

Wheat Market Outlook and Price Report: January 20, 2020
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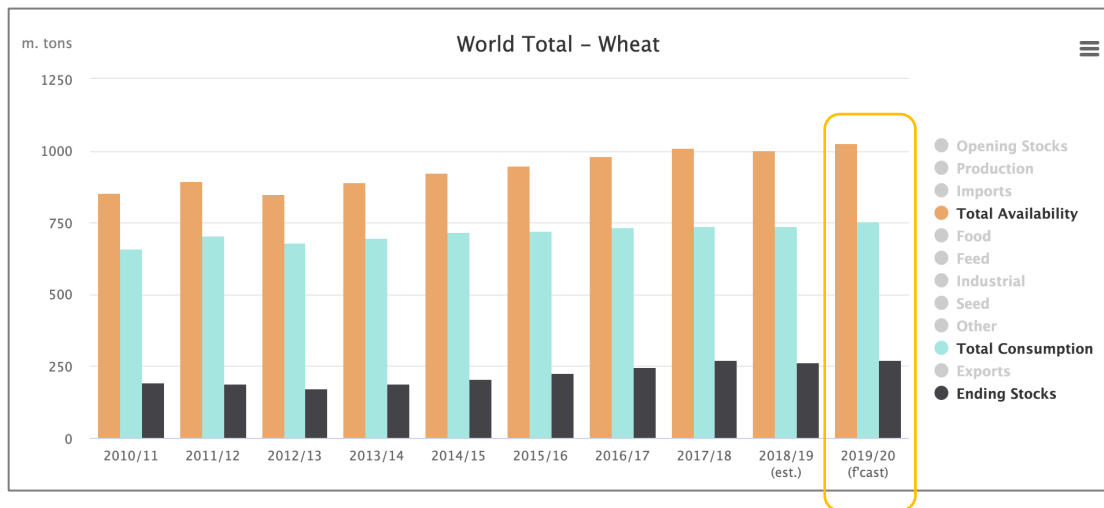
i) Background and Rationale for the Report

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 January 20, 2020

International Grains Council (IGC) – Global Wheat



- Above is how the **IGC** still views the global wheat situation for the ongoing crop year pared down to the essentials: Total 2019/20 supply/availability at 1,027 million mt against total consumption of 756 million mt. This is an all-time record consumption number, and we have seen that in the vibrant tender business this fall and winter. Still, ending stocks rise to 271 million mt.
- And good prices paid to farmers especially in Russia and the EU mean that -- barring major problems during the growing season -- production will increase in the 2020/21 crop year!

➤ **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.

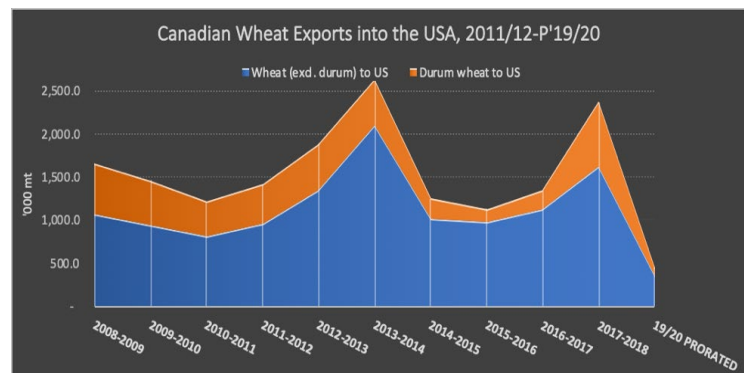
- **Futures:** Mar '20 contract **Chicago winter wheat** closed at 570-4, up 5-2 cents for the day, *up 6-0 cents for the week*.
- Mar '20 contract **Kansas hard red winter wheat** closed at 494-2, up 9-4 cents for the day, *down 0-4 cents for the week*.
- In **Minneapolis**, Mar '20 contract **hard red spring wheat** closed at 560-0, up 9-6 cents for the day, *up 1-6 cents for the week*, while May '20 hard red spring wheat closed at 568-4, up 9-2 cents for the day, *up 2-0 cents for the week*.

