

## Wheat Market Outlook and Price Report: August 31, 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 31, 2020

International Grains Council (IGC) August Global Wheat estimate:

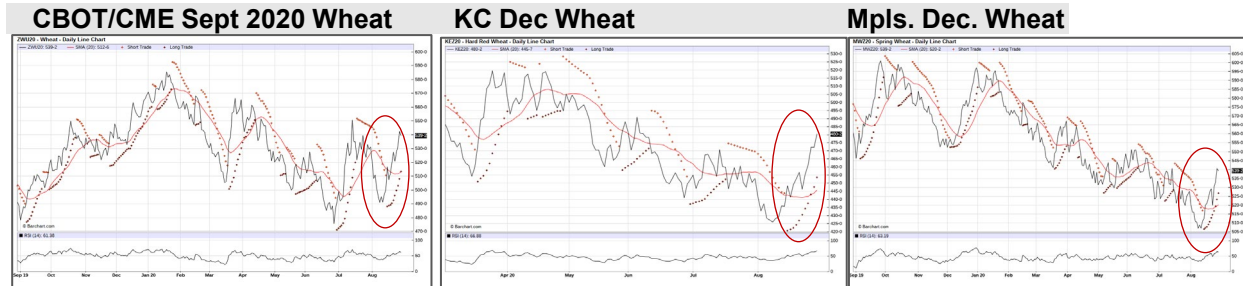
	17/18	18/19	19/20 est.	20/21 f'cast	23.07	27.08
million tons						
<b>WHEAT</b>						
<b>Production</b>	762	732	762	762	762	763
<b>Trade</b>	176	168	183	180	180	181
<b>Consumption</b>	742	738	745	750	750	749
<b>Carryover stocks</b>	268	262	279	288	288	294
<b>year/year change</b>	20	-7	18			14
<b>Major exporters <sup>b)</sup></b>	83	71	67	62	62	66

- The **International Grains Council (IGC)** increased their estimate of **world wheat production** late last week by 1 million mt to 763 million mt, one million mt greater than the current year.
- While their **export/ trade** number increased by 1 million mt to 181 million mt, **total consumption** dropped by 1 million mt.
- **2020/21 ending stocks** were increased to 295 million mt (a 39% stock-use ratio), an increase of 14 million mt compared to last crop year.
- Given these numbers, we do not see any shortage of wheat over the long term unless we see a crop failure in Australia.

➤ **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 539-2, down 3-2 cents on Friday, *up 12 cents for the week.*  
Sept '20 contract **Kansas hard red winter wheat** closed at 461-6 up 1-0 cents in Friday's trade, *up 16 cents for the week.*  
**Minneapolis** Sept. '20 contract **hard red spring wheat** closed at 518-4, down 4-2 cents in Friday's trade, *up 3-4 cents for the week.* Dec. '20 hard red spring wheat closed at 539-2, down 1-2 cents on Friday, *up 10-2 cents for the week.*



- **Futures market summary:** Technical buying and broad strength in the U.S. grains complex on Midwestern dryness supported all wheat futures prices week-over-week.

**Canadian Wheat:**

- Only 5% of Saskatchewan spring wheat was harvested as of Aug. 24<sup>th</sup>. Alberta Ag did not give a harvest progress report but said 82% of AB spring wheat was still in Gd./Exc. condition.

- Shipments of Canadian wheat continued well with 1.3 million mt loaded for export during the first three weeks of the crop year. New crop wheat is starting to flow into the system, and there are already 2.4 million mt in the handling system, so there should be no shortage of wheat to sell.

