

## Wheat Market Outlook and Price Report: March 16, 2020

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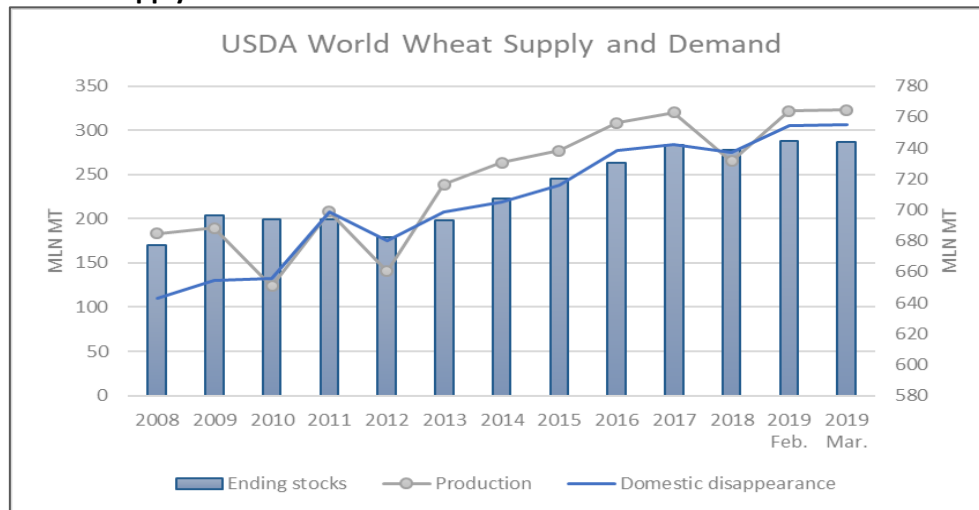
### **i) Background and Rationale for the Report**

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 Mach 10<sup>th</sup>, 2020**

#### USDA World Wheat Supply and Demand



- The latest USDA report was released last Tuesday which was largely a non-event. **The US wheat supply and demand was entirely unchanged**, while there were some significant but largely offsetting revisions to the world balance sheet.
- **Global production was raised 500,000 mt** from last month. Most of this was from a sharp, 1.4 million mt, increase in India. There were largely offsetting revisions in Argentina (+500,000 mt) and Australia (-400,000 mt).
- **World demand was raised 700,000 mt**. Most of this was from an 750,000 mt increase in Turkey. EU demand was down 500,000 mt.
- Exports in Russia were raised 1 million mt to 35 million mt, down just 2.5% from last year (current data shows a 17% decline). EU exports were left unchanged at just 32 million mt, up 37% from last year vs the current +70% pace. US exports were left unchanged at 27.22 million mt, which is unlikely.
- Overall, **world stocks were seen falling 900,000 mt**. Most of this was in China.

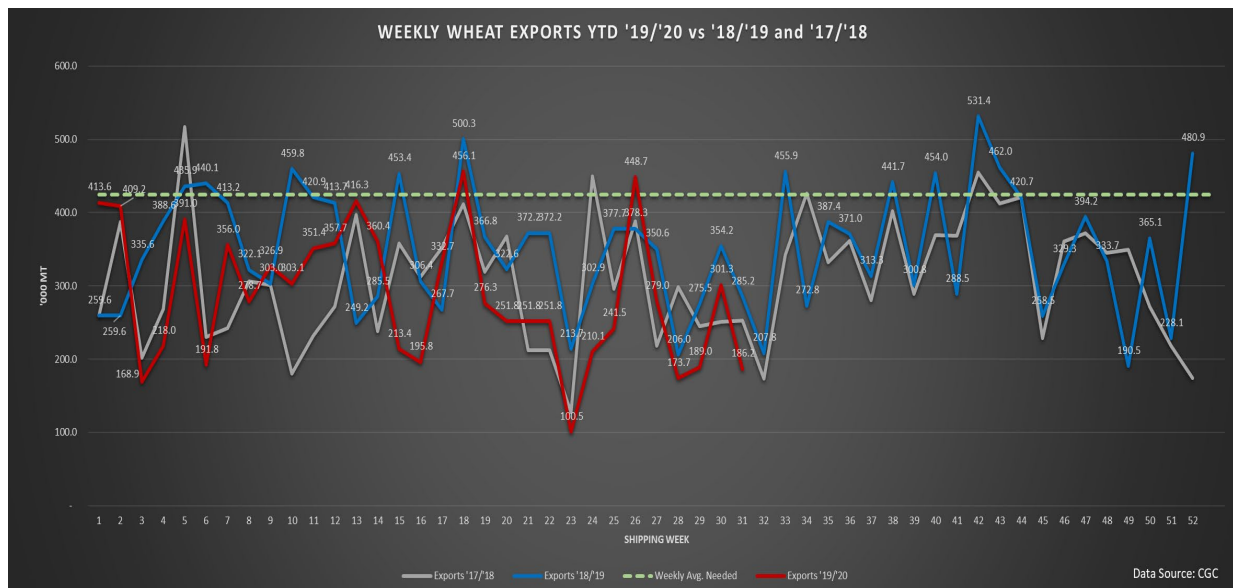
➤ **Global wheat production and trade:**