Canadian Wheat:

- The CGC reported that during week 23, growers delivered 475,800 mt of wheat (excluding durum) into the handling system, **exports** were said to be a small 100,500 mt, and domestic usage was 71,300 mt
- Commercial stocks have reached a big 2.8 million mt, much of it (1.6 million mt) sitting in primary elevators.
- Year-to-date exports have reached 6.9 million mt, which is a full 16% (-1.3 million mt) smaller than exports last year-to-date.
- Domestic disappearance is also 6% smaller than last year. *This does not bode well for Canadian wheat ending stocks in a year when the world's other major exporters are running well ahead of last year's pace.*
- At least **durum exports** are 46% (+696,000 mt) ahead of last year's pace, though this still does not make up for the shortfall in wheat.
- The U.S. Senate has finally passed CUSMA, the new trade agreement between the U.S., Mexico, and Canada. This is good news and Canada is the only participant to still formally endorse the new North American trade agreement. This will hopefully happen when Canadian parliament is back in session in late January. It certainly is important to Canadian wheat and durum exports to get this done.
- The US imports between six to 10% of all Canadian wheat (excluding durum) exports (10% in 2017/18), and between 3.5 to 19% of all Canadian durum exports (19% in 2017/18). Having said this, the ongoing crop year is off to very slow start for both wheat and durum exports to the US. Prorating the year-to-date performance to the full crop year, would only yield 358,000 mt of wheat and 96,000 mt of durum exports to the US. We expect durum exports to the US to speed up significantly during the remainder of this crop year.

(CGC) Grain Handling Summary Wheat				
('000 mt)	Wk. 23		(Jan.12/'20)	
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 23	475.8	166.5	100.5	71.3
Week ago	983.6	1,023.9	755.5	199.3
YTD	9,470.0	8,589.5	6,921.3	1,879.8
Last YTD	10,014.0	9,997.7	8,194.0	1,990.6
YTD less Last YTD	-544.0	-1,408.2	-1,272.7	-110.8
YTD over Last YTD	95%	86%	84%	94%

(CGC) Grain Handling Summary Durum				
('000 mt)	Wk. 23		(Jan.12/'20)	
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 23	79.0	54.0	67.0	2.8
Week ago	162.0	355.6	279.6	37.1
YTD	2,199.8	2,934.7	2,219.4	196.1
Last YTD	1,605.3	1,855.9	1,523.2	158.8
YTD less Last YTD	594.5	1,078.8	696.2	37.3
YTD over Last YTD	137%	158%	146%	123%



- Canadian elevator bids for low grade wheat are too low compared to world price values:

19-Jan-20										
Current world price values usfmt	USA DNS 14 PRO	hrw ords	durum	2cwrs 12.5 pro	3cwrs 300 hag	feed wht	feed barley	peas	canola	soybeans
price value equal fob t/bay variable usfmt	price bid	price bid	\$280.00		11.5 o/b pro				fob vncvr	fob PNW
price value equal fob vancouver variable usfmt	\$270.04	\$235.14		\$255.00	\$240.00	\$215.00	\$200.00	\$245.00	\$408.94	\$371.07
exchange variable	0.7658	0.7658	0.7658	0.7658	0.7658	0.7658	0.7658	0.7658	0.7658	0.7658
value in Canadian funds per tonne	\$352.62	\$307.05	\$365.63	\$332.99	\$313.40	\$280.75	\$261.16	\$319.93	\$534.00	\$484.56
minus backoff cost to track country elevator										
port fobbing at cost			\$8.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00
rail freight basis 112 cars basis Saskatoon/Rosetown				\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00
rail freight country to t/bay			\$25.00							
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 \$			\$321.13	\$283.49	\$263.90	\$231.25	\$211.66	\$270.43	\$484.50	\$435.06
Estimate value per bushel track country elevator Can\$			\$8.74	\$7.72	\$7.18	\$6.29	\$4.61	\$7.36	\$10.99	\$11.84
canadian company track bids										
bids Saskatoon/Rosetown area			\$8.00	\$6.75	\$6.00	\$5.00	\$4.25	\$6.75	\$9.85	
P&H weyburn			durum	2cwrs 12.5 pro	3cwrs	feed wht	feed barley	peas	Canola	avege margin
Grain Company margin over elevations at cost			\$27.21	\$35.49	\$43.46	\$47.55	\$13.17	\$22.43	\$50.17	

US wheat:

