

Wheat Market Outlook and Price Report: June 1, 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 June 1, 2020

International Grains Council (IGC) May numbers on Global Wheat:

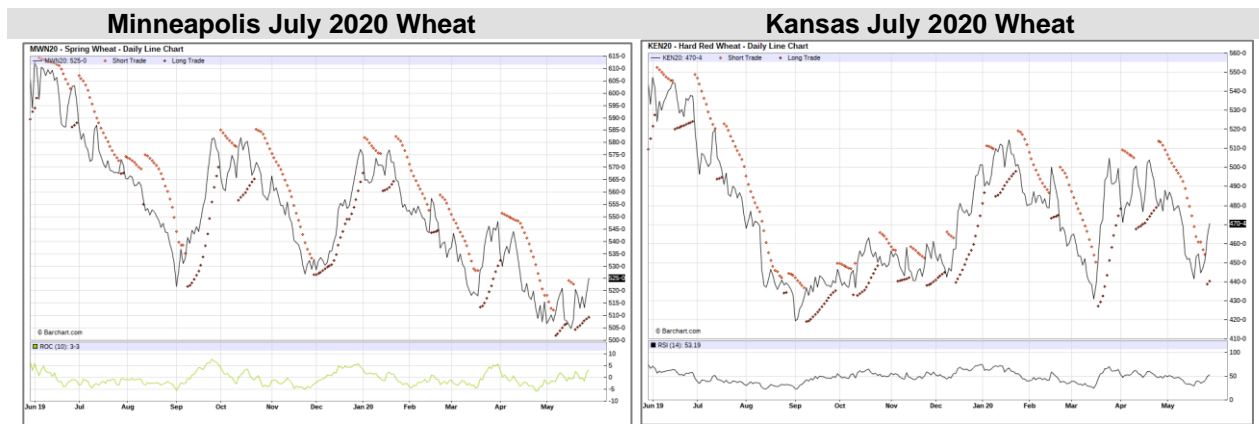
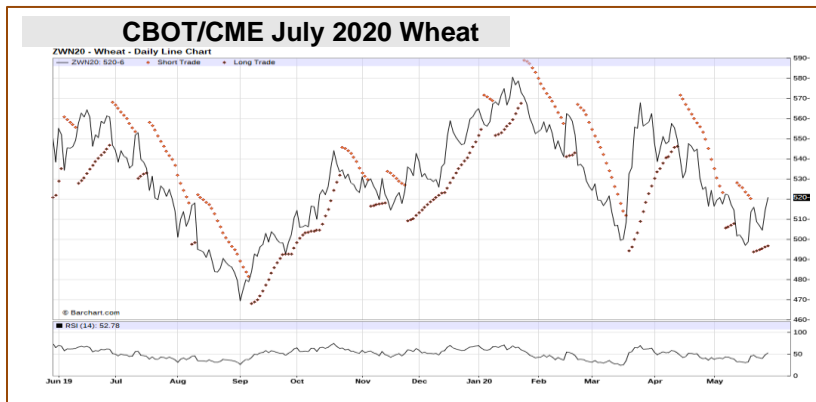
	17/18	18/19 est.	19/20 f'cast	20/21 proj.	
million tons				30.04	28.05
WHEAT					
Production	762	731	762	764	766
Trade	176	169	178	177	178
Consumption	740	740	748	755	750
Carryover stocks	269	260	274	289	290
<i>year/year change</i>	22	-8	14		16
Major exporters ^{b)}	83	69	66	64	68

- According to the **International Grains Council (IGC)** last Thursday, a global grains surplus (wheat & coarse grains) is expected for the 2020/21 season. *The IGC raised its production forecast, while also cutting its consumption outlook:* The grains production was increased by 12 million mt to 2.23 billion mt, while consumption was lowered by 4 million mt to 2.218 billion mt.
- **Global wheat production** was increased by 2 million mt from last month to 766 million mt. Global wheat consumption was lowered by 5 million mt to 750 million mt, leaving '20/21 ending stocks 1 million mt higher than last month at 290 million mt (274 million mt for '19/20).

➤ **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:** Jul '20 contract **Chicago winter wheat** closed at 520-6, up 6-2 cents on Friday, *up 12 cents for the week*.
- Jul '20 contract **Kansas hard red winter wheat** closed at 470-4, up 6-4 in Friday's trade, *up 26 cents for the week*.
- **Minneapolis** Jul '20 contract **hard red spring wheat** closed at 525-0, up 5-6 cents in Friday's trade, *up 12 cents for the week*, while Sep '20 hard red spring wheat closed at 536-0, up 5-2 cents on Friday, *up 12 cents for the week*.



