

## Wheat Market Outlook and Price Report: July 6, 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 July 6, 2020

#### AMIS<sup>1</sup> view on Global Wheat, July 2020:

| Wheat   | FAO-AMIS       |                   |         | USDA           |                   | IGC            |                   |
|---------|----------------|-------------------|---------|----------------|-------------------|----------------|-------------------|
|         | 2019/20<br>est | 2020/21<br>f'cast |         | 2019/20<br>est | 2020/21<br>f'cast | 2019/20<br>est | 2020/21<br>f'cast |
|         |                | 4 Jun             | 2 Jul   |                | 11 Jun            |                | 25 Jun            |
| Prod    | 761.5          | 758.3             | 761.5   | 764.4          | 773.4             | 761.9          | 767.6             |
|         | 627.9          | 624.3             | 632.0   | 630.8          | 637.4             | 628.3          | 632.6             |
| Supply  | 1,033.6        | 1,034.5           | 1,036.5 | 1,044.3        | 1,069.3           | 1,022.8        | 1,041.3           |
|         | 784.7          | 773.8             | 775.4   | 770.9          | 782.4             | 769.0          | 778.2             |
| Utiliz. | 756.9          | 754.3             | 754.1   | 748.4          | 753.2             | 749.2          | 751.4             |
|         | 631.4          | 627.4             | 627.2   | 622.4          | 623.2             | 620.0          | 620.2             |
| Trade   | 177.1          | 177.5             | 178.7   | 185.8          | 187.5             | 181.0          | 180.1             |
|         | 180.7          | 181.2             | 182.4   | 180.3          | 180.5             | 176.3          | 175.4             |
| Stocks  | 275.0          | 280.3             | 283.8   | 295.8          | 316.1             | 273.6          | 289.9             |
|         | 147.9          | 149.0             | 146.3   | 145.0          | 154.2             | 144.4          | 153.4             |

Note: Data shown in the second rows refer to world aggregates without China.

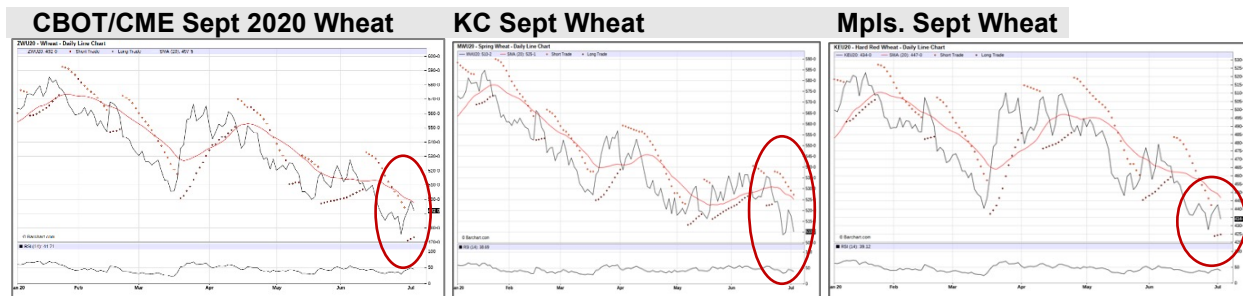
- **The global wheat production forecast for 2020** was revised upwards month-over-month, mostly reflecting higher production in India and improved prospects in Australia and the Russian Federation outweighing a downward revision for the EU and the UK.
- **Wheat utilization** in 2020/21 still expected to decline from the 2019/20 estimated level given a likely contraction in demand for both feed and industrial use.
- **Wheat trade** in 2020/21 (July/June) pointing to a modest expansion from 2019/20, boosted by large export supplies and competitive prices.
- **Stocks (ending in 2021)** were raised further, on bigger buildups in countries where production prospects have improved; now expanding by 3.2% from opening levels.

<sup>1</sup> Analysis by the Agricultural Market Information System (AMIS) covers a collective assessment of the market situation and outlook by the ten international organizations and entities that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank, World Food PGM, WTO, OGLAM.