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:** May '20 contract **Chicago** winter wheat closed at 506-0, up 0-6 cents for the day, *down 9-6 cents for the week*.
- May '20 contract **Kansas** hard red winter wheat closed at 431-4, down 1-2 cents in Friday's trade, *down 14-6 cents for the week*.
- **Minneapolis**, May '20 contract hard red spring wheat closed at 508-0, down a penny for the day, *down 17-2 cents for the week* while Jul '20 hard red spring wheat closed at 518-2, down 2-0 cents for the day, *down 16-6 cents for the week*.

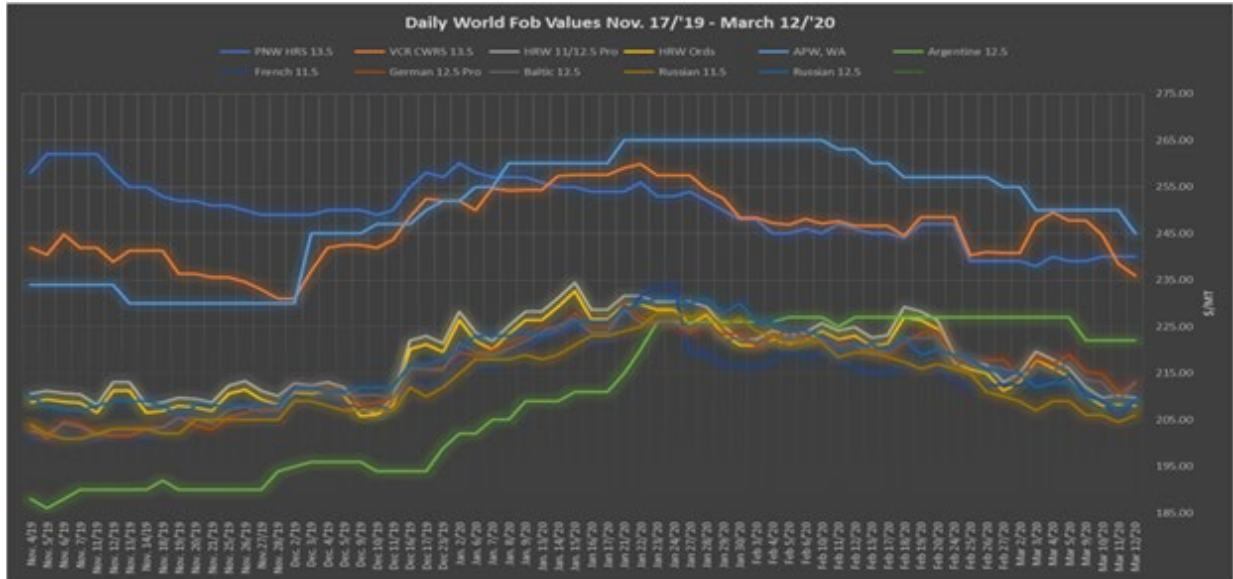
**Canadian Wheat:**

- Canadian producers delivered 372,500 mt of wheat during week 31 ending March 8<sup>th</sup>. Total deliveries are now 12.6 million mt, down 4% (511,600 mt) from last year.

