

Wheat Market Outlook and Price Report: March 23, 2020

By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

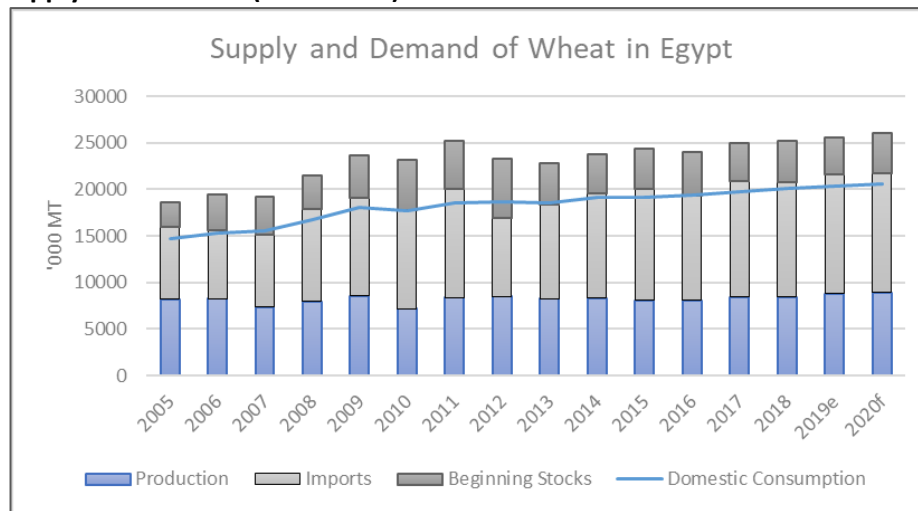
i) Background and Rationale for the Report

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 March 15th, 2020

Egypt: Wheat Supply and Demand (USDA data)



- **Egypt is the world's leading importer of wheat**, buying upwards of 12.4 million mt of wheat in MY 2017/18 and 2018/19.
- Although the USDA Post is expecting that the country will produce an additional 1.5% of wheat in 2020/21 at 8.9 million mt, **USDA is expecting that Egyptian 2020/21 wheat imports will be 0.4% (50,000 mt) higher than the 2019/20 MY** at 12.85 million mt.
- **The increase in imports is driven by a 1% (200,000 mt) increase in projected consumption** (to 20.60 million mt) given an expected 2% increase in population growth.
- From 2014 to 2018, Russia has supplied 55% of Egyptian wheat imports, Ukraine supplied 19%, Romania: 10%, France: 6%, while the US supplied 2.5% of all Egyptian wheat imports.
- From 2014-2018 total Canadian wheat exports to Egypt amounted to 108,361 mt or 0.2% of total Egyptian Imports.

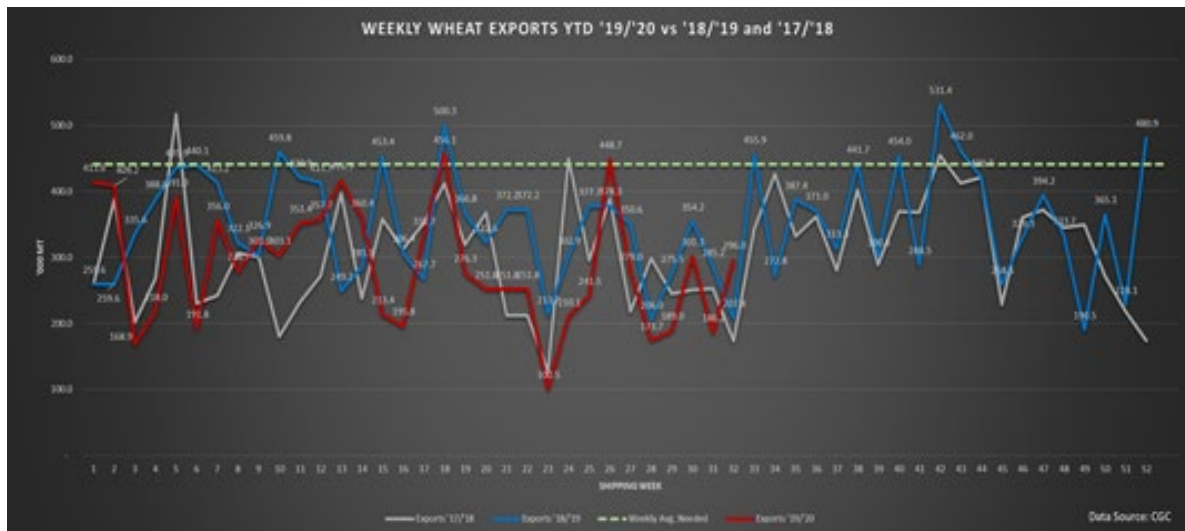
➤ **Global wheat production and trade:**