Canadian Wheat:

- According to the weekly CGC data, **wheat exports** for week 42 were quite good at 550,000 mt, bringing year-to-date exports to 13.6 million mt, still 8% smaller than last years (-1.2 million mt). This contrasts sharply with a 61% increase in EU wheat exports this crop year.
- Commercial wheat stocks in Canada are down a bit at 2.2 million mt.

(CGC) Grain Handling Summary Wheat			Wk. 42	(May 24/'20)
('000 mt)	Terminal		Bulk exports	Dom.
	Prod. Dlvs.	Rcpts.		
Wk. 42	203.8	565.1	549.8	38.2
Week ago	269.6	396.3	350.8	35.7
YTD	17,147.1	15,646.4	13,585.0	3,227.9
Last YTD	17,304.4	16,523.4	14,781.1	3,264.80
YTD less Last YTD	-157.3	-877.0	-1,196.1	-36.9
YTD over Last YTD	99%	95%	92%	99%

Mercantile based on weekly CGC Handling Data

- Canadian wheat stocks (excluding durum) will increase this year, and are also expected to increase again in the new crop year.
- **Canadian spring wheat:** SK Ag did not specify the spring wheat seeding progress, but said that (as of May 25th) 80% of all crops were seeded, slightly ahead of the 78% average for this time of year. Crops have started to emerge in most areas. In AB, 85% of spring wheat was seeded as of May 26th.
- **US spring wheat:** USDA estimated that planted acres for HRS wheat will be 6.1 million acres, down 3% from last year, though industry speculates planted acres will be higher. USDA estimates that as of May 24th, 81% of all spring wheat acres have been planted, below the 5-year average of 90%.
- **Russia:** While rain continues to fall in the Black Sea areas, it is not clear how much permanent damage has already occurred, and there is significant concern over dryness in Russia's spring wheat regions.
- *Our suggestions remain the same: Liquidate old crop, hold new for the present.*

- **Durum** exports for week 42 were 68,000 mt for a season total of 4.2 million mt, 18% (+625,000 mt) bigger than last year.

('000 mt)	(CGC) Grain Handling Summary Durum		Wk. 42	(May 24/'20)
	Prod. Dlvsrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 42	50.9	123.6	67.5	7.1
Week ago	75.5	89.3	94.9	3.2
YTD	4,085.0	4,995.8	4,182.1	318.8
Last YTD	3,566.4	4,001.8	3,557.2	283.6
YTD less Last YTD	518.6	994.0	624.9	35.2
YTD over Last YTD	115%	125%	118%	112%

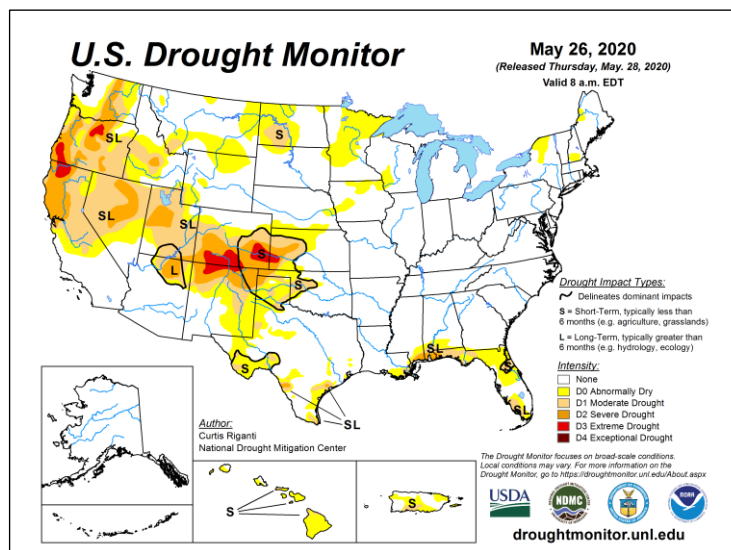
Mercantile based on weekly CGC Handling Data

- We continue to expect export sales for durum to remain strong into the summer, as pasta is one of the consumer items supported by increased consumer buying during the COVID-19 pandemic.

- **US durum:** USDA estimated a 4% decrease in northern durum seeded area at 1.42 million acres in 2020. With favourable weather conditions, durum planting in Montana and North Dakota is about 70% complete, ahead of last year, but behind the five-year average. Emergence in North Dakota is 30% and 25% in Montana, both behind the five-year average. Much of the durum growing region could use rain as topsoil moisture levels have been dropping.
- 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 stocks and strong export demand in 2020/21 are supportive to new crop durum.