➤ **Global wheat production and trade:**

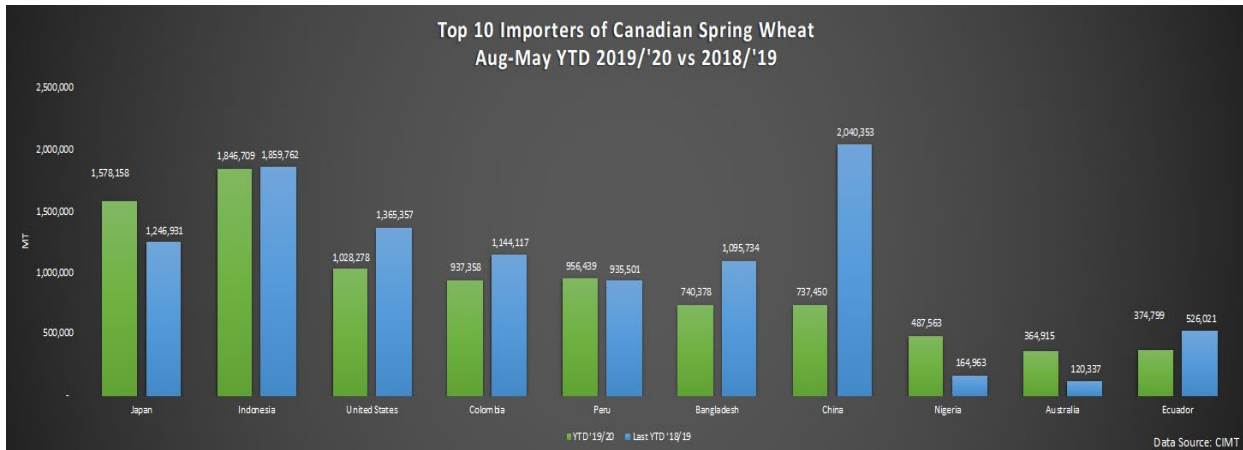
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** Sept. '20 contract **Chicago winter wheat** closed at 492-0, down 6-6 cents on Thursday.
- Sept '20 contract **Kansas hard red winter wheat** closed at 434-0, down 8-6 cents in Thursday's trade.
- **Minneapolis** Jul '20 contract **hard red spring wheat** closed at 495-5, down 11-4 in Thursday's trade, *down 2-8 cents for the week*, while Sep '20 hard red spring wheat closed at 510.2, down 7-2 cents on Thursday, *up 1-6 cents for the week*.