- US wheat futures closed higher over last week on technical buying, strong US exports and the end-of-week rally in corn futures.
- The signing of phase one was disappointing and left markets uninspired. Chinese demand remains uncertain, leaving North American wheat markets to look to the ongoing strength in EU and Black Sea cash markets.
- To recap last week, US wheat futures were unchanged to 6¢ higher on the week. Early strength came from Egypt (GASC sale) and another increase in Black Sea cash values, there were newswire reports of a cap on Russian wheat exports, and US export inspections stayed ahead of both last year and the USDA's 4% projected increase. But while China pledged to honour its WTO commitments (9.6 million mt of wheat from all origins in 2020), there was considerable disappointment over the Phase One US-China so called "trade deal" (no specific US quantities), which took futures sharply off the highs Thursday. Futures strengthened Friday on talk of Chinese buying of corn, which produced spill over strength into wheat.
- US wheat inspections last week were 474,000 mt (season total 566 million bushels, up 14%), sales were 651,000 mt (season total 720 million bushels up 9%).

Australian wheat:

- Good rains brought much improved prospects for pasture, which will lower the demand for domestic feed.
- Considerable debate surrounds Australian export numbers with Government destination statistics four months behind.
- While Australia will have an exportable surplus, it will only go to the most inelastic of demand as FOB prices are at \$260/mt.

Argentine wheat:

- The Argentine wheat market has been ill-defined because of the increase in export tax. Official FOB values of \$232 are some \$20 more than numbers we have been given.
- Export taxes are still 12% and while the emergency law to raise them to 15% has been passed, it has not yet been implemented.

EU wheat:

- Matif wheat hit 17-month highs midweek and premiums firmed. Note that none of the buying featured USA or North American wheat.
- The impact of the rail strikes in France was increasingly felt with 600,000 mt of vessels in the French line-up.
- We continue to tighten the balance sheet on soft, medium quality wheat, which will continue to keep old crop Chicago futures strong.
- FAM raised French non-EU exports 200,000 mt to 12.4 million mt, but the increase does not consider the potential impacts from the rail strikes.
- FOB values: French 11.5 protein bid at \$221/mt, German 12.5 protein is at \$224.90/mt, and Baltic 12.5 protein was \$223.80.

Black Sea wheat:

- Winterkill may not be a problem in Russia, but dryness needs to be watched and Russian farmers will eventually have to address the \$25/mt old crop-new crop inverse.
- SovEcon estimated that January Russian exports will be 1.9 million mt (last year's Jan exports were 2.417 million). If true, year-to-date Jul-Jan exports would total 22.5 million mt vs 27.1 million mt last year.
- SovEcon is estimating that total 2019/20 exports will be 33.5 million mt vs USDA's 34 million (last year's numbers were 35 and 35.8 million mt respectively).
- The Russian Gov't announced that it would restrict January to June all grain exports to 20 million mt, which will not be reached and is a moot point, regardless, this announcement was reason for much of the strength in the wheat market at the start of the week.
- Russian 11.5 protein is at \$223.00/ mt, \$4.00/mt more than last week.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 240,000 mt of Black Sea wheat for March 1-10 at an average price of \$249.50/mt C&F, some \$4/mt above the previous levels with freight rates little changed.
- **Turkey's** TMO bought 550,000 mt Jan-Mar 13.5 protein wheat at \$236-251 and 100,000 mt January and February durum at \$309-323/mt.
- **Jordan** bought 60,000 mt of LH July hard wheat at \$232.50/mt.
- **Tunisia** bought 100,000 mt soft at \$246-248 plus 117,000 mt of durum at \$332-335.50/mt.
- **US wheat inspections** were 474,000 mt (season total 566 million bushels, up 14%), sales were 651,000 mt (season total 720 million bushels up 9%).

<i>Jan. 16, 20202 – FOB Cash Wheat Comparisons</i>			
US\$/MT FOB US/Canada/Arg./W. Australia			
<i>Wheat</i>	<i>Month</i>	<i>Last</i>	<i>Change</i>
PNW 2 HRS 13.5	Feb.	254.00	-1.00
VCR CWRS 13.5	Feb.	257.59	0.09
HRW 11/12.5 Protein	Feb.	228.60	-5.80
HRW Ordinary	Feb.	226.70	-5.90
APW, WA	Feb.	260.00	0.00
Argentine 11.5	Feb.	211.00	0.00
French 11.5	Feb.	221.70	-4.10
German 12.5 Protein	Feb.	224.90	-3.00
Baltic 12.5	Feb.	223.80	-3.00
Russian 11.5	Feb.	223.00	2.00
Russian 12.5	Feb.	226.00	0.00

➤ **Wheat Market Outlook:**

Significant events:

