

Wheat Market Outlook and Price Report: August 10, 2020

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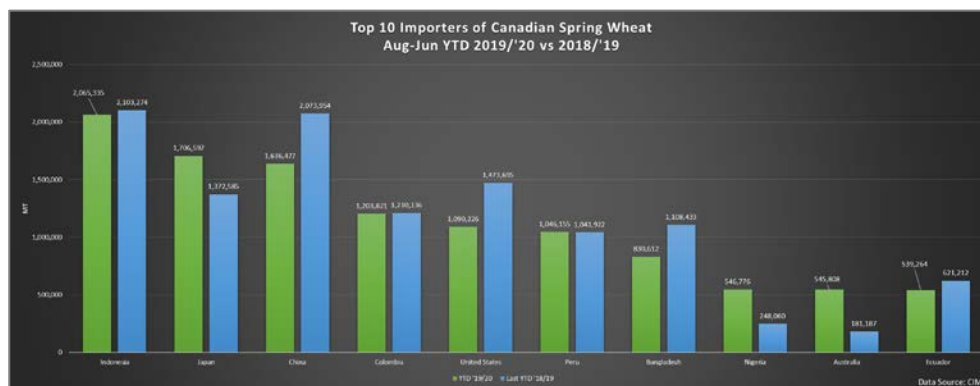
i) Background and Rationale for the Report

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 August 7, 2020

Stats Canada Spring Wheat Exports

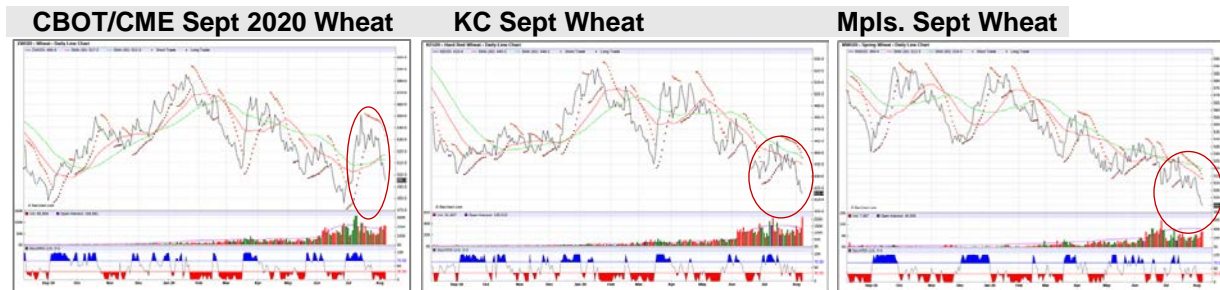


- **Stats Canada** released their June numbers for spring wheat exports. Total non-durum exports were 1.757 mln mt for a YTD total of 16.713 mln mt. This is 94% of last year's year-to-date total.
- **China** took the lion's share of the wheat exported in June, importing a total of 441,681 mt through the month. Chinses Aug-Jun imports now total 2.073 mln mt, 79% of last year's amount.
- **Indonesia and Japan** were the 2nd and 3rd destinations at 151,926 mt and 117,792 respectively. Indonesian YTD imports are similar to last year, while Japan is one of the only major customers with larger imports than last year.
- **Australia** continues to be the 9th top destination for Canadian wheat in 2019/20. With a large crop being grown, the country will soon become a competitor rather than a customer.
- As per CGC data, we expect that Stats Canada's **July wheat export numbers** will be large as well.

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.

