

Wheat Market Outlook and Price Report: Nov. 23, 2020
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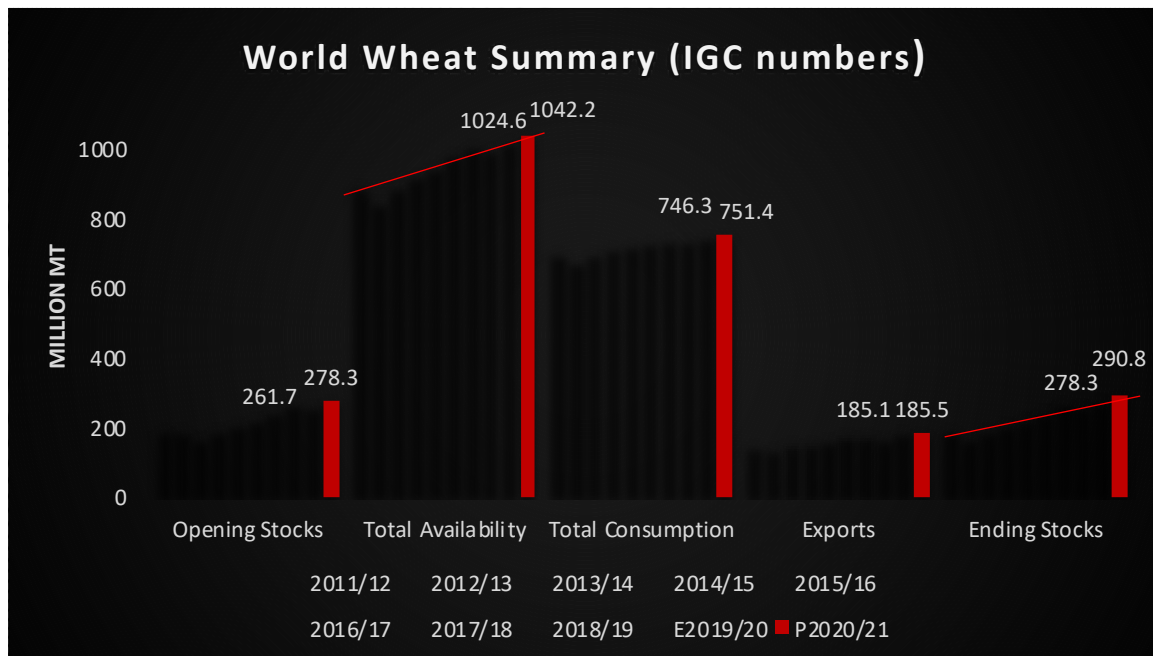
i) Background and Rationale for the Report

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 November 23, 2020

Current International Grains Council (ICG) Global Wheat Summary:



Graph based on IGC numbers

- The graph summarizes the **current IGC global wheat numbers** for the years 2011/'12 to P2020/'21. These numbers depict the following:
 - Opening stocks were up 6% from the previous year
 - Total global wheat availability is up by 2%
 - Total wheat consumption is expected to increase by 1%
 - Exports are expected to rise very marginally (+400,000 mt)
 - Global '20/'21 ending stocks are projected to be up by 4%

- We note that at the time of this 2020/'21 projection, the IGC assumed that food use of wheat is growing broadly at the trend rate, but that the feed use of wheat was dropping. – We disagree with this assessment. For example, how the EU solves its corn problem in the feed sector will determine the ultimate price level and volume of EU wheat on offer. In our view, they will need to feed more wheat and export less. We expect the strong corn market to provide some support to wheat.

➤ **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:** Dec. '20 contract *Chicago winter wheat* closed at 593-2, up 1-4 cents on Friday, *down 0-2 cents for the week*.
Dec. '20 contract *Kansas hard red winter wheat* closed at 550-2, up 1-4 cents in Friday's trade, *down 1-6 cents for the week*.
Dec. '20 *Minneapolis hard red spring wheat* closed at 544-0, down 2-2 cents on Friday, *down 10-6 cents for the week*.

CBOT Dec. 2020 Wheat (1 yr.)