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:** May '20 contract **Chicago** winter wheat closed at 539-2, up 4-2 cents on Friday, *up 33-2 cents for the week*.
- May '20 contract **Kansas** hard red winter wheat closed at 469-0, up 3-4 cents in Friday's trade, *up 37-4 cents for the week*.
- **Minneapolis**, May '20 contract hard red spring wheat closed at 521-0, up 1-2 cents in Friday's trade, *up 13-0 cents for the week* while Jul '20 hard red spring wheat closed at 529-6, up 1-2 cents on Friday, *up 11-4 cents for the week*.

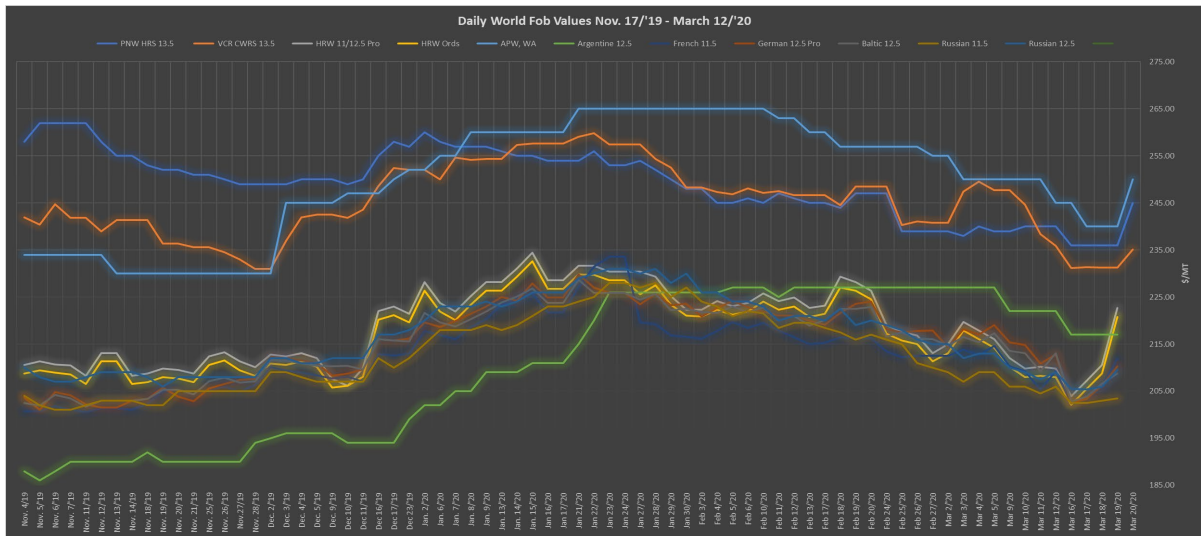
Canadian Wheat:

- Canadian producers delivered 408,300 mt of wheat during week 32 ending March 15th. Total deliveries are now 12.98 million mt, down 4% (551,900 mt) from last year.