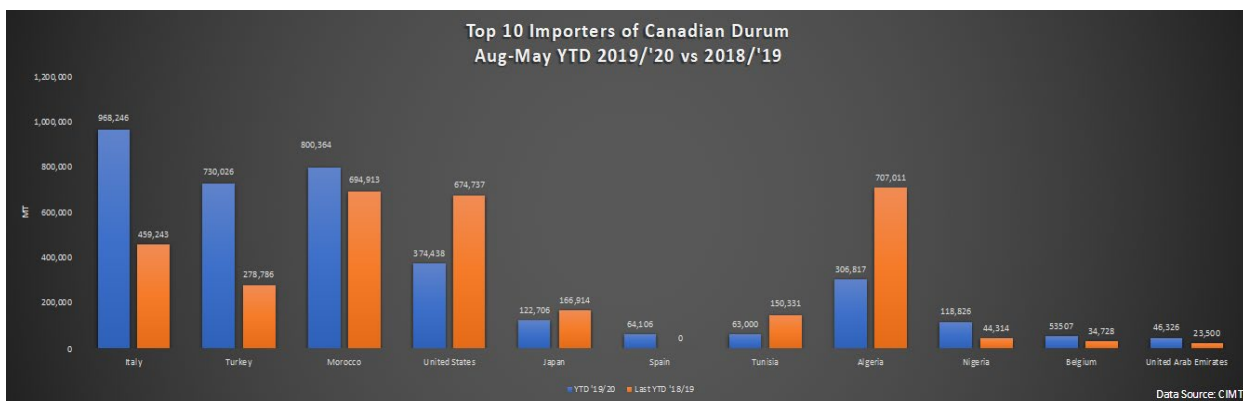


**Canadian Wheat:**

- **Canadian crop condition:** Most of Saskatchewan received rain this past week, improving moisture conditions, especially in the southern and west-central regions that received higher amounts. Some of the northern parts of the province have reported localized flooding and standing water in fields. In Saskatchewan, 72% of spring cereals are at their normal stages of development, so a reduced 22% are somewhat behind normal for this time of year. Saskatchewan spring wheat is rated 78% Gd/Exc., with 19% in fair condition and 3% in poor condition. In Alberta, 82% of spring wheat was reported in in Gd/ Exc. condition.
- **Statistics Canada acreage report:** According to Statistics Canada last week, Canadian farmers planted 25 million acres of wheat, up 1.5% from 2019 (but down from its previous estimate), thanks in part to a 16.2% boost in durum wheat, which StatsCan linked to favorable prices. An increase in durum wheat sowing was offset by lower spring wheat seeding. The total wheat acreage was below trade expectations. Spring wheat was cut by 4.5 percent to 17.9 million acres. Winter wheat was lowered 5 percent to 1.3 million acres while durum wheat was raised to 5.7 million acres. – Given the much-anticipated USDA acreage report the same week, the StatsCan reports did not have much of an influence on international wheat markets. - *We think the StatsCan production number is too high!*
- **May wheat export numbers:** StatsCan also published their May export numbers. At 2.3 million mt for the month, it was the second biggest export month of the crop year. Indonesia was the biggest buyer of Canadian wheat (352,000 mt), followed by China with 351,000 mt, and Colombia with 168,000 mt. Year-to-date exports have improved greatly over the past 2 months but are still 5% (-800,000 mt) behind last years pace, which will affect ending stocks. And crucially, a lot of the shipments are happening when wheat prices are at their lowest level for the crop year!



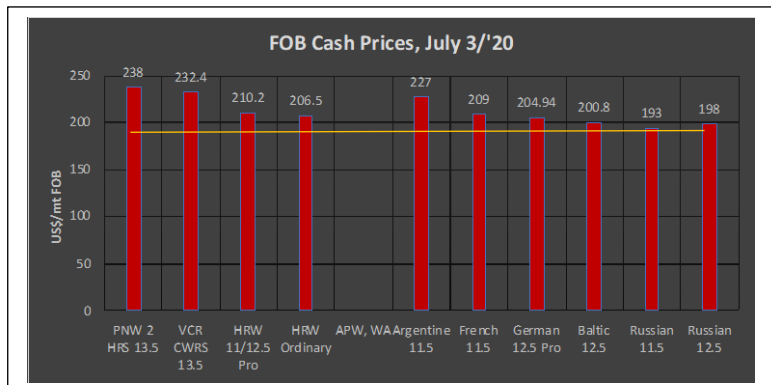
- The focus of the wheat market from here on will be actual harvest and yield data around the world and the apparent demand (or lack of). The market is becoming interesting.
- *Given the current Canadian elevator bids we prefer to wait before selling cash.*
- **Durum:** The SK durum crop rating is 74% Gd/Exc., 22% in fair condition, and 4% in poor condition. Recent rains clearly have helped, but some areas still did not receive rain. Alberta Ag called 84% of AB durum in Gd/Exc. condition.
- US durum: The condition of the N Dakota durum crop has declined in recent weeks. ND showed 48% of the crop rated in good to excellent condition, down from 51% the previous week and over 80% two weeks prior. 35% are in fair condition, and 17% in poor to very poor condition. Durum wheat jointed was 63%, behind 74% last year and 81% average. Headed was 17%, ahead of 9% last year, but behind 29% average.
- **Statistics Canada** changed their view on durum acres from 5.2 million acres in their previous report to 5.7 million acres in last week's report (a 10% reversal). Mercantile has been using 5.63 million acres for durum all along. – We expect continued good demand and a balanced balance sheet, even with the higher acres.
- **Canadian May durum exports** were the biggest monthly exports of the year at 644,000 mt. The biggest buyers were Morocco (175,000 mt), Italy (149,000 mt), and Algeria (108,000 mt). YEAR-TO-DATE exports at 4.3 million mt are 18% (+661,000 mt) ahead of last years.
- We note that Morocco's wheat harvest will be historically low; their wheat harvest is expected to be 60% below the 10-year average.