KC Dec. '20 Wheat



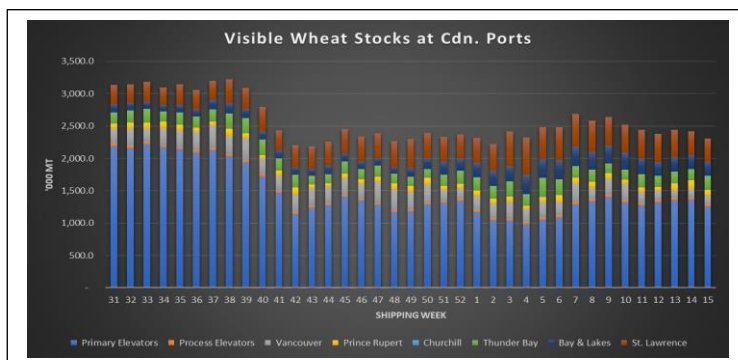
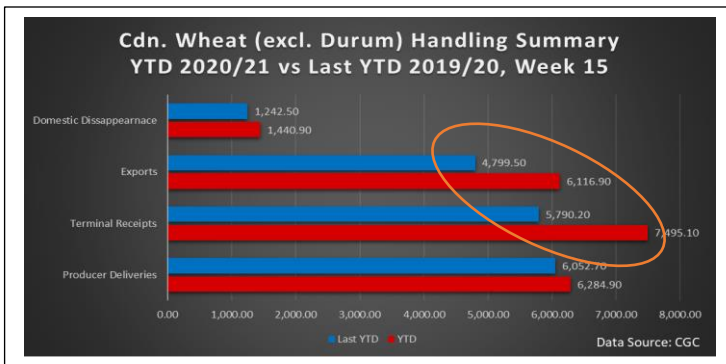
Mpls. Dec. '20 Wheat



- Futures market summary: Technical selling pressured wheat futures lower as the market positioned for the Dec-Mar contract transition.

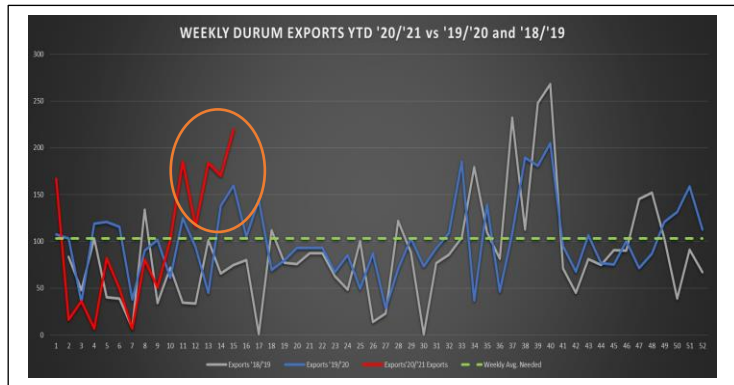
Canadian Wheat:

- Wheat futures came up against technical selling as traders positioned for the Dec-Mar contract turnover. *Minneapolis futures suffered the worst losses over the week as the main driver in wheat prices have been in feed, not milling markets.*
- Week 15 grower deliveries were smaller with just 286.9,000 mt of wheat being brought to Canadian elevators. But exports remained strong at 440.9,000 mt for a year-to-date total of 6.1 million mt, 27% over last year. The lion's share of week 15 exports was off the West Coast. Exports have outpaced deliveries for the last few weeks, so visible stocks have been drawn down to levels where we may see



exports slowing some in the coming weeks unless farm bids become very attractive.

- Demand for Canadian wheat continues to be good and improved rail availability is helping tremendously. Wheat will likely move sideways in the short term, supported by strong demand and reasonable stocks while being underpinned by corn and soybean strength.
- Prices for Canadian wheat are already good, and demand is definitely expanding. The world price quality spreads make a nonsense of the discounts applied for the old CWB wheat grades and are being used by elevator companies to discount values paid to Canadian growers.
- We don't see a reason to be in a rush to sell Canadian grain. Canada is fully competitive in all markets and we expect cash prices to improve cash bids at the elevators need to load rail cars.
- The Nov. AAFC report last Friday increased Canadian wheat exports by 250,000 mt to 19.450 million mt (19.128 mt mt LY). While the current export pace is on track to meet this, exports would have to remain at this fast pace for the entire season, which will be a challenge. Feed use was decreased an equal amount (250,000 mt) to 3.736 million mt (3.687 million mt LY). Ending stocks were unchanged at 5.5 million mt, 15% more than last year. Average wheat price was raised a dollar to \$226/mt.
- **Durum:** In the AAFC Nov. update for durum, exports were raised 10,000 mt to 5.310 million mt (5.344 million mt last year), while domestic (feed) use was decreased by an equal amount to 811,000 mt (825,000 mt LY). Ending stocks were unchanged at 800,000 mt (737,000 mt LY). Given the low global supply, we think that durum exports could be stronger than what AAFC is estimating.
- Week 15 durum exports were a year-to-date high of 219,600 mt (see chart). Year-to-date exports have caught up and now surpass last year's amount by 4,800 mt.
- Weekly durum exports will normalize, but demand remains strong and we continue to hear of very good bids. We would begin looking at sales starting at \$8.50/bu (# 2 CWAD's), which is a decent premium to hard red spring wheat. The good demand for Canadian durum will result in small ending stocks.