- To recap last week: Early strength in the market came from **Egypt (GASC sale)** and another **increase in Black Sea cash values**, there were newswire reports of a cap on **Russian wheat exports**, and **US export inspections** stayed ahead of both last year and the USDA's 4% projected increase. But while **China** pledged to honour its **WTO commitments** (9.6 million mt of wheat from all origins in 2020), there was considerable disappointment over the **Phase One US-China** "trade deal" (no specific US quantities), which took futures sharply off the highs Thursday. Futures strengthened Friday on talk of Chinese buying of corn, which produced spill over strength into wheat.
- The U.S. Senate has finally passed CUSMA, the new trade agreement between the U.S., Mexico, and Canada. This is good news and Canada is the only participant to still formally endorse the new North American trade agreement.
- **Northern Hemisphere weather** will become progressively more important, while the USA will be watching for evidence of China fulfilling its Phase One and its TRQ commitments.

➤ **Outlook:**

- After a strong week in the wheat cash trade, we expect the market to remain stable as it watches to see if there is any follow up buying by the Chinese after their signing of the trade deal.
- We see the trade deal as somewhat bearish, but in the short term, the markets will be directed by the strong showing in old crop wheat demand. While recent trades do not include North American wheat, the better USA exports and demand for soft and lower quality wheat suggests that the USDA has underestimated the world's demand for wheat.
- Canadian wheat should be increasing to meet demand, but as usual, it seems we miss out on rail supply.
- *Growers should be seeing better values for low grade wheat and better prices in general, but we think the lack of additional rail capacity will allow the better demand to just generate better margins for grain elevators. We would recommend disposing of old crop supplies.*

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)		Mar. '20 (bu.)	Mar. '20 (mt.)
1 CWRS 13.5	\$6.54	\$240.31	1 CWRS 13.5	\$6.64	\$243.98
1 CWAD 13.0	\$7.23	\$265.66	1 CWAD 13.0	\$7.24	\$266.03
1 CPSR 11.5	\$5.88	\$216.05	1 CPSR 11.5	\$6.03	\$221.57
SW Sask			SW Sask		
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	\$6.53	\$239.94
1 CWAD 13.0	\$7.22	\$265.29	1 CWAD 13.0	\$7.23	\$265.66
1 CPSR 11.5	\$5.63	\$206.87	1 CPSR 11.5	\$5.96	\$218.99
NE Sask			NE Sask		
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	\$6.42	\$235.90
1 CWAD 13.0	\$7.57	\$278.15	1 CWAD 13.0	\$7.59	\$278.89
1 CPSR 11.5	\$5.63	\$206.87	1 CPSR 11.5	\$7.78	\$285.87
SE Sask			SE Sask		
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	\$6.43	\$236.26
1 CWAD 13.0	\$7.58	\$278.52	1 CWAD 13.0	\$7.61	\$279.62
1 CPSR 11.5	\$5.56	\$204.30	1 CPSR 11.5	\$5.75	\$211.28

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 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 Canadian FOB Prices minus primary elevator bids, the FOB prices are translated into Canadian 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 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.

“The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to processors 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				January 20, 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	\$356.72			
HRS	\$350.81			
HRW 11.5	\$310.70			
SWW 12.0	\$306.38			
1 CWRS 13.5 ³	\$356.72		\$237.37	\$119.36
2 CWRS 13.0 ³	\$350.81		\$207.97	\$142.84
3 CWRS ³	\$310.70		\$165.72	\$144.98
CPS ³	\$299.67		\$210.91	\$88.76
1 CWAD ⁴			\$284.77	
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$229.00			
French 11.5 (Rouen)	\$223.70			
APW 10.5 (W Coast)	\$255.00			
Argentine 12.5	\$215-\$220			
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				

*Note: The Great Lakes are closed, thus there are no bids posted. *

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					January 20, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.53	\$9.36	\$8.27	\$8.16	\$8.16
Parity Track Rosetown	\$8.03	\$7.87	\$6.78	\$6.66	\$6.66
Track Bid Rosetown Area	\$6.46	\$5.66	\$4.51	\$5.74	\$5.74
Gross Margin at Elevator (\$/bu)*	\$1.57	\$2.21	\$2.27	\$0.92	\$0.92
Gross Margin at Elevator (\$/mt)*	\$57.66	\$81.14	\$83.28	\$33.77	\$33.77

* to cover elevation, elevator market risk, margin