(CGC) Grain Handling Summary Wheat				Wk. 3	(Aug. 23/'20)
'000 mt)	Terminal		Bulk exports	Dom.	
	Prod. Dhvs.	Rcpts.		Disappearance	
<b>Wk. 3</b>	337.5	548.5	329.2	145.9	
Week ago	367.6	594.4	513.2	153.4	
<b>YTD</b>	<b>1,049.8</b>	<b>1,988.1</b>	<b>1,266.2</b>	<b>361.7</b>	
Last YTD	849.6	1,160.3	991.7	255.4	
<b>YTD less Last YTD</b>	<b>200.2</b>	<b>827.8</b>	<b>274.5</b>	<b>106.3</b>	
<b>YTD over Last YTD</b>	<b>124%</b>	<b>171%</b>	<b>128%</b>	<b>142%</b>	

Mercantile based on weekly CGC Handling Data

- **Statistics Canada** issued their first production forecast for the 2020/21 crop year this morning. The StatsCan estimates at 35.7 million mt for all wheat and 6.9 million mt for durum came in at the high end of the pre-report trade estimates of 35 million mt for all wheat, and 6.5 million mt for durum wheat. StatsCan sees well above average yields for both spring wheat on durum. The Mercantile spring wheat estimate is at 26.9 million mt, and the durum estimate is 5.9 million mt. – *The spring wheat will assure buyers that there is sufficient spring wheat around, and the durum estimate will signal that supplies are not going to be short.*

Aug. 21/'20: StatsCan Estimated production of principal field crops											
	Production						Yields				
	2016	2017	2018	2019	2020	Δ	2016	2017	2018	2019	2020
<b>Wheat, all</b>	32,139,900	30,377,300 <sup>f</sup>	32,201,100 <sup>f</sup>	32,347,800	35,739,800	110%	53.2	50.3 <sup>f</sup>	48.5 <sup>f</sup>	49.8	53.8
<b>Wheat, durum</b>	7,761,800	4,962,200	5,744,800	4,977,000	6,925,700	139%	49.5	35.3	34.8	38.9	46.0
<b>Wheat, spring</b>	20,705,200	22,559,735 <sup>f</sup>	23,942,400 <sup>f</sup>	25,670,400	25,935,176	101%	51.7	52.9 <sup>f</sup>	51.4 <sup>f</sup>	51.7	54.4
<b>Wheat, winter remaining</b>	3,672,900	2,855,300	2,513,900	1,700,500	2,878,900	169%	79.1	75.9	75.2	67.9	78.4

- We do not see any shortage of wheat over the long term unless we see a crop failure in Australia. The increase in the International Grains Council estimate of world production results in increased 2020/21 ending stocks to 295 million mt, 5.7% higher than the 279 million mt last crop year.
- → *Markets have improved considerably we would recommend selling 2 CWRS wheat at \$6.75 or better basis Saskatchewan.*

- **Durum:** Canadian. export durum shipments are roughly on par with last year's pace early in the season. 123,100 mt have been loaded for export year-to-date.
- The Canadian durum harvest is still in early stages with 15% harvested in Saskatchewan as of Aug. 24<sup>th</sup>. Alberta Ag did not give a harvest progress report but said 88% of

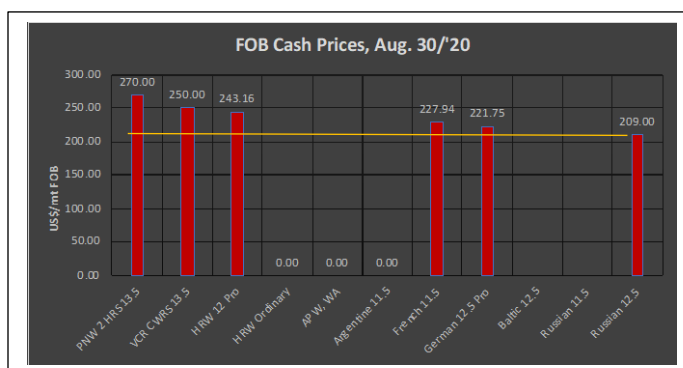
(CGC) Grain Handling Summary Durum			Wk 3	(Aug. 23/'20)
('000 mt)	Prod. Dlvs.	Terminal	Bulk exports	Dom.
		Rcpts.		Disappearance
<b>Wk 3</b>	51.0	44.6	36.2	9.5
Week ago	56.9	76.2	16.2	3.2
<b>YTD</b>	145.4	260.4	231.0	15.3
Last YTD	184.7	363.0	245.4	20.2
<b>YTD less Last YTD</b>	-39.3	-102.6	-14.4	-4.9
<b>YTD over Last YTD</b>	79%	72%	94%	76%