- Tightening stocks will continue to support old crop bids. Durum demand is strong, which will keep exports steady until the EU crop starts being harvested. Moderate carry-in stocks and strong export demand in 2020/21 are supportive to new crop durum.

## US wheat:

- **USDA acreage & stocks reports:** The US all wheat planted acreage was 44.25 million acres, after a modest cut to spring wheat. Winter wheat acreage was reported at 30.55 million acres, down 225,000 acres from the prior report. *Spring wheat acreage was 12.2 million acres, down by 390,000 acres from the March intentions report.*
- Wheat stocks on June 1 were reported at 1.044 billion bushels, which was well above the trade average guess of 987 million bushels!
- Following the report, funds continued to cover their shorts buying an estimated 6,000 contracts in Chicago taking their total for the week to over 20,000 Ct's, although their combined net short across the three markets remains significant. – From here on in, the market will focus on various harvest reports and also on how demand seems to develop for new crop.
- **US spring wheat condition:** Despite localized precipitation across the Northern Plains, the region remains extremely dry. U.S. spring wheat ratings fell 6 points from last week to 69% good to excellent. Total crop ratings in North Dakota fell from 69% good to excellent last week to 59% this week. Minnesota spring wheat ratings were relatively stable week-over-week at 80% good to excellent. In Montana, spring wheat rated as good to excellent fell 4 points from last week to 81%.
- NASS reported that, as of June 28, 41% of winter wheat was harvested. Winter wheat conditions were slightly higher on the week.
- Minneapolis futures struggled: There were good rains in the Plains and Canada, and StatsCan's all-wheat acreage of 25 million acres was in line with the USDA's crop estimate of 34 million mt (32.3 million mt last year), which in turn should validate the USDA's export number of 24.5 million mt, a new record (23 million mt last year). ***In our view, the StatsCan production number is too high and we doubt USA exports will be as high as last year's 23 million mt.***
- N American wheat remains relatively expensive in global markets.
- The FOB value for 13.5 pro HRS in the PNW for July increased by \$4.00/mt from last week to \$238.00/mt, while July White wheat from the PNW increased by \$3.00/mt to \$222/mt.



## Australian wheat:

- Australian wheat areas need some follow-up rains to keep up with high expectations.
- Australian wheat futures rose by \$6/mt, partly by following US markets.
- Dec-Jan APW is worth around \$230/mt FOB Western Australia.

## Argentine wheat:

- The percentage of Argentine wheat seeded rose 8% to 79% complete. Fieldwork in many areas stopped due to dryness.
- BAGE trimmed their acreage by 200,000 ha to 6.5 million ha. Crop ratings were unchanged at 21% Gd./Exc., compared to 39% last year.
- Argentine wheat (12% pro) closed at \$225-235/mt.

## EU wheat:

- Matif increased to 3-week highs last week and premiums were firm because of lack of farmer selling.
- While German/Baltic wheat prospects have improved, some fear that the Balkan wheat harvest will be below current reduced estimates.
- Some analysts fear that the poor yields coming in for barley will also be seen in wheat.

- However, at current prices French wheat will not sell. *Last week, Algeria purchased Baltic wheat instead at ~\$10/mt lower than French wheat prices.*
- FOB values in the EU were stronger: French 11.5 pro increased by \$7.49/mt to \$211.20/mt, while German 12.5 pro wheat increased by \$5.80/mt over the week to \$204.94/mt.