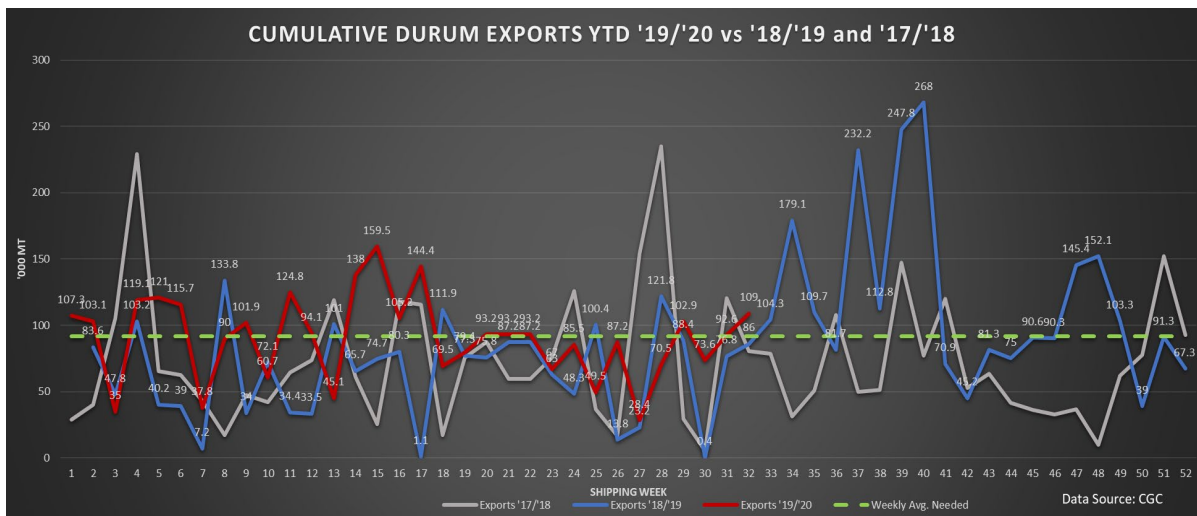


- Exports throughout the week were 296,000 mt. Year-to-date exports are now 9.38 million mt, 14% (1.56 million mt) less than last year.
- AAFC increased wheat export estimates by 200,000 mt to 18,200 mt (down 8% from last year). Average weekly exports must be 442,000 mt to reach this (green line) which is impossible. We have been questioning if our current 17.5 million mt estimate is too optimistic.

- Mid-March, the Port of Vancouver said that it was 1½ months behind on bulk grain exports thanks to the combination of the slow harvest, rail strike, rail blockades, landslides and cold temperatures. There is the potential that COVID-19 could slow transportation. So far, the impact has been negligible. Exports will continue to rise into the spring and the low Canadian dollar should help competitiveness. Some Manitoba elevators have been offering a \$1.80 or better basis for spring/summer delivery as they find coverage for the opening of the great lakes.



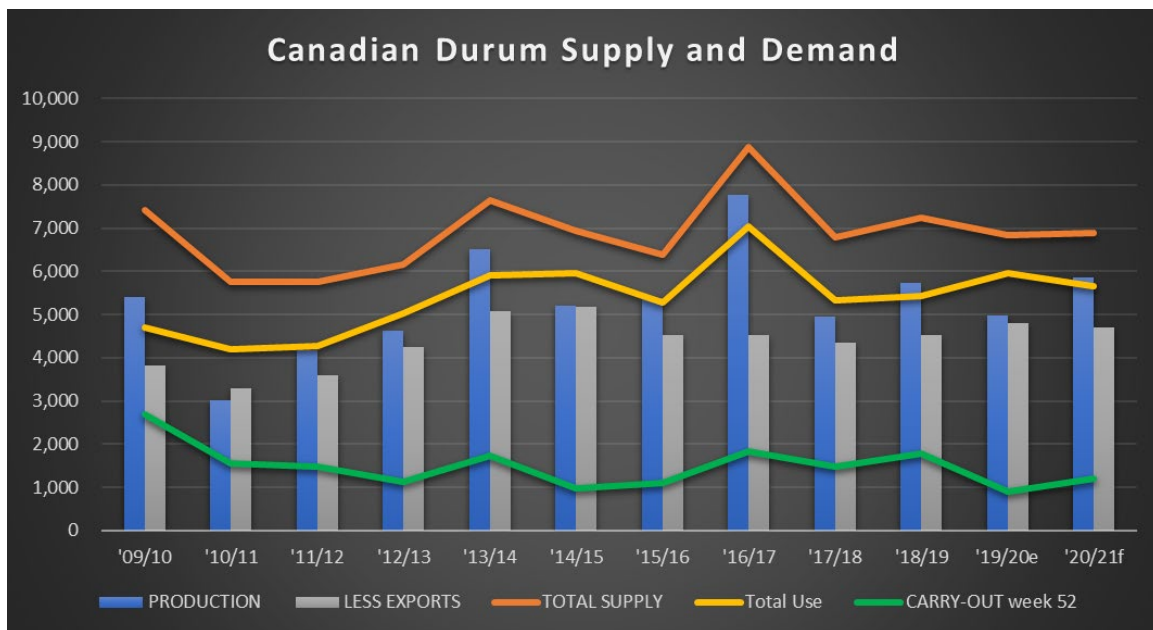
- *The plummeting Canadian dollar has been a gift for undersold producers. We recommend to use this opportunity to liquidate old crop. We would wait before making additional new crop sales.*
- Canadian producers delivered 109,900 mt of durum into the system during week 32 for a year-to-date total of 3.0million mt, 16% (407,000 mt) more than last year.
- Exports throughout the week were large at 109,000 mt for a season total of 2.96 million mt, 41% (857,000 mt) more than last year.