Mercantile based on weekly CGC Handling Data

- Alberta durum was still in Gd./Exc. condition. - We heard of some early yields that were very good.
- StatsCan estimates that we will harvest 6.9 million mt of durum wheat, 39% more than last crop year. *The durum estimate will signal buyers that supplies are not going to be short.*
- US durum: Crop condition ratings for the US durum crop held steady for North Dakota at 64% Gd./Exc., but decreased for Montana from 60% to 49%. The northern durum harvest is now 33% complete in both North Dakota and Montana, ahead of last year's pace. Like HRS, generally later planted fields and fields that received timely moisture are higher yielding. Overall, the crop looks good with few quality issues observed so far. Continued heat across the region is expected to accelerate crop maturity and harvest. Green fields are lingering in Montana due to cool nights, which are also delaying harvest progress on mature fields.
- A durum sale to Turkey works back to above \$8/bu in Saskatchewan. Current elevator bids are too low relative to the international market.

## US Wheat:

- **US harvest progress:** The US **HRW** harvest is nearly complete with data holding steady. **SW** harvest continues apace under hot, dry conditions; this is a typically good SW crop with low protein, low moisture and good test weight. **HRS** harvest is nearly 60% complete and initial sample data show test weight average of 61.5 lb/bu (80.9 kg/hl) and average protein 15.0%. Northern **durum** harvest is about 1/3rd complete with the crop looking good overall.
- **Weekly US sales:** USDA reported net sales of 764,000 mt for '20/21, up 46% from the previous week and 41% from the prior 4-week average. Analysts are expecting between 400,000 -700,000 mt of wheat bookings.
- Limited elevation capacity on strong, continued corn and soybean exports to China and high rates in the domestic secondary rail market supported Great Lakes and Gulf HRS, Gulf HRW, Gulf SRW and PNW HRW export basis for September and October deliveries.
- While current US wheat commitments are good, the rally in US prices served to preserve the very wide premiums to competing origins thereby lowering the chances of the US buying any further incremental export demand. In fact, sales to destinations other than China are down 4% on last year. Russian wheat is still the world's cheapest wheat.



- The FOB value for 13.5 pro HRS in the PNW for September increased by \$18.00/mt from last week to \$270.00/mt, while PNW White wheat increased by \$2.00/mt to \$272.00/mt.

**Australian wheat:**

- Australia saw light showers in the SE and SW corners and was very cold in the east.
- If the Australian crop does produce 26 million mt or above (-some talk of a 28/30 million mt if current conditions prevail-) prices will suffer.
- December (new crop) APW is worth around \$238.00/mt FOB Western Australia, up \$8/mt from last week.

**Argentine wheat:**

- Rain fell in the south and core wheat regions, but elsewhere it was completely dry.
- BAGE again lowered crop ratings to just 18% Gd./ Exc. (compared to 20% last week, 46% last year), with soil moisture rated 38% Poor/Very Poor (36% last week and just 15% last year). BAGE is projecting yield losses of 20-50% in the center and north.
- BAGE left their crop at 21 million mt, but several private estimates are trimming their ideas to between 17-19 million mt.
- Argentine 11.5 pro wheat for Dec. rose \$2/mt to \$200-207/mt.

**EU wheat:**

- Matif made its highest weekly close in 3 months.
- EU soft wheat shipments rose to 1.99 million mt but remain 47% below last year
- The Baltic countries continue to buy the bulk of EU export demand as French wheat prices only work to China.
- FOB values in the EU strengthened over the week. French 11.5 pro wheat increased by \$6.83/mt to US\$227.094/mt, German 12.5 pro rose \$5.02/mt from last week to \$221.75/mt, UK 11.0 pro rose \$4.32/mt, now at \$245.18.