US wheat:

- US wheat: During the past week, widespread rain and thunderstorms fell across parts of the US Great Plains, including a few instances of severe weather.
- Particularly large amounts of rain in central and eastern Nebraska, as well as in adjacent states, improved what had been a quickly drying scenario in many locations.
- Above-normal precipitation also fell in parts of the Northwest, which led to improvement in parts (though not all) of the ongoing drought areas there.
- Large rainfall amounts also occurred in south Florida and in parts of the central Florida Panhandle, leading to improvements in or removal of drought in these locations.



- Widespread rain in parts of Texas also led to drought *improvement* in the state, though some areas that missed out on the rain (particularly in the Panhandle) saw conditions worsen. Moderate drought coverage lessened in southern Louisiana after precipitation fell there.
- Above-normal temperatures occurred in the Upper Midwest this week, particularly in northern reaches of Minnesota, Wisconsin, and Michigan, where temperatures between 6 and 12 degrees warmer than normal for this week were common.
- US wheat futures increased by 6-12c due to ongoing heat and dryness in the western Plains, and due to a two-month low in the US dollar. KC is now up 26c on the week and has narrowed the spread against the CBOT by ~20c. *However, this has only served to further widen the gaps on the export market with competing origins. US wheat is priced about \$20/mt higher than Russian wheat and ~\$15/mt higher than 12.5 pro German wheat.*
- The FOB value for 13.5 pro HRS in the PNW for June is up \$4.50/mt from last week at \$242.50/mt.

Australian wheat:

- Australia saw light showers. The Met Office's long-term outlook for the winter months showed a better than average chance of normal rains but with a long way to go.
- Australian APW WA FOB wheat was unchanged on the week at \$277.00/mt, while new crop APW FOB WA was at \$220/mt.
- Australian new crop futures rose by \$4.75/mt on the week, with reports of sales into Asia at C&F levels which closely reflected FOB replacement of around \$220 for APW.

Argentine wheat:

- Argentine wheat planting for the 2020/21 season stands at 13.4%, the Buenos Aires Grains Exchange said in its weekly crop report. Production is now estimated at 21.0 MMT from a planted area of 6.8 million hectares (16.8 million acres). However, farmers there are racing a dry spell to seed their wheat.
- BAGE put wheat plantings at 13% complete (8% both last year and average), dry conditions facilitated the fast pace, but top soil moisture for germination is lacking.
- Old crop Argentine FOB values remained at \$220.00-\$230.00/mt. Bid-offers for new crop Argentine 11.5 pro wheat remained wide at \$184-192/mt.

EU wheat:

- Last week brought good rains to the eastern half of the EU and the Balkans. However, Western Europe stayed dry.
- EU shipments advanced 486,000 mt for an all-wheat season total of 32.4 million mt, up 61% from last year.
- FOB values in the EU were mixed: French 11.5 pro was \$3.25/mt higher at \$210.78/mt, while German 12.5 pro wheat lost \$2.22/mt over the week to \$224.50/mt.

Black Sea wheat:

- The western half of S Russia received decent rains, although temperatures remained well below normal. But Russian spring wheat regions stayed dry.
- The Ukrainian Met Office lowered its wheat crop estimate by 5 million mt to 23.3 million mt compared to 29.2 million mt last year. S Ukraine has the most reports of irreversible damage due dryness.
- The Ukraine reached its export limit of 20.2 million mt but allowed new business to continue.
- We have Russian FOB wheat values (12.5% pro) up \$1.00/mt at \$202.00/mt.

- **Significant purchases/ trades: -The trading is becoming quiet. -**
 - Thailand passed on 227,000 mt of August-October feed wheat offers at \$215/mt. Their buying ideas were at \$205-210/mt.
 - The Nigerian President said the country must become self-sufficient as they had "no money for food imports".
 - EU wheat shipments of 486,000 mt for last week took the season all wheat total to 32.4 million mt, up 61% on last year.
 - US wheat inspections were 458,000 mt, for a season total 896 million bushels compared to the USDA's annual estimate of 970 million bushels.