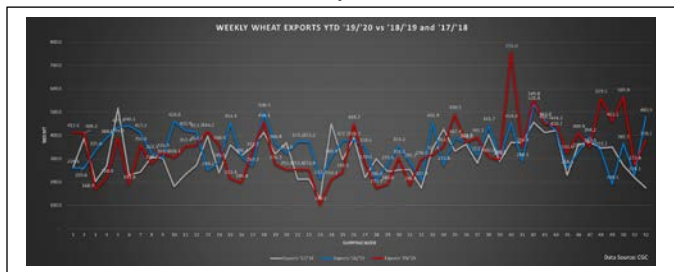
- Futures:** Sept. '20 contract Chicago winter wheat closed at 495-4, down 5-6 cents on Friday, *down 35-6 cents for the week.*
 Sept '20 contract Kansas hard red winter wheat closed at 415-4, down 1-6 cents in Friday's trade, *down 27-0 cents for the week.*
 Minneapolis Sept. '20 contract hard red spring wheat closed at 494-4, down 1-4 cents in Friday's trade, *down 19-4 cents for the week.* Dec. '20 hard red spring wheat closed at 510-4, down 0-2 cents on Friday, down 17-2 cents for the week.



- Futures market summary:** There was heavy fund selling as prospects of increased wheat production and exports out of the Black Sea pressured all wheat futures prices week over week.

- Canadian Wheat:**

- N American **spring wheat crops** continue to look strong. Results from the Grain World Canadian crop showed that the Canadian all wheat crop could reach 38.9 mln mt, surpassing the current record of 37.6 mln mt in 2013. This is almost 5 mln mt more than USDA's current estimate. We think their acreage numbers are to high. The next Stats Canada crop update will be out at the end of the month.
 - Weekly Canadian wheat exports** for the last week of the market year were 378.70k mt for a season total of 18.06 mln mt, just 1% (187.2k mt) less than last year. There continues to be 2.37 mln mt of visible supplies in Canadian ports which should allow for a strong start to the 2020/21 MY as the remaining old crop clears the system.
 - Wednesday's USDA report could bring some sizeable changes to crop numbers however we expect the USDA to be conservative in the August report. It should be noted that *If correct, this week's Russia, Australia and Canada crop trade estimates are a combined 24 mln mt above last year, which more than offsets the EU losses.* The only weather issue seems to be dryness in Argentina. We continue to favor a short in CBOT wheat.



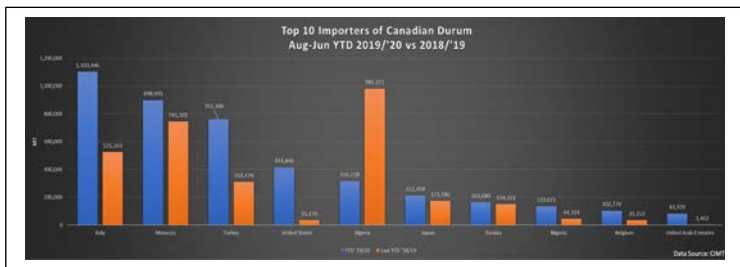
World wheat values backed-off to Saskatchewan

	Aug	Aug	Aug	Aug	Aug	Aug	Aug	Aug	Aug	Aug
Current world price values usmt			durum low							
price value equal fob ebay variable usmt			\$260.00							
price value equal fob vancover variable usmt	\$223.93	\$203.91		\$218.00	\$208.00	\$200.00	\$210.00	\$180.00	\$265.00	\$396.92
exchange variable	0.7468	0.7468	0.7468	0.7468	0.7468	0.7468	0.7468	0.7468	0.7468	0.7468
value in Canadian funds per tonne	\$269.85	\$273.04	\$348.15	\$291.91	\$279.52	\$267.81	\$281.20	\$241.03	\$354.05	\$531.50
per bushel	\$8.16	\$7.43	\$9.47	\$7.94	\$7.58	\$7.29	\$7.65			
costs backoff cost to track country elevator										
port robbing at cost			\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
full freight basis 10 cars basis Saskatoon/Rosetown			\$25.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00
full freight country to 10 day										
storage and interest max 60 days			\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
cleaning at cost			\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
country elevation at cost			\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
total backoff costs			\$44.50	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50	\$49.50
net value can \$			\$303.65	\$242.41	\$229.02	\$260.31	\$231.70	\$191.53	\$305.35	\$482.00
Estimate value per bushel track country elevator Can\$			\$8.26	\$6.60	\$6.23	\$5.94	\$6.31	\$4.17	\$8.31	\$10.93
theoretical old cwb price basis \$60.00 backoff to SK basis current world price				\$6.31	\$5.95	\$5.66	\$6.02	\$3.97		
canadian company track bids										
Mkt value where Elevator bids shud be Saskatoon/Rosetown				\$6.00	\$5.75	\$5.50	\$5.75	\$3.60	\$7.75	\$10.50
weyburn area basis 2cw or better premiums basis lower frt to vncv			\$7.60							
elevator margin above costs										
Grain Company estimated margin over elevators at cost			\$24.43	\$21.97	\$17.77	\$16.24	\$20.44	\$20.94	\$20.61	\$19.01