**Black Sea wheat:**

- Black Sea Dec futures made contract highs and the Dec.-Sept. carry closed at \$10/mt.
- FOB values also rose \$6/mt.
- Farmers in Russia are not selling: Domestic markets continue to pay high prices, they saw the 1 million mt of Russian wheat trade to Egypt and Turkey over the past week, they are now actively engaged in winter crop seeding, and they prefer to sell sunflower seed as a cash crop with prices \$50/mt above last years.
- Nearby cash values for Russian wheat were ill-defined; bids were higher with Russian 12.5 pro wheat at \$208/mt.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 530,000 mt of Russian wheat for Oct 11-31 at \$227.50-228.75/mt basis 180-days payment terms. FOB prices were \$6-7 above the previous tender.
- **Pakistan** bought just 200,000 mt wheat for Sep-Oct from its 1.5 million tonne tender at \$233.85.
- **Turkey** (TMO) bought 390,000 mt of soft wheat (Russian) and 110,000 mt of durum.
- **Jordan** bought 60,000 mt FH Oct at \$237.50.
- **Korea** bought 65,000 mt Dec arrival feed wheat at \$246.
- **US inspections** were 570,000 mt (season total 229 million bushels, up 3%), sales were 764,000 mt (season total 436 million bushels up 7%).
- **EU new** season soft wheat **shipments** rose to 1.99 million mt but remain 47% below last year.

➤ **Wheat Market Outlook:**

**Significant events:**

- **Egypt's (GASC) purchase** was the biggest in over 5 years, and basis "normal" GASC costings it reflected around \$205 FOB.
- With harvest 65% complete, yields in **Russia** suggest a big crop of around 83 million mt (USDA is using 78 million mt); **Ukrainian** yields coming in 3% below last year signal a crop of 26 million mt of wheat (USDA is using 27 million mt).
- The **International Grains Council (IGC)** increased their estimate of world wheat production late last week by 1 million mt to 763 million mt, one million mt greater than the current year. 2020/21 ending stocks were increased to 295 million mt (a 39% stock-use ratio), an increase of 14 million mt compared to last crop year. - Given these numbers, we do not see any shortage of wheat over the long term unless we see a crop failure in Australia.

➤ **Outlook:**

Farmer holding and higher prices in the US and the EU is keeping prices firm and is helping Russian/FSU farmers to do most of the cash business at levels which are very good. Chinese buying is also helping prices nearby. - However, we do not see any shortage of wheat over the long term unless there is a crop failure in Australia. But if the Australian crop does produce 26 million tonnes or above, prices will suffer. The International Grains Council (IGC) also increased their estimate of world production late last week by 1 million mt to 763 million mt, one million tonnes greater than the current year. 2020/21 ending stocks were increased to 295 million mt 5.7% higher than the 279 million mt last crop year.

*Markets have improved considerably we would recommend selling 2CWRS wheat at \$6.75 or better basis SK.*

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

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

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**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 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)
  - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)

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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.”

- 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 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			31-08-2020	
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	\$314.78	\$375.15		
HRS	\$307.60			
HRW 11.5	\$299.93			
SWW 12.0	\$260.64			
1 CWRS 13.5 <sup>3</sup>	\$314.78		\$216.05	\$98.73
2 CWRS 13.0 <sup>3</sup>	\$307.60		\$195.85	\$111.75
3 CWRS <sup>3</sup>	\$299.93		\$177.47	\$122.46
CPS <sup>3</sup>	\$253.94		\$203.19	\$50.74
1 CWAD <sup>4</sup>		\$368.45	\$263.09	\$105.36
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$209.00	August		
French 11.5 (Rouen)	\$227.94	August		
ASW 10.5 (W Coast)		December		
Argentine 12.0		August		

<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



## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities				31-08-2020
<b>Canadian Funds</b>		<b>Grade</b>		
<b>PNW value/Vancouver</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>Sept/Oct delivery</b>	\$8.19	\$7.98	\$5.30	\$5.30
<b>Parity Track Rosetown</b>	\$6.69	\$6.48	\$5.41	\$5.41
<b>Track Bid Rosetown Area</b>	<b>\$5.33</b>	<b>\$4.83</b>	<b>\$5.53</b>	<b>\$5.53</b>
<b>Gross Margin at Elevator (\$/bu)*</b>	\$1.36	\$1.65	-\$0.12	-\$0.12
<b>Gross Margin at Elevator (\$/mt)*</b>	\$50.06	\$60.77	-\$4.24	-\$4.24
* to cover elevation, elevator market risk, margin				