#### **Black Sea wheat:**

- Reports from Russia show early yields to be well down from last year. The weather throughout this growing season has not been good in the south (where harvest starts) and is not expected to be above trend yield nationally. We are using a crop number to 77.7 million mt earlier based on the improved spring wheat forecast. *However, our biggest concern is the demand side and the lack of business on the books. There are currently just 60,000 mt of vessels in the line-up, compared to Jul-Aug shipments last year of 8 million mt.*
- While crop prospects remain a subject of much debate, nearby Russian domestic values are falling because of the very limited export vessel line-up. Last year, Russia shipped 8 million mt of wheat during July-Aug, but we see shipments fall far short of this this year.
- Russian and Kazakh spring wheat areas saw good rains and near normal temperatures.
- Russian wheat for July shipment was unchanged at \$198.00/mt for 12.5 pro wheat.

#### ➤ **Significant purchases/ trades:**

- Algeria bought 360,000 mt of wheat for Sept shipment at \$217-218/mt.
- Jordan bought 60,000 mt of wheat for Nov at \$230/mt.
- Korea bought 60,000 mt of Nov arrival feed wheat at \$215/mt.
- Thailand bought 100,000 mt of Aug-Oct feed wheat at \$215-219/mt Liner Out.
- USA wheat inspections were 515,000 mt (season total 73 million bushels), sales were 414,000 mt (season total 267 million bushels) both equal to last year.
- As of June 28th, EU all wheat shipments stood 35.2 million mt, up 61% on last year.
- As of week 47, Canadian wheat exports (excl. durum) are down by 7% compared to last crop year (-980,000 mt).

#### ➤ **Wheat Market Outlook:**

##### **Significant events:**

- AMIS revised the **global wheat production forecast for 2020** revised upwards from last month, mostly reflecting higher production in India and improved prospects in Australia and the Russian Federation outweighing a downward revision for the EU and the UK.
- At 2.3 million mt, **Canadian wheat exports for May** were the second biggest export month of the crop year. Indonesia was the biggest buyer of Canadian wheat (352,000 mt), followed by China with 351,000 mt, and Colombia with 168,000 mt. Year-to-date exports have improved over the past 2 months but are still 5% (-800,000 mt) behind last year's pace, which will affect ending stocks. And crucially, a lot of the shipments are happening when wheat prices are at their lowest level for the crop year!
- According to **Statistics Canada** last week, Canadian farmers planted 25 million acres of wheat, up 1.5% from 2019 (but down from its previous estimate), thanks in part to a 16.2% boost in durum wheat, which StatsCan linked to favorable prices. *We think the StatsCan production number is too high.*
- **Canadian durum wheat** benefitted from last week's rains.
- **Canadian May durum exports** were the biggest monthly exports of the year at 644,000 mt.
- **USDA acreage report:** US spring wheat acreage was 12.2 million acres, down by 390,000 acres from the March intentions report. Wheat stocks on June 1 were reported at 1.044 billion bushels, which was well above the trade average guess of 987 million bushels!