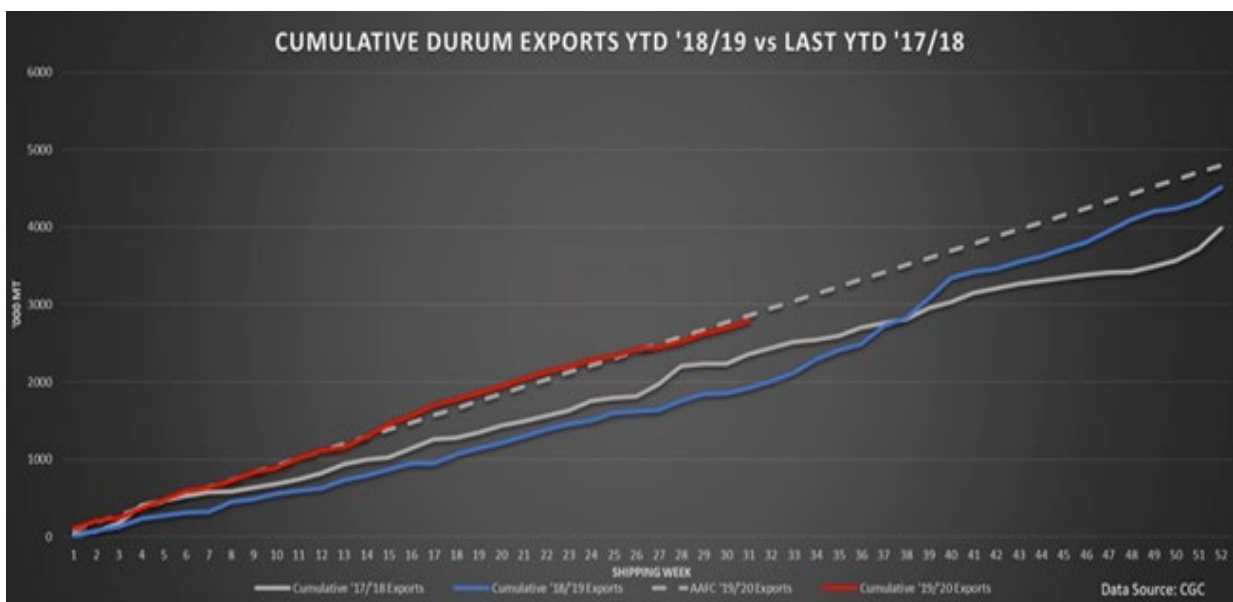


- **Exports** throughout the week were 186,200 mt, less than half of the average weekly amount needed to reach AAFC's 18 million mt projection. Year-to-date, exports of 9.0 million mt are 15% (1.65 million mt) less than last year.
- *Total wheat exports (including durum) are 11.9 million mt, down 6% (811,500 mt) from last year.*

- After an increase of FOB values in Vancouver because of the rail blockades last week, Vancouver FOB prices (orange) fell well below PNW 13.5 pro HRS (dark blue). This should help improve Canada's competitiveness. The seasonal tendency is for the export program to pick up into spring. For now, we continue to hear of full elevators with no trains on the books.



- We hope that you followed our earlier recommendations to sell old crop. There is little in the mix to promote higher prices. Watch for short-lived specials/target triggers at individual elevators as they occasionally try and find coverage for shipping programs. Last week, G3 Glenlea MB was still triggering \$7.00 for No. 1, 13.5 pro CWRs for June delivery.
- Canadian producers delivered 85,100 mt of durum into the system during week 31 for a year-to-date total of 2.89 million mt, up 17% (422,800 mt) from last year.
- Exports throughout the week were 85,100 mt for a season total of 2.85 million mt, 41% (833,800 mt) more than last year. Durum exports continue to track with the needed amount to reach AAFC's 4.8 million mt estimate, 6% more than last year. Exports will likely pick up further when Thunder Bay opens at the end of the month.



- *Old crop durum bids could improve into spring, but we caution against holding durum too long. As planting is nearing completion in parts of the EU, new crop durum is not far away. Planted area in the US and Canada will be higher, but not enough to cause stocks to be burdensome next year. Weather in the EU (see EU section) and Morocco (a timely rain could rescue the crop, but current rainfall amounts in North Africa are at a 40% deficit, extending the 2-year drought) are potentially quite bullish for new crop and will be closely watched.*

## US wheat:

- USDA made no changes to the domestic wheat S&D (the trade was expecting a 4 million bushels increase in ending stocks to 944 million bushels). The current export projection will not be reached if China remains absent.
- US export sales were within trade's expectation at 452,000 mt for a season total of 868 million bushels, 3% more than last year vs the USDA unchanged expectation of a 7% increase.
  - *The next report from the USDA is the March 31 stocks and planting intentions report.*
- Winter wheat crop conditions in KS rose 4% to 47% Gd/Ex. Conditions in OK were up 1% to 58% Gd/Ex, while conditions in TX lost 10% from last week to 26%.
- HRS prices FOB the PNW dropped by US\$4/mt over the week to \$US236/mt.