➤ **Wheat Market Outlook:**

Significant events:

- **Weather:** Last week brought good rains to the eastern half of the EU and the Balkans. However, Western Europe stayed dry. The western half of S Russia received decent rains, although temperatures remained well below normal. *Russian spring wheat regions stayed dry.*
- **Wheat values:** US wheat futures increased by 6-12c due to ongoing heat and dryness in the western Plains, and due to a two-month low in the US dollar. *However, this has only served to further widen the gaps on the export market with competing origins. US wheat is priced about \$20/mt higher than Russian wheat and ~\$15/mt higher than 12.5 pro German wheat.*
- **Global Wheat News:**
 - The **European Commission** on Thursday sharply lowered its forecast for common wheat production in the European Union's 27 member countries in 2020/21 to 121.5 million tonnes from 125.8 million estimated a month ago. That would be 7% below estimated EU-27 production of common wheat, or soft wheat, of 130.8 million tonnes in 2019/20, the Commission's monthly supply and demand data showed.
 - According to SovEcon, **Russia**, the world's largest wheat exporter, is expected to increase grain exports in the 2020/21 marketing season which starts on July 1. SovEcon expects the country's exports to be the second largest in its history after shipments reached an all-time high in the 2017/18 season, when it harvested a record crop.
 - **Asian grain buyers** are ready to re-enter the market after a pause of about two months caused by the coronavirus lockdowns, seeking wheat from Black Sea suppliers, two trade sources said. Millers across the region, including the no. 2 global importer Indonesia, are looking for new-crop Black Sea wheat for July-August shipment.
 - Wheat sowing in **Argentina** for 2020/21 continued to gain traction last week, with more than 13% of the projected 6.8 million ha area now planted with seeds, up 8% on the week, according to the latest weekly report from the Buenos Aires Grain Exchange (BAGE).

➤ **Outlook:**

Discussions about crop potential in the northern and S Hemisphere are generating diverging conclusions, and demand remains patchy. However, while the reported Asian purchases of new crop Australian wheat are encouraging, we think that their buying focus will turn to nearby Black Sea new crop positions going forward as importers emerge from Ramadan and the 2-month coronavirus lockdown.

- North American wheat is too expensive, so if there are serious Asian buyers coming to the market, we expect them to turn to nearby Black Sea wheat. It will be hard to sustain a serious rally unless there is a serious weather issue in June.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	01-06-2020
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Sept.'20 (bu.)	Sept.'20 (mt)	
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	6.38	\$234.43	
1 CWAD 13.0	\$7.74	\$284.40	1 CWAD 13.0	7.35	\$270.07	
1 CPSR 11.5	\$5.89	\$216.42	1 CPSR 11.5	5.70	\$209.44	
SW Sask			SW Sask			
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	6.24	\$229.28	
1 CWAD 13.0	\$7.71	\$283.30	1 CWAD 13.0	7.28	\$267.50	
1 CPSR 11.5	\$5.79	\$212.75	1 CPSR 11.5	5.58	\$205.03	
NE Sask			NE Sask			
1 CWRS 13.5	\$6.19	\$227.45	1 CWRS 13.5	6.14	\$225.61	
1 CWAD 13.0	\$8.06	\$296.16	1 CWAD 13.0	7.49	\$275.21	
1 CPSR 11.5	\$5.74	\$210.91	1 CPSR 11.5	5.58	\$205.03	
SE Sask			SE Sask			
1 CWRS 13.5	\$6.26	\$230.02	1 CWRS 13.5	6.15	\$225.98	
1 CWAD 13.0	\$8.08	\$296.89	1 CWAD 13.0	7.49	\$275.21	
1 CPSR 11.5	\$5.70	\$209.44	1 CPSR 11.5	5.51	\$202.46	

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* 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)

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.”

- 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				01-06-2020
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	\$347.73	\$384.20		
HRS	\$339.24			
HRW 11.5	\$314.26			
SWW 12.0	\$311.76			
1 CWRS 13.5 ³	\$347.73		\$223.40	\$124.33
2 CWRS 13.0 ³	\$339.24		\$203.19	\$136.04
3 CWRS ³	\$314.26		\$184.82	\$129.43
CPS ³	\$304.76		\$209.81	\$94.96
1 CWAD ⁴		\$377.21	\$255.74	\$121.47
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$202.00	June		
French 11.5 (Rouen)	\$210.78	June		
ASW 10.5 (W Coast)	\$274.00	June		
Argentine 12.0	\$227.00	June		

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				01-06-2020
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$9.04	\$8.36	\$6.10	\$6.10
Parity Track Rosetown	\$7.55	\$6.87	\$6.80	\$6.80
Track Bid Rosetown Area	\$5.53	\$5.03	\$5.71	\$5.71
Gross Margin at Elevator (\$/bu)*	\$2.02	\$1.84	\$1.09	\$1.09
Gross Margin at Elevator (\$/mt)*	\$74.06	\$67.45	\$39.97	\$39.97
* to cover elevation, elevator market risk, margin				