- Global durum demand continues to be strong: Tunisia bought 75,000 mt of Arp-May durum at \$326-\$340 (the origin was not given), Algeria bought 400,000 mt of wheat at \$333-\$33/mt. The durum trades were for optional origin durum and included Canadian durum. Quality was per an SGS certificate and lower than CGC specs for 1CW Durum. Canadian elevators are using CGC grades to discount the prices paid to growers of exportable durum. CGC grades are a hangover

of the old CWB system and are now used by elevators to discount growers. Canadian durum should have been very competitive vs US origin given the weak dollar and good Canadian supply. **The price of Algeria's purchase backs off to abt. US\$300/mt Fob Thunder Bay. Accounting for freight and handling costs, this works out to ~CA\$9.50/bu in Southern SK vs the current bid of CA\$8.00-\$8.50/bu.**

- Reports from France indicate that the run on grocery stores caused sales of pasta, flour and rice to increase to three times the amount sold in the same week last year. French pasta makers have more than doubled production resulting in a surge in durum demand.
- Canadian durum exports will continue to improve once the Great Lakes are open at the end of the month.
- Durum bids showed a strong pop last week. *Old crop prices in Saskatchewan rose to \$8.00-\$8.50 in southeast Saskatchewan.*
- The drought in North Africa continues with no rain falling in Morocco and Tunisia. We maintain that a timely rain could turn this around, but the window is closing.
- *Old crop bids have improved as supply tightens and demand is strong. We would use this rally as an opportunity to liquidate old crop.*



- *We continue to think that durum could be a strong crop to plant in 2020/21. Planted area in the US and Canada will be higher, but not enough to cause stocks to be burdensome (green line). Additionally, weather has been sub-optimal in North Africa and the EU giving rise to the potential of another strong 2020/21 export program.*

US wheat:

- US wheat drifted lower until a mid-week bounce in futures. The bounce was driven by a sharp increase in mill demand as consumers made a run on supermarkets. At the end of the week there was confirmation of China buying 340,000 mt of HRW wheat which added support. Of the total, 55,000 mt was for 2019/20 delivery and the remaining 285,000 mt was for 2020/21. *China's purchase of Hard wheat should not be a surprise as HRW was undervalued and at a very low premium to corn.*
- There are signs that logistics in China are resuming to more-normal operations, but the Chinese purchase is likely a "bargain buy" and is not seen as a sign of China turning to the US for wheat. China reportedly has large wheat stocks.

- US weekly export inspections were 450,000 mt for a season total of 725 million bu, 9% more than last year. Weekly export sales were in-line with expectations at 338,000 mt. YTD commercial sales are 24 million mt, 4% more than last year vs USDA's estimated 7% increase.
- Winter wheat Gd/Ex conditions fell 1% in KS to 46%, fell 13% in CO to 46%, rose 9% in OK to 67% and rose 10% in TX to 36% Gd/Ex.
- HRS prices FOB the PNW fell to the lowest level since harvest at \$236/mt before rebounding \$9/mt and closing at \$245/mt.