- Durum:** Canadian export shipments for week 52 remained strong at 112.80k mt for a TYD total of 5.27 mln mt. 17% ahead of last year's 4.52 mln mt.
- The Grain World Crop Tour** put Canadian durum yield at 45.3 bpa, for a total output of 7 mln mt, well above most analyst's current estimates (including ours).
- Ratings for the **northern US durum crop** rose 6% from last week to 71% Gd/Ex. The MT crop is 64% Gd/Ex. Roughly half of the crop has turned color and harvest will be in full swing in the next 10-14 days.
- Stats Canada showed **June durum exports** were lower at 379,835 mt. The bulk of this went to Italy. Exports to Italy, Morocco, Turkey, and the US continue to be well ahead of last year. We expect that July exports will be strong making up for the smaller June program.
- International demand prospects for durum look quite positive and should roughly match the demand seen during 2019/20. The large durum crop will weigh on the market, but the Canadian balance sheet is not overly burdensome.*

(CGC) Grain Handling Summary Amber Durum					Week 52		(to Aug. 2/20)	
	Producer Deliveries	Terminal Receipts	Exports	Domestic				
('000 mt)				Dissappearance				
Current Week	95.70	66.10	112.80	10.80				
Week Ago	113.80	123.20	158.80	12.00				
YTD	5,253.80	6,353.50	5,269.90	469.50				
Last YTD	4,777.70	5,167.60	4,518.80	383.50				
YTD less Last YTD (k mt)	↑ 476.1	↑ 1185.9	↑ 751.1	↑ 86				
YTD over Last YTD (%)	↑ 10%	↑ 23%	↑ 17%	↑ 22%				

Based on weekly CGC Handling Data



o **US Wheat:**

- US wheat harvest:** US winter wheat harvest is 85% complete. Spring wheat harvest is 5% complete (2% last year and 10% avg.) Spring crop harvest is underway with 9% harvested in Washington, 7% in Idaho and 15% in Oregon. Industry reports initial overall yield is average to above average.
- US wheat condition:** US spring wheat crop ratings rose 3% from last week to 73% Gd/Ex – the same as last year. HRS conditions in Minnesota are up this week to 75% Gd/Ex; North Dakota

HRS fell to 68% Gd/Ex; Montana was steady at 80% Gd/Ex; conditions in South Dakota improved this week and now 66% of the state's HRS is rated as Gd/Ex.

