

**Wheat Market Outlook and Price Report: March 9, 2020**  
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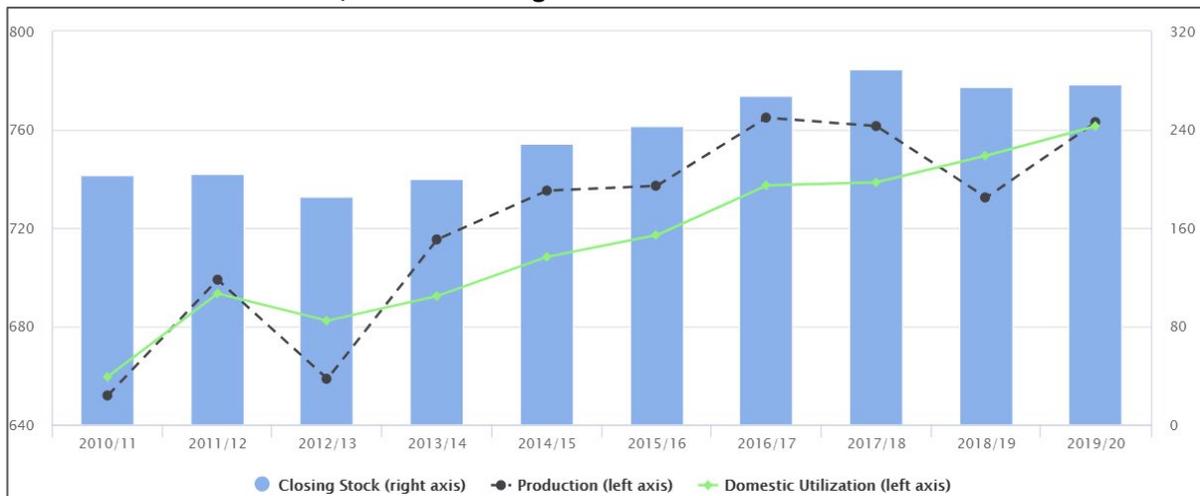
**i) Background and Rationale for the Report**

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 Mach 5<sup>th</sup>, 2020**

**AMIS World Wheat Production, Use and Closing Stocks**



- In their March update, the **Agricultural Marketing Information System (AMIS)** has **2019/20 wheat production slightly (400,000 mt) lower** from the February estimate at 763.1 million mt. This is just shy of the current record production of 764.9 million mt in 2016/17.
- **Global wheat use was raised another 2.4 million mt** to 761.5 million mt because of strong demand in India and Japan. Canadian use was also seen higher due to the abundance of available wheat resulting from the lackluster export program.
- **Ending stocks were seen 2.6 million mt higher** than last month mostly because of upward production revisions in Iran.
- **Trade will be watching tomorrow's USDA report.** While we do not expect any significant revisions to the world supply and demand, we expect that US export expectations will be tempered which will result in **~400,000 mt higher US ending stocks.**