Australian wheat:

- The AU\$ continued to extend its all-time lows, losing 9% last week lifting futures prices AU\$29 (which was roughly \$2.30 in US dollars).
- Domestic cash prices rose AU\$20-25, while FOB prices were nominally US\$5/mt higher at \$250/mt.

Argentine wheat:

- Planting season in Argentina is now weeks away, but soil moisture remains low.
- The Argentine market was ill-defined on a combination of COVID-19 border closures and low port activity.
- Official FOB values are \$215.00-\$225.00/mt, unchanged from last week.

EU wheat:

- Cocal projects 2020/21 EU wheat production will be 135.4 million mt (which we think is reasonable). This is down from their previous estimate of 137.9 million mt and the 145.7 million mt of 2019/20.
 - The reductions were largely driven by decreases in UK acreage. Some still think the current UK production number of 10.9 million mt is too high.
- With weather turning drier, conditions in mainland Europe appear for be improving.
 - Despite this, French winter wheat crop conditions remain at 63% Gd/Ex vs the 85% of last year.
 - The Farm Coop Association is estimating that the German crop will be 1% less than last year at 22.8 million mt
- EU premiums firmed as COVID-19 driven logistical issues are causing ports and mills difficulty in receiving supplies: French 11.5 pro FOB values were up \$10.62/mt from last week at \$214.48/mt, German 12.5 pro was \$6.25/mt higher at \$212.80/mt, while Baltic 12.5 pro values rose 6.31/mt last week to 211.20/mt. New crop values were stronger because of excessive moisture.

Black Sea wheat:

- In Russia, the ruble fell to a 4-year low mid-week as crude oil prices collapsed.
- Ukraine's currency also fell to a 14-month low, down 18% since the start of 2020.
- The devaluation of currencies in the Black Seas caused Fob values up from last week's: Russian 12.5 pro rose \$4.00/mt to 210.00/mt while Ukrainian feed wheat was \$0.50/mt higher at \$201.00/mt.

➤ **Significant purchases/ trades:**

- **China** bought 340,000 mt of US HRW, 55,000 of this was for deliver in 2019/20 while the remaining 285,000 was for delivery in the 2020/21 MY.
- **Tunisia** bought 75,000 mt of Apr-May durum at \$326-340/mt plus 25,000 mt soft wheat at \$221/mt.
- **Algeria** bought 400,000 mt of durum at \$333-335/mt.
- **Korea** bought 70,000 mt Sept feed wheat at \$207/mt.
- **Morocco** extended its import duty suspension to June 15th.
- **Egypt** grounded its wheat inspectors until March 31st.
- **USA** inspections were 450,000 mt (season total 725 million bu, up 9%), sales were 338,000 mt (season total 881 million bu, up 4%).
- **EU** shipments increased by 1 million mt taking soft wheat to 22.2 million mt, up 72% on last year's 12.9 million tonnes.
- **Canadian** prices are uncompetitive with Russian April 12.5 pro wheat offered at \$208-212/mt.

➤ **Wheat Market Outlook:**

Significant events:

- **COVID-19 continues to be the lead news item** as world casualties and fatalities continue to climb. Year to date known global infections are said to be 360,000 and fatalities 15,500.
- **In Canada, prices in C\$ increased sharply, as the C\$ weakened against the US\$** due to the sharp drop in world crude oil prices. Some think that the impact of COVID-19 on world trade will continue cause crude oil price to drop further (and subsequently the CA\$ will continue to fall).
- **In response to COVID-19, Egypt is grounding its wheat inspectors**, calling them back from Russia and Ukraine. One inspector is remaining in France until further notice.
- **Egypt has set its local procurement prices at 700 Egyptian pounds per ardeb (\$44.59/150kg).** The Gov't hopes to procure 3.6 million mt of local wheat this harvest season.
- **Freight is under scrutiny and frequently subject to 14-day quarantine** due to COVID-19 in both exporting and importing countries.
- **Weather Around the World:**
 - The South American forecast remains overall dry for both Southern **Brazil** and **Argentina** for the next 2 weeks. Brazil stays cool but Argentine temperatures are well above normal. Heavy rain persists in much of central and eastern **US** but with temperatures generally above normal. Rain in **Europe** remains essentially confined to the south (Iberia, the Balkans and the Mediterranean coast), and temperatures are turning increasingly below seasonal averages. **Ukraine** and **Russia** remain mostly dry with temperatures generally warm.

