Coast)		June		
Argentine 12.0	\$227.00	June		

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				08-06-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.77	\$8.02	\$5.95	\$5.95
Parity Track Rosetown	\$7.27	\$6.52	\$6.47	\$6.47
Track Bid Rosetown Area	\$5.64	\$5.14	\$5.53	\$5.53
Gross Margin at Elevator (\$/bu)*	\$1.63	\$1.38	\$0.94	\$0.94
Gross Margin at Elevator (\$/mt)*	\$59.92	\$50.75	\$34.45	\$34.45
* to cover elevation, elevator market risk, margin				