## Australian wheat:

- The USDA decrease Aussie 2019/20 production by 400k mt to 15.2 million mt. This is the same as ABARES number which we think is close to correct.
- Speculation continues around ABARES' 2020/21 production number. An all-time low \$AU and strong prices will likely cause 2020/21 planting to surpass their current 21-million-acre projection. Additionally, ample soil moisture looks like yields can be better than 1.75 mt/ha.
- Aussie FOB values lost another \$5.00/mt from last week, now bid at \$245.00/mt.

## Argentine wheat:

- USDA put Argentina's 2019/20 production 500,000 mt higher which went directly into exports (now at 13.5 million mt).
- Argentine farmers were on strike last week to protest the tax hike on soybean exports. This had little impact on prices as they are sold out of old crop.
- There were some good rains in the central regions but more is needed before planting starts in 6 weeks.
- Official Fob values are \$215.00-\$225.00/mt, nominally \$5.00 lower than last week.

## EU wheat:

- Brussels adjusted EU soft wheat shipments 1.7 million mt higher from last week to 21.2 million mt, **70% more than last year**. The main increases were in France and Poland where export numbers were adjusted just shy of 800,000 mt each.
  - France is now expected to export 12.7 million mt of soft wheat to non-EU customers, a **31% increase from last year**.
- Focus in the EU remains on waterlogged fields and the ability for farmers to complete planting and/or re-apply fertilizer that has been washed out of the soil.
  - *According to EU colleagues the winter grain crops are in decent condition and spring planting will soon take place.*
- EU old crop FOB values continued to fall last week: French 11.5 pro FOB values were down 9.51/mt from last week at \$203.86/mt, German 12.5 pro was \$11.26/mt lower at \$206.55/mt while Baltic 12.5 pro values fell \$11.23/mt from last week to \$204.89/mt. New crop values were stronger because of excessive moisture.

**Black Sea wheat:**

- USDA raised Russian exports to 35 million mt which is 2% less than last year vs the current 17% lag in exports. Exports in Ukraine and Kazakhstan were unchanged.
- Fob values in the Black Sea were lower than the week previous: Russian 12.5 pro fell \$7.00/mt from last week to 206.00/mt while Ukrainian feed wheat was \$6.50 lower at \$200.50/mt.
- With current prices upwards of \$30.00/mt off their highs there are fears of defaults and contract re-negotiations.
- The Ruble fell to its lowest level since February 2016 which sparked inflation fears and will likely add to spring wheat planting decisions.

➤ **Significant purchases/ trades:**

There still was a fair amount of market activity in the wheat markets. We added known sales to close to 1.3 million mt. We think Canadian wheat was only involved in the sale of HRS to Japan.

- **Algeria** bought 680,000 mt of wheat at \$226-227 C&F.
- **Jordan** bought 60,000 mt LH Sep at \$219.
- **Tunisia** bought 125,000 mt of May-Jun at prices ranging from \$222.34 down to \$206.74 (a mix of old and new crop).
- **Turkey** bought 305,000 mt of 13.5 pro wheat at prices ranging from \$211.80 to \$230.50 (with 8 different ports, working out the FOB parities was tough, but maybe around \$211-213).
- **Japan** issued their weekly wheat tender March 13<sup>th</sup>, seeking 101,000 mt of wheat from U.S., Canada, and Australia.
- **US** inspections were 415,000 mt (season total 707 million bushels, up 9%), sales were 452,000 mt (season total 868 million bushels, up 3%).
- A 1.7 million mt adjustment to prior figures lifted **EU** soft wheat exports to 21.2 million mt, up 70% on last year's 12.5 million mt.
- **Canadian** exports are 15% behind last year.

➤ **Wheat Market Outlook:**

**Significant events:**

- There was **little in the WASDE report that introduced anything bullish or bearish.**
- **COVID-19 continued to be the main concern** as it continued to increase and expand to new geographies. For us, the biggest concern is the economy as we hear of new border shutdowns, travel restrictions, forced isolation and closure of businesses in several countries. The economic effect the damage that "coronavirus" is doing has yet to be quantified in real terms, however, it is huge and may last much longer than people think.
- If the **dispute on the production level of crude oil between Russian and the Saudi** continues, the effects on Canada, and Alberta in particular, will be devastating. At the current level of futures, Canada oils sands simply cannot produce at a competitive price. The oil pipeline to the West becomes a pipeline to nowhere. There is a strong risk the Canadian dollar would collapse. Alberta was already having financial difficulties due to the lower price of oil.