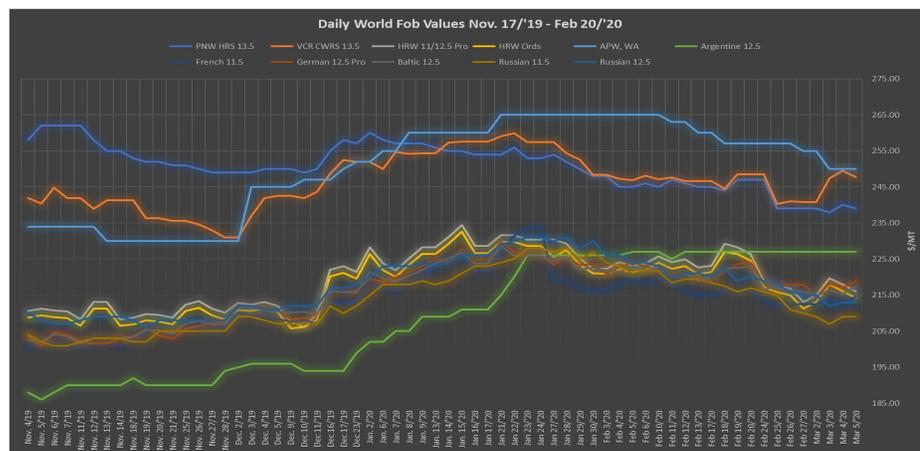
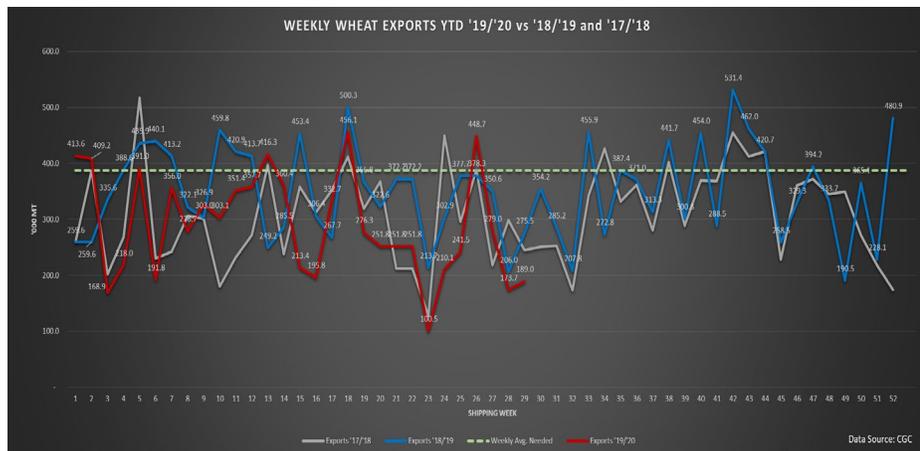
➤ **Global wheat production and trade:**

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 515-6, down 3-0 cents for the day, *down 9-2 cents for the week.*
- May '20 contract **Kansas** hard red winter wheat closed at 446-2, unchanged in Friday's trade, *down 7-0 cents for the week.*
- In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 525-2, up 3-2 cents for the day, *down 2-2 cents for the week,* while Jul '20 hard red spring wheat closed at 536-6, up 3-2 cents for the day, *down 1-6 cents for the week.*

**Canadian Wheat:**

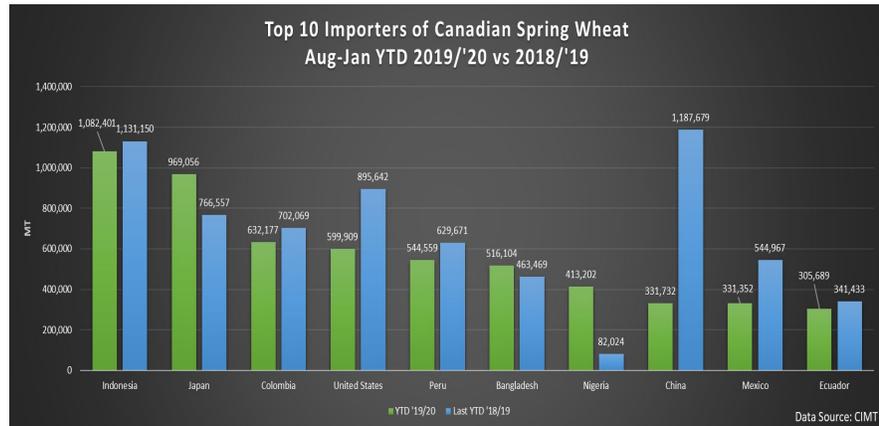
- Canadian producers delivered 380,500 mt of wheat during week 30 ending March 1<sup>st</sup>. Total deliveries are now at 12.2 million mt, down 4% (502,900 mt) from last year.
- Exports for the week were back up to 301,300 mt for a year-to-date total of 8.89 million mt, **15% (1.55 million mt) less than last year.**
- The rail blockades have caused FOB prices in Vancouver to shoot higher, peaking at \$249.50/mt (for 13.5 pro CRWS) midweek before closing the week at \$247.76/mt, still well above PNW 13.5 pro HRS at \$239.00/mt.