➤ **Outlook:**

The rumours of Chinese buying eventually proved to be correct, and there was a sharp increase in demand from domestic flour and pasta millers in the USA as food stocks dwindled in the retail shops. The consequence was a widening of Fob spreads against competing origins, which will likely harm USA export prospects for the remaining 2-3 months of the 19/20 season.

The reduction in the EU soft wheat crop could affect wheat prices longer term; however, it could also mean lower feed wheat usage and more corn used for feeding. The balance sheet still shows that we have at least an 8 million mt larger supply for 2020/21 than in the current year.

We see the weak Canadian dollar providing a good opportunity to sell old crop stocks and that remains our suggestion. Hold new crop for the present as we see more negative news for the Canadian dollar.

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)		May. '20 (bu.)	May. '20 (mt.)
1 CWRS 13.5	\$6.56	\$241.04	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.54	\$277.05	1 CWAD 13.0	\$7.55	\$277.42
1 CPSR 11.5	\$5.85	\$214.95	1 CPSR 11.5	\$6.07	\$223.04
SW Sask			SW Sask		
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	\$6.61	\$242.88
1 CWAD 13.0	\$7.57	\$278.15	1 CWAD 13.0	\$7.57	\$278.15
1 CPSR 11.5	\$5.78	\$212.38	1 CPSR 11.5	\$5.97	\$219.36
NE Sask			NE Sask		
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	\$6.47	\$237.73
1 CWAD 13.0	\$7.97	\$292.85	1 CWAD 13.0	\$7.98	\$293.22
1 CPSR 11.5	\$5.59	\$205.40	1 CPSR 11.5	\$5.81	\$213.48
SE Sask			SE Sask		
1 CWRS 13.5	\$6.31	\$231.85	1 CWRS 13.5	\$6.48	\$238.10
1 CWAD 13.0	\$7.98	\$293.22	1 CWAD 13.0	\$7.99	\$293.58
1 CPSR 11.5	\$5.57	\$204.66	1 CPSR 11.5	\$5.74	\$210.91

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 YTD (East Coast shipments).

- Optional origin grain sales:
Most major international grain companies sell 'optional origin' wheat to their customers and often cover their sales 'at best' closer to the shipment position. The Canadian grain system is not conducive to servicing optional origin sales because the volume of wheat kept in storage in port today is much smaller than prior to deregulation of the Canadian wheat market.

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

Relevant FOB Prices and Export Basis				March 23, 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	\$387.68	#VALUE!		
HRS	\$380.67			
HRW 11.5	\$350.83			
SWW 12.0	\$330.54			
1 CWRS 13.5 ³	\$387.68		\$241.78	\$145.90
2 CWRS 13.0 ³	\$380.67		\$217.89	\$162.78
3 CWRS ³	\$350.83		\$186.66	\$164.17
CPS ³	\$323.07		\$217.52	\$105.54
1 CWAD ⁴		#VALUE!	\$293.95	#VALUE!
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$210.00			
French 11.5 (Rouen)	\$214.48			
APW 10.5 (W Coast)	\$250.00			
Argentine 12.5	\$215-\$225			
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 were #VALUE is shown. *

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					March 23, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$10.35	\$10.16	\$9.34	\$8.79	\$8.79
Parity Track Rosetown	\$8.85	\$8.66	\$7.85	\$7.30	\$7.30
Track Bid Rosetown Area	\$6.58	\$5.93	\$5.08	\$5.92	\$5.92
Gross Margin at Elevator (\$/bu)*	\$2.27	\$2.73	\$2.77	\$1.38	\$1.38
Gross Margin at Elevator (\$/mt)*	\$83.44	\$100.32	\$101.71	\$50.56	\$50.56

* to cover elevation, elevator market risk, margin