- Australian wheat areas need some follow-up rains to keep up with high expectations.
- The percentage of Argentine wheat seeded rose 8% to 79% complete. Fieldwork in many areas stopped due to dryness.
- While **crop prospects in Russia and the Ukraine** remain a subject of much debate, nearby Russian domestic values are falling because of the very limited export vessel line-up.
- **Global Wheat News:**
  - Unfavourable growing conditions are putting the **EU and Britain** on course for a 10% drop in wheat output this year, with weather swings creating more uncertainty as harvests start, a Reuters survey showed. The 27-country European Union and Britain, which left the bloc in January, are expected to harvest 131.3 million tonnes of common wheat - or soft wheat - in 2020, according to an average of 15 forecasts by analysts and traders.
  - **Argentina's 2020/21 wheat sowing** estimate is 6.5 million hectares, the Buenos Aires Grains Exchange said in its weekly crop report on Thursday, citing dry weather as its reason for cutting its previous 6.7 million hectare forecast. "The lack of rainfall and ground moisture deficit affecting a large part of the western farm belt has expanded towards the center-east," the exchange said in the report, adding that 79.1% of this year's wheat crop has been sown so far.
  - USDA reports that due to adverse weather, **Morocco's wheat harvest** will be historically low. The wheat harvest is expected to be 60 percent below the 10-year average. The USDA added that the Moroccan government will suspend customs duties on common wheat for all of 2020.
  - **French soft wheat shipments** outside the EU finished the season at a four-year high in June, helping overall 2019/20 exports to reach a record level, Refinitiv data showed. Soft wheat exports to destinations outside the European Union totalled 1.17 million tonnes last month, an initial estimate based on Refinitiv loading data showed.
  - **Russian wheat exports** will fall in July after a slow start to the harvest but will rise in later months when there will not be export quotas, IKAR and SovEcon agriculture consultancies said. The world's largest wheat exporter, which competes with the European Union, Ukraine and others to supply Africa and the Middle East, began harvesting wheat late this year. Yields have been lower so far but are expected to climb.
  - **Stats Canada** trimmed its estimate for the Canadian wheat crop. An increase in durum wheat sowing was offset by lower spring wheat sowing. Total wheat area is down 1.8 percent to slightly under 25 million acres, up 1.5 percent for the year but still below trade expectations. Spring wheat was cut by 4.5 percent to 17.9 million acres. Winter wheat was lowered 5 percent to 1.3 million acres while durum wheat was raised 5.7 million acres.
  - Vedmosti Daily, a Russian publication, stated that if **Russia's grain harvest** is more 125.0 MMT with an export potential of at least 45.0 MMT, the Russian government may not apply a grain export quota for the 2020/21 trade season.
  - The **Baltic Dry Index** (BDI), an assessment of the average cost to ship raw materials like grains, coal and iron ore increased 3% on the week to close at 1,803.

➤ **Outlook:**

There are still many open questions on the supply side: With many crop estimates ranging widely, focus from here on will be on actual harvest data for both yield and quality. We expect a big short in harvested feed wheat in the Black Sea and better-quality crops in Europe. On the demand side, the trade will follow export vessel line-ups closely to determine if indeed there is a significant drop in demand this fall. French wheat will not sell basis today's cash market, and US wheat is also becoming expensive again. Argentine crop estimates are being cropped, and Australia needs rain soon in order to maintain the current lofty production estimates. The wheat market is getting interesting.

*Given the current Canadian elevator bids, we prefer to wait before selling cash.*

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

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

|                    |        |          |                    |               | Date:        | 06-07-2020 |
|--------------------|--------|----------|--------------------|---------------|--------------|------------|
| NW Sask            | Spot   |          | NW Sask            | Deferred      |              |            |
|                    | (bu.)  | (mt)     |                    | Oct.'20 (bu.) | Oct.'20 (mt) |            |
| <b>1 CWRS 13.5</b> | \$6.25 | \$229.65 | <b>1 CWRS 13.5</b> | 6.20          | \$227.81     |            |
| <b>1 CWAD 13.0</b> | \$7.71 | \$283.30 | <b>1 CWAD 13.0</b> | 7.28          | \$267.50     |            |
| <b>1 CPSR 11.5</b> | n/a    | n/a      | <b>1 CPSR 11.5</b> | n/a           | n/a          |            |
| <b>SW Sask</b>     |        |          | <b>SW Sask</b>     |               |              |            |
| <b>1 CWRS 13.5</b> | \$6.07 | \$223.04 | <b>1 CWRS 13.5</b> | 6.03          | \$221.57     |            |
| <b>1 CWAD 13.0</b> | \$7.71 | \$283.30 | <b>1 CWAD 13.0</b> | 7.31          | \$268.60     |            |
| <b>1 CPSR 11.5</b> | n/a    | n/a      | <b>1 CPSR 11.5</b> | n/a           | n/a          |            |
| <b>NE Sask</b>     |        |          | <b>NE Sask</b>     |               |              |            |
| <b>1 CWRS 13.5</b> | \$6.00 | \$220.46 | <b>1 CWRS 13.5</b> | 5.93          | \$217.89     |            |
| <b>1 CWAD 13.0</b> | \$7.92 | \$291.01 | <b>1 CWAD 13.0</b> | 7.67          | \$281.83     |            |
| <b>1 CPSR 11.5</b> | n/a    | n/a      | <b>1 CPSR 11.5</b> | n/a           | n/a          |            |
| <b>SE Sask</b>     |        |          | <b>SE Sask</b>     |               |              |            |
| <b>1 CWRS 13.5</b> | \$5.97 | \$219.36 | <b>1 CWRS 13.5</b> | 5.91          | \$217.16     |            |
| <b>1 CWAD 13.0</b> | \$7.97 | \$292.85 | <b>1 CWAD 13.0</b> | 7.70          | \$282.93     |            |
| <b>1 CPSR 11.5</b> | n/a    | n/a      | <b>1 CPSR 11.5</b> | n/a           | n/a          |            |