- The latest export data is out which shows August to January year-to-date exports at 8.1 million mt, just 81% (-1.9 million mt) of last year's volume. There have been volume decreases to most of our main wheat destinations, but the two largest year-over-year decreases continue to be to China (-856,000 mt) and to the US (-296,000 mt).

January was the first month that there were no exports to Australia since May 2019.

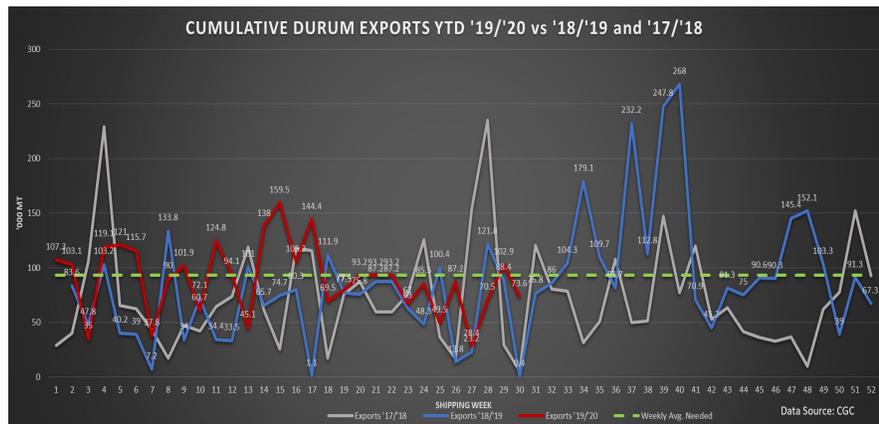
- There is little in the mix to promote a rally in futures prices and the rail back-log is going to prevent much basis improvement*



*despite the weakening Canadian dollar.*

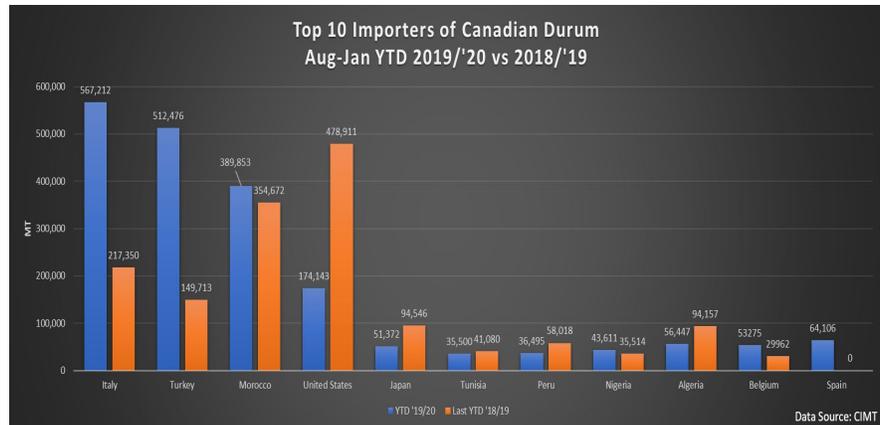
- Watch for short-lived specials/target triggers at individual elevators as they occasionally look for coverage for shipping programs. G3 in Glenlea, Manitoba was triggering \$7.00 for 13.5 pro CWRS for June delivery last week.*
- Canadian producers delivered 96,100 mt of durum into the system during week 30 for a year-to-date total of 2.8 million mt, up 20% (469,300 mt) from last year.
- Exports for the week were at 73.6k mt for a season total of 2.75 million mt, 42% (808,500 mt) more than last year.

- Average weekly durum exports will need to reach 93,000 mt (green dashed line) to reach AAFC's 4.8 million mt estimate, which we think is possible (the year-to-date weekly average is 92,000 mt).



- Current exports are 42% ahead of last year, but last year's durum exports only really got going in the springtime (blue line).
- In 2018/19, average weekly exports from week 30-52 were 116,000 mt/week. While we expect a boost in exports once the lakes open, we do not expect exports this spring to be as strong as last year's program. *The St Lawrence Seaway System is scheduled to open March 24<sup>th</sup>-April 1<sup>st</sup>.*

- CIMT data is showing that as of January, year-to-date durum exports were 2.3 million mt, 26% (472,000 mt) more than last year. The two most significant increases continue to be in Italy and Turkey who have imported 350,000 mt and 363,000 mt more durum from Canada



over last year. Offsetting some of this is the decrease in exports to the US who has imported 305,000 mt less durum year-over-year.