US Wheat:

- US wheat futures ended lower, despite Plains dryness and above normal temperatures maintaining concerns for the Hard Red Winter crop. USA winter wheat Plantings were 96% complete (94% both last year and average), with 85% emerged (82% and 84% respectively), whilst ratings gained 1 point to 46% good to excellent (52% last year).
- USA inspections were 326,000 tonnes (season total 442 myn bushels up just 1%), sales were poor at 192,000 tonnes but the season total of 634 myn bushels remains 10% above last year.
- Weekly exports were poor as USA FOB values stayed too high to find any incremental demand.
- It is a short week in the USA due to Thanksgiving Day.
- US HRS for November is valued at \$280/mt FOB PNW (-\$10/mt from last week), PNW White wheat is at \$257/mt FOB PNW (up \$2/mt from last week).

Australian wheat:

- Australian wheat futures fell to 9-week lows on favorable weather and a strong Australian dollar, but FOB values were firm.
- Australian wheat remains very competitive into Asia, but Thailand did buy US white wheat at \$265-270/mt Cost and Freight against Australian Soft wheat at \$260/mt FOB, plus Hard Red Spring 14.5 pro at \$290-295/mt against Australian Pro Hard 14 pro at \$290/mt C&F.

- Australian new crop FOB APW wheat values for Nov. closed \$5/mt higher than the week previous at 265.00/mt.

Argentine wheat:

- Vegetation maps showed crops to be in very poor shape everywhere except in Buenos Aires province (about 60% of the crop).
- Northern Argentina should see cumulative totals of 2-3" of rain, but central and Southern Argentina will get no more than ½ to 1". Argentina will also see temperatures well above normal, particularly in the west.
- BAGE put harvest at 20% complete, equal to last year against a 3% advance a week ago. The yield improved to 1.2 mt/ha against 1 mt/ha a week ago, but this remains very low.
- FOB prices in Argentina rose \$1/mt for 11.5 pro wheat with the bid-offer at \$248-\$256 for Nov delivery. Farmers are not sellers adding to the slow trade.

EU wheat:

- EU shipments rose by 660,000 mt for a season soft wheat total 8.5 million mt, down 22% compared to last year.
- *How the EU solves its corn problem in the feed sector will determine the ultimate price level and volume of EU wheat on offer. In our view, they will need to feed more wheat and export less.*
- FOB prices were stronger in the EU: French 11.5 pro closed at \$260.47/mt, up \$1.06/mt from last week. German 12.5 pro was \$2.07/mt higher to \$257.66/mt. Baltic 12.5 pro increased by \$2.00/mt on the week to \$253.00.

Black Sea wheat:

- Russian/FSU wheat continues to be the most competitive wheat. However, it should be kept in mind that Russian growers will sell more and front-end deliver while they have stocks. The returns they are getting are extraordinary compared to prices that they received in the past. (Current values are as much as US\$80.00/mt better). At present they are just filling in for smaller EU sales. Demand for other origins will come later.
- The debate goes on over the likely impact of the current forecast on crop potential. Large parts of the winter wheat regions have NO snow cover with bitterly cold temperatures and strong winds.
- Ongoing record high Russian interior prices for wheat, flour and corn brought forth more demands from domestic users for measures to get domestic prices lower. Both export taxes and export quotas are being demanded by the feed and food sectors. Late last week there was talk of plans for a Government subsidy for millers as an alternative.
- CME Black Sea futures rose just \$1/mt for old crop wheat, but \$3/mt for new crop.
- FOB values rose \$2/mt to finish the week. Russian 12.5 pro was bid at \$253/mt.

➤ **Significant purchases/ trades:**

- There was little tender business last week.
- US wheat sales were poor at 192,000 mt, but the season total of 634 million bushels remains 10% above last year.
- EU shipments rose 660,000 mt for a season soft wheat total 8.5 million tonnes, 22% down on last year.