- **US weekly export sales** were at the high end of expectations at 605,500 mt. This was 11% less than last week, but 2% ahead of the 4-week average. The largest buyer (of 85,000 mt) was China. Export inspections were 598,100, up 18% from the previous week and 15% more than the 4-week average.
- US HRW is now cheaper than German 12.5 pro but more expensive than Baltic 12.5 pro on a FOB basis.
- The Fob value for 13.5 pro HRS in the PNW for September increased by \$5.00/mt from last week to \$244.00/mt, while PNW White wheat fell \$8.00/mt to \$226.00/mt.
 - **Australian wheat:**
 - **Forecasts remain positive for crop development.** Production forecasts for Australia's wheat crop suggest strong competition for Black Sea wheat into the Asian markets come December.
 - Aussie Fob and futures were under pressure as beneficial rains remain in the forecast for the west which the east has already seen widespread coverage. September APW is worth around \$260.00/mt Fob Western Australia, unchanged from last week.
 - **Argentine wheat:**
 - **Conditions in Argentina are far from favorable.** Dry weather and locust damage remain a concern. Farmers brace for a fifth swarm of the pests while nearly half a million ha of wheat is in poor condition from a lack of moisture.
 - **Planting in Argentina** remains at 98% complete having made no progress last week. Gd/Ex ratings fell 1% to 23% vs last year's 47%. Dryness is expanding as crops in the north are about to enter their reproductive stage. BAGE kept crop estimates unchanged at 21 mln mt, but this will not be reached.
 - Argentine FOB wheat for nearby deliver was last bid at \$227.00/mt for 11.5 pro.
 - **EU wheat:**
 - Following Agitel's reduced wheat crop numbers to 29.22 mln mt last week (the lowest level in 25 years). **France's Farm Ministry** lowered its estimate for this year's soft wheat harvest to 29.71 mln mt, 25% less than last year's 31.31 mln mt number and 16% less than the 5-year average.
 - **The French Wheat Harvest** is 99% complete. Quality is better than last year with protein levels above 11.5% in most regions.
 - According to the German Statistics Dept. **German wheat production** is forecast to fall 12% on the year to 20.2 mln mt (vs the Farmer's Association's estimate of 22+ mln mt) on lower planted area and lower average yields.
 - **Romania's AgMin** sees their wheat crop at 5.5-5.6 mln mt, down 42% from last year's 9.4 mln mt. The decrease is from extreme drought. In the last few years Romania has had wheat crops in the 8.0-9.4 mln mt range and has exported 5.6-6.1 mln mt of wheat per year. Exports will be down sharply this year.
 - Fob values in the EU were lower for the week. French 11.5pro and German 12.5 pro each fell \$5.59/mt from last week to \$217.84/mt and \$211.95/mt respectively. UK 11.0 pro lost \$5.77/mt, now at \$234.72.
 - **Black Sea wheat:**
 - **The Russian wheat** crop is 46.1% harvested as of Aug 3rd. Average wheat yields in Russia are 3.66 t/ha vs last year's 3.62 t/ha. Crop expectations are ranging from 75-81 mln mt. We think an 80 mln mt crop is reasonable.
 - **Ukrainian agriculture consultancy, ProAgro**, increased its forecast for Ukraine's total wheat exports to 18.4 MMT from last month's estimate of 17.8 mln mt. This is still down 10% from last year's 20.5 mln mt.

- **Ukraine is reporting low soil moisture** and poor conditions for winter wheat seeding. Soils are dry up to a meter in dept in the southern parts of the country.
- Russian 12.5 pro wheat for nearby shipment was down \$2.00/mt from last week at \$205.00/mt.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 410,000 mt Russian/Ukraine wheat at \$226.75 (*\$213 Fob which is a very good price for these origins*) for 11-30 Sep.
- **Thailand** passed on its feed wheat tender (offers ranged from \$235-245).
- **Pakistan** bought 60,000 mt FH Sep 11.5 pro at \$233.50 and will tender Aug 18 for 1.5 mln mt.
- **USA** export inspections were 500,000 mt (season total 170 mln bu, up 9%), sales were 605,000 mt (season total 376 mln bu up 9% on last year's 344 mln bu). They included 30,000 mt of HRS and 55,000 mt SRW to China.
- **EU** shipments were just 1,000 mt and the soft wheat total of 635,000 mt YTD is down 68% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- **The prospect of increased wheat production and exports** out of the Black Sea (see below) pressured all wheat futures prices week over week. CBOT soft red winter (SRW) futures fell 36 cents to close at \$4.95/bu. KCBT hard red winter (HRW) futures lost 27 cents to end at \$4.15/bu. MGE hard red spring (HRS) futures dropped 19 cents to close at \$4.94/bu.
- **Lebanon's economy Minister** says that the 15,000 mt of wheat that was in Beirut's port granaries is unusable. The country has roughly one month's worth of wheat reserves, but the minister has assured that the country has enough wheat to last until they start importing. Gathering wheat may prove challenging as the country is suffering a recession and the country's only port-based silo was destroyed in the blast.
- **A Bloomberg survey of analysts** shows the average estimate for USA wheat production is 1.832 bln bu, with 1.218 bln bu of winter wheat. These are little changed from last month. The average estimate for world wheat stocks is firm at 314.7 mln mt.
- **Analysts expect a corn yield of 180.5 bpa** (July USDA 178.5) yields on average for 15.176 bln bu of production. The average estimate for ending stocks is 2.824 bln bu, which would be up 175.8 mln bu from the July estimate if realized.
- **Weather Outlook:**
 - Forecasts as generally benign everywhere. It is too dry in **Argentina**. Some rains will slow harvest in the **EU**. Outlooks for **North America, Canada** and **Australia** all are good currently.