### US wheat:

- US weekly export inspections were 654,000 mt for a season total of 692 million bushels, *11% higher than last year*. US weekly export sales were at the high end of expectations at 542,400 mt for a year-to-date total of 23.2 million mt, 3% more than last year vs the current projected increase of 7%. There were rumours of Chinese interest in US HRS but these were false.
- Winter wheat conditions in the US improved thanks to some needed rain. Conditions in Kansas improved 8% from last week to 43% good-to-excellent. Conditions in Oklahoma improved 11% from last week to 57% while TX ratings rose 5% to 36% good-to-excellent.
- Trade is expecting that USDA will increase US wheat ending stocks by 4 million bu. The revision will largely be from lower exports.

### Australian wheat:

- The Australian Bureau of Agricultural and Resource Economics (ABARES) estimates Australian wheat production will rebound 40% to 21.3 MMT in 2020/21 on easing drought conditions, a return to normal yields and increased planted area. The implied 1.75 tph yield is below the trend of 2 tph which could be achievable given the good soil conditions.
- Australian wheat exports are expected to jump 51% from 8.20 MMT in 2019/20 to 12.4 MMT in 2020/21.
- Aussie FOB values lost another \$5.00/mt from last week, now bid at \$250.00/mt.

### Argentine wheat:

- Argentina's market is essentially non-existent as they are sold out of old crop and there continues to be uncertainty surrounding the export tax. Midweek reports indicated that while the tax on soybeans was going to be 3% higher, the export tax on grains will be unchanged.
- Official FOB values bid at \$220.00-\$230.00/mt were nominally \$5.00 lower than last week.

### EU wheat:

- Unseasonably warm, rainy weather is impacting French non-durum wheat conditions negatively. France AgriMer reported 65% of the country's soft wheat is in good to excellent condition compared to 85% this time last year.
- French common wheat production is expected to fall 14% in 2020/21 to 33.8 million mt on smaller planted area and lower average yields. There are reports that there could be 10 million mt worth of production lost in France and the UK alone.
- French durum planting is nearly complete and 67% of the crop is in good to excellent condition.
- According to Stratégie Grains, total EU common wheat production in 2020/21 is expected to fall 5% from last year on reduced planted area and decreased average yields due to excessive rainfall in northern Europe and moisture deficits in southern Europe.

- *EU wheat exports are currently 60% higher than last year at 19.1 million mt.* The EU commission is expecting that total exports in 2019/20 will be 28 million mt, *30% more than last year.*
- EU values recovered slightly from last week: French 11.5 pro FOB values rose \$2.44/mt from last week to \$213.37/mt, German 12.5 pro was \$3.10 higher at \$217.81/mt while Baltic 12.5 pro values rose \$3.05 from last week to \$216.11/mt.

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

- The Black Sea is increasingly dry. Some analysts in Ukraine cut their '20/21 estimates by 2.4 million mt to 25.8 million mt, 11% less than last year's 29 million mt record. The decrease is due to acreage losses (up to 10% winter kill) and poor weather. *<- This is interesting, as two weeks ago the crop was reportedly in "perfect" condition. It is still far too early to write off the Black Sea crop.*
- FOB values in the Black Sea were lower than the week previous: Russian 12.5 pro fell \$3.00 from last week to 213.00/mt while Ukrainian feed wheat was \$2.00 lower at \$207.00/mt.

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

- **Thailand** bought 60,000 mt July feed wheat at \$213/mt Liner Out.
- **Tunisia** bought 117,000 mt of March-May milling wheat at \$227-231 C&F.
- **Morocco** got no offers at its tender for 350,000 mt of US durum.
- **Asian** wheat buyers were reported to be ramping up demand as rice prices hit 6-year highs (rumors of **Chinese** interest in US HRS were false).
- **Turkey** returns this week for 305,000 mt 13.5 pro milling wheat.
- **Ethiopia** added an Apr 7<sup>th</sup> tender for 400,000 mt wheat to their April 1<sup>st</sup> tender for 200,000 mt.
- **USA** inspections were 654,000 mt (season total 692 million bushels, up 11%), sales were 542,000 mt (season total 852 million bushels, up 3% vs the USDA's 7% increase).
- **EU** soft wheat shipments advanced 400,000 mt to 19.1 million mt against 11.9 million mt a year ago.