➤ **Wheat Market Outlook:**

Significant events:

- Weekly exports were poor as USA FOB values remained too high to find incremental demand.

- Australian wheat remains very competitive into Asia, but Thailand did buy US white wheat at \$265-270/mt Cost and Freight against Australian Soft wheat at \$260 FOB, plus Hard Red Spring 14.5 pro at \$290-295 against Australian Pro Hard 14 pro at \$290 C&F.
- Russian/FSU wheat continues to be the most competitive. The returns Russian growers are getting are extraordinary compared to prices that they received in the past. (Current values are as much as US\$80.00/mt better).
- How the EU solves its corn problem in the feed sector will determine the ultimate price level and volume of EU wheat on offer. In our view, they will need to feed more wheat and export less.
- Prices for Canadian wheat are good, and demand is definitely expanding. But the world price quality spreads make a nonsense of the discounts applied for the old CWB wheat grades and are being used by elevator companies to discount values paid to Canadian growers.

➤ **Outlook:**

The strong corn market should provide some support to wheat. However, for now the trade will be negative on wheat due to the 'other origin' offers. - In our view, wheat is undervalued. It's a short week in the USA due to Thanksgiving Day.

We do not see any reason for grain prices to drop in the near future. We don't see a reason to be in a rush to sell Canadian grain. Canada is fully competitive in all markets and we expect cash prices to improve cash bids at the elevators need to load rail cars. However, where there are good margins, we would be 75 percent sold.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 23-11-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)
1 CWRS 13.5	\$6.57	\$241.41	1 CWRS 13.5	6.72	\$246.92
1 CWAD 13.0	\$7.91	\$290.65	1 CWAD 13.0	8.04	\$295.42
1 CPSR 11.5	\$6.12	\$224.87	1 CPSR 11.5	6.27	\$230.38
SW Sask			SW Sask		
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	6.59	\$242.14
1 CWAD 13.0	\$7.99	\$293.58	1 CWAD 13.0	7.97	\$292.85
1 CPSR 11.5	\$6.03	\$221.57	1 CPSR 11.5	6.18	\$227.08
NE Sask			NE Sask		
1 CWRS 13.5	\$6.38	\$234.43	1 CWRS 13.5	6.50	\$238.84
1 CWAD 13.0	\$7.97	\$292.85	1 CWAD 13.0	8.21	\$301.67
1 CPSR 11.5	\$5.94	\$218.26	1 CPSR 11.5	6.09	\$223.77
SE Sask			SE Sask		
1 CWRS 13.5	\$6.28	\$230.75	1 CWRS 13.5	6.44	\$236.63
1 CWAD 13.0	\$8.01	\$294.32	1 CWAD 13.0	8.19	\$300.93
1 CPSR 11.5	\$5.91	\$217.16	1 CPSR 11.5	6.05	\$222.30

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	0.10	3.77
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.05)	-1.84
1 CWRS 12.5	(0.30)	-11.02
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.10	3.67
2 CWAD 13.0	(0.20)	-7.35
2 CWAD 12.5	(0.30)	-11.02

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/mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mt, 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*

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.

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)
 - 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.

“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.”

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

Relevant FOB Prices and Export Basis				23-11-2020
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	\$331.06	\$398.91		
HRS	\$323.84			
HRW 11.5	\$339.72			
SWW 12.0	\$307.48			
1 CWRS 13.5 ³	\$331.06		\$237.73	\$93.33
2 CWRS 13.0 ³	\$323.84		\$223.04	\$100.81
3 CWRS ³	\$339.72		\$213.85	\$125.87
CPS ³	\$300.75		\$223.77	\$76.98
1 CWAD ⁴		\$392.17	\$279.62	\$112.55
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$253.00	November		
French 11.5 (Rouen)	\$260.47	November		
ASW 10.5 (W Coast)	\$259.00	November		
Argentine 12.0	\$252.00	November		

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				23-11-2020
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.63	\$9.06	\$6.25	\$6.25
Parity Track Rosetown	\$7.13	\$7.57	\$6.69	\$6.69
Track Bid Rosetown Area	\$6.07	\$5.82	\$6.09	\$6.09
Gross Margin at Elevator (\$/bu)*	\$1.06	\$1.75	\$0.60	\$0.60
Gross Margin at Elevator (\$/mt)*	\$39.09	\$64.15	\$21.99	\$21.99
* to cover elevation, elevator market risk, margin				