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT**

| Avg. Grade Spread/ Pro Discounts | Cdn\$/bu.  | Cdn.\$/mt  |
|----------------------------------|------------|------------|
| <b>1 CWRS 14.0</b>               | 0.05       | 1.89       |
| <b>1 CWRS 13.5</b>               | Base Grade | Base Grade |
| <b>2 CWRS 13.5</b>               | (0.10)     | -3.67      |
| <b>1 CWRS 12.5</b>               | (0.15)     | -5.51      |
| <b>1 CWAD 13.0</b>               | Base Grade | Base Grade |
| <b>1 CWAD 13.5</b>               | 0.00       | 0.00       |
| <b>2 CWAD 13.0</b>               | (0.10)     | -3.67      |
| <b>2 CWAD 12.5</b>               | (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>2</sup> (see *Export Basis* 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

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<sup>2</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.”



- 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.

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

| Relevant FOB Prices and Export Basis |  |                         |                      | 06-07-2020                             |
|--------------------------------------|--|-------------------------|----------------------|--|
| 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                             | \$331.87                                 | \$389.58                |                      |  |
| HRS                                  | \$324.40                                 |                         |                      |  |
| HRW 11.5                             | \$295.05                                 |                         |                      |  |
| SWW 12.0                             | \$295.54                                 |                         |                      |  |
| 1 CWRS 13.5 <sup>3</sup>             | \$331.87                                 |                         | \$225.24             | \$106.62                               |
| 2 CWRS 13.0 <sup>3</sup>             | \$324.40                                 |                         | \$205.03             | \$119.37                               |
| 3 CWRS <sup>3</sup>                  | \$295.05                                 |                         | \$186.66             | \$108.39                               |
| CPS <sup>3</sup>                     | \$288.58                                 |                         | \$203.19             | \$85.38                                |
| 1 CWAD <sup>4</sup>                  |  | \$382.62                | \$303.14             | \$79.48                                |
| Competing wheat:                     | US\$/mt                                  |                         |                      |  |
| Russia 12.5 (Black Sea, 25k mt)      | \$198.00                                 | July                    |                      |  |
| French 11.5 (Rouen)                  | \$211.20                                 | July                    |                      |  |
| ASW 10.5 (W Coast)                   | \$225.00                                 | N/C                     |                      |  |
| Argentine 12.0                       | \$227.00                                 | July                    |                      |  |

<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    |              |              |                    | 06-07-2020 |
|--|--------------|--------------|--------------------|------------|
| <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>                 | \$8.64       | \$7.84       | \$5.80             | \$5.80     |
| <b>Parity Track Rosetown</b>             | \$7.14       | \$6.34       | \$6.36             | \$6.36     |
| <b>Track Bid Rosetown Area</b>           | \$5.58       | \$5.08       | \$5.53             | \$5.53     |
| <b>Gross Margin at Elevator (\$/bu)*</b> | \$1.56       | \$1.26       | \$0.83             | \$0.83     |
| <b>Gross Margin at Elevator (\$/mt)*</b> | \$57.42      | \$46.44      | \$30.40            | \$30.40    |

\* to cover elevation, elevator market risk, margin