## 1-Year West Texas crude oil



- **CME group announced that it was closing its Chicago trading floor** as a precaution against COVID-19. The floor officially closed after Friday's trade.
- **Weather Around the World:**
  - Widespread precipitation continues across pretty much the whole of the **USA** this week, which will fall as snow in the Northern Plains where temperatures remain well below normal. Rain pushes into Southern **Brazil** and parts of **Argentina**, but amounts remain limited. **Europe** has pushed pretty much all its precipitation into Iberia where needs were greatest, and this has moved across into North **Africa** bringing some significant rains. **Australia** looks considerably drier this week. In general, the weather conditions are good for crop development.

### ➤ **Outlook:**

While COVID-19 continues to expand and remain the main topic for the news, we don't expect to see any major changes in our markets. Most commodities are moving into oversold territory, but for now we don't expect the markets to trade normally in what are extraordinary circumstances. Consumers will only buy hand to mouth; no extended coverage will be taken in the short term.

On the supply side, focus now turns to weather. However, potential changes to demand are becoming increasingly important: food demand could be hit by slowing economies, slumping oil prices, geo-political conflict and weakening currencies. The expectation of a record world corn crop this summer will decrease demand for wheat as a feed grain.

*We hope that you followed our earlier recommendations to finish selling old crop wheat. There is little in the mix to promote higher prices. Watch for short-lived specials/target triggers at individual elevators as they occasionally try and find coverage for shipping programs.*

**iii) Primary Elevator Price Tables and Grade Spreads**

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May. '20 (bu.)	May. '20 (mt.)
1 CWRS 13.5	\$6.28	\$230.75	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$7.40	\$271.91	1 CWAD 13.0	\$7.43	\$273.12
1 CPSR 11.5	\$5.30	\$194.74	1 CPSR 11.5	\$5.53	\$203.19
SW Sask			SW Sask		
1 CWRS 13.5	\$6.17	\$226.71	1 CWRS 13.5	\$6.38	\$234.43
1 CWAD 13.0	\$7.43	\$273.01	1 CWAD 13.0	\$7.44	\$273.38
1 CPSR 11.5	\$5.26	\$193.27	1 CPSR 11.5	\$5.47	\$200.99
NE Sask			NE Sask		
1 CWRS 13.5	\$6.05	\$222.30	1 CWRS 13.5	\$6.22	\$228.55
1 CWAD 13.0	\$7.72	\$283.66	1 CWAD 13.0	\$7.73	\$284.03
1 CPSR 11.5	\$5.09	\$187.03	1 CPSR 11.5	\$5.30	\$194.74
SE Sask			SE Sask		
1 CWRS 13.5	\$6.08	\$223.40	1 CWRS 13.5	\$6.25	\$229.65
1 CWAD 13.0	\$7.77	\$285.50	1 CWAD 13.0	\$7.78	\$285.87
1 CPSR 11.5	\$5.15	\$189.23	1 CPSR 11.5	\$5.31	\$195.11

**Table 2: Grade Spreads, in Canadian Dollars per Bushels 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 Basis<sup>1</sup> (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)

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<sup>1</sup> 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 bushelsyer of Canadian durum wheat with 27% of total Canadian durum exports YEAR-TO-DATE (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				March 16, 2020
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$349.37	#VALUE!		
HRS	\$343.06			
HRW 11.5	\$294.47			
SWW 12.0	\$293.97			
1 CWRS 13.5 <sup>3</sup>	\$349.37		\$225.98	\$123.40
2 CWRS 13.0 <sup>3</sup>	\$343.06		\$202.46	\$140.61
3 CWRS <sup>3</sup>	\$294.47		\$171.23	\$123.24
CPS <sup>3</sup>	\$286.98		\$182.62	\$104.37
1 CWAD <sup>4</sup>		#VALUE!	\$286.60	#VALUE!
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$206.00			
French 11.5 (Rouen)	\$203.86			
APW 10.5 (W Coast)	\$245.00			
Argentine 12.5	\$215-\$225			
<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency <sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price <sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS <sup>4</sup> 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					March 16, 2020
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.32	\$9.15	\$7.82	\$7.81	\$7.81
Parity Track Rosetown	\$7.82	\$7.65	\$6.33	\$6.31	\$6.31
Track Bid Rosetown Area	\$6.15	\$5.51	\$4.66	\$4.97	\$4.97
Gross Margin at Elevator (\$/bu)*	\$1.67	\$2.14	\$1.67	\$1.34	\$1.34
Gross Margin at Elevator (\$/mt)*	\$61.42	\$78.63	\$61.27	\$49.38	\$49.38

\* to cover elevation, elevator market risk, margin