➤ **Outlook:**

Attention will be on the USDA's report on the 12th which could bring some sizeable changes to crop numbers however we expect the USDA to be conservative in the August report. It should be noted that If correct, this week's Russia, Australia and Canada crop trade estimates are a combined 24 mln mt above last year, which more than offsets the EU losses. The only weather issues seem to be dryness in Argentina. We continue to favor a short in CBOT wheat. *Seasonal harvest pressure will continue to weigh on the market as weather premiums expire and yields are strong.*

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)		Oct. '20 (bu.)	Oct. '20 (mt.)
1 CWRS 13.5	\$5.84	\$214.58	1 CWRS 13.5	\$5.92	\$217.52
1 CWAD 13.0	\$7.36	\$270.44	1 CWAD 13.0	\$7.08	\$260.15
1 CPSR 11.5	\$5.04	\$185.19	1 CPSR 11.5	\$5.06	\$185.92
SW Sask			SW Sask		
1 CWRS 13.5	\$5.70	\$209.44	1 CWRS 13.5	\$5.76	\$211.65
1 CWAD 13.0	\$7.35	\$270.44	1 CWAD 13.0	\$7.11	\$261.25
1 CPSR 11.5	\$4.93	\$181.15	1 CPSR 11.5	\$4.96	\$182.25
NE Sask			NE Sask		
1 CWRS 13.5	\$5.62	\$206.50	1 CWRS 13.5	\$5.67	\$208.34
1 CWAD 13.0	\$7.61	\$279.62	1 CWAD 13.0	\$7.43	\$273.01
1 CPSR 11.5	\$4.62	\$169.76	1 CPSR 11.5	\$4.87	\$178.94
SE Sask			SE Sask		
1 CWRS 13.5	\$5.61	\$206.13	1 CWRS 13.5	\$5.69	\$209.07
1 CWAD 13.0	\$7.60	\$279.25	1 CWAD 13.0	\$7.43	\$273.01
1 CPSR 11.5	\$4.83	\$177.47	1 CPSR 11.5	\$4.82	\$177.11

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/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* 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

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.”

- 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.

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

Relevant FOB Prices and Export Basis			August 10, 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	\$322.08	\$310.17		
HRS	\$315.40			
HRW 11.5	\$293.60			
SWW 12.0	\$294.64			
1 CWRS 13.5 ³	\$322.08		\$213.85	\$108.23
2 CWRS 13.0 ³	\$315.40		\$197.68	\$117.72
3 CWRS ³	\$293.60		\$159.10	\$134.50
CPS ³	\$287.39		\$181.88	\$105.50
1 CWAD ⁴		\$398.20	\$275.58	\$122.62
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$205.00			
French 11.5 (Rouen)	\$223.43			
APW 10.5 (W Coast)	\$260.00			
Argentine 12.5	\$227.00			
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				

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					August 10, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.57	\$8.39	\$7.79	\$7.82	\$7.82
Parity Track Rosetown	\$7.07	\$6.89	\$6.30	\$6.32	\$6.32
Track Bid Rosetown Area	\$5.82	\$5.38	\$4.33	\$4.95	\$4.95
Gross Margin at Elevator (\$/bu)*	\$1.25	\$1.51	\$1.97	\$1.37	\$1.37
Gross Margin at Elevator (\$/mt)*	\$46.00	\$55.48	\$72.26	\$50.52	\$50.52

* to cover elevation, elevator market risk, margin