#### ➤ **Wheat Market Outlook:**

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

- **There continues to be little-to-no rain in North Africa.** Current vegetation maps show a strong decline in crop conditions in Morocco. Algeria and Tunisia are also becoming dry. Rain will be needed in the next few weeks to avoid yield losses.
- **On what is being called Black Monday, stock markets, currencies and commodity futures are crashing today in a perfect storm of COVID-19 fears and an oil price war between OPEC and Russian oil makers.**
  - **Oil prices lost more than 30% on Monday, March 9,** the worst loss in since 1991, as Saudi Arabia is posed to flood the market with cheap oil as punishment on Russian oil makers for not following along with the proposed supply restrictions.
  - The oil war is causing a sell-off in equity markets and currencies; the Canadian dollar has gapped lower and the S&P 500 went limit down.
- **Weather Around the World:**
  - After the sharp downgrade in Argentine crop ratings and soil moisture levels last week, the **South American** forecasts looks considerably drier and less favorable than Friday's maps suggested. While **Brazilian** temperatures will stay cool, Argentine readings are rising even further above normal. The **USA** will see widespread rain across the Plains and Midwest with warming temperatures everywhere. The rain will further compromise fieldwork in the south-east. **European** maps look more favorable tonight with drier conditions in the west (although the Balkans stay very wet), and better chances of rain in the **Black Sea**. Temperatures are slightly above normal in the west, much above in the east.

➤ **Outlook:**

The trade will be watching the March WASDE report tomorrow, but we do not expect anything bullish in the report. Tuesday's report will be followed by the US plantings report at the end of the month (the USDA does not provide any new crop 20/21 S&D's until May).

For wheat to rally, we will need reports of either China buying US wheat and/or a big weather problem. Neither of these are in the mix at the moment.

*If not already done, we would liquidate any remaining old crop wheat stocks, but do not sell additional new crop at prevailing prices. We will watch weather developments on new crop.*

The falling Canadian dollar could give room for basis improvement, but rail blockades and elevators with adequate coverage will suppress recovery in cash prices. Watch for short-lived specials and triggered targets as individual elevators look for occasional coverage.

**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	\$6.25	\$229.65	1 CWRS 13.5	\$6.46	\$237.37
1 CWAD 13.0	\$7.39	\$271.54	1 CWAD 13.0	\$7.38	\$271.17
1 CPSR 11.5	\$5.26	\$193.27	1 CPSR 11.5	\$5.49	\$201.72
SW Sask			SW Sask		
1 CWRS 13.5	\$6.15	\$225.98	1 CWRS 13.5	\$6.37	\$234.06
1 CWAD 13.0	\$7.43	\$273.01	1 CWAD 13.0	\$7.41	\$272.27
1 CPSR 11.5	\$5.21	\$191.44	1 CPSR 11.5	\$5.43	\$199.52
NE Sask			NE Sask		
1 CWRS 13.5	\$5.99	\$220.10	1 CWRS 13.5	\$6.17	\$226.71
1 CWAD 13.0	\$7.73	\$284.03	1 CWAD 13.0	\$7.70	\$282.93
1 CPSR 11.5	\$5.01	\$184.09	1 CPSR 11.5	\$5.22	\$191.80
SE Sask			SE Sask		
1 CWRS 13.5	\$6.04	\$221.93	1 CWRS 13.5	\$6.22	\$228.55
1 CWAD 13.0	\$7.78	\$285.87	1 CWAD 13.0	\$7.74	\$284.40
1 CPSR 11.5	\$5.07	\$186.29	1 CPSR 11.5	\$5.23	\$192.17

**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 Basis<sup>1</sup> (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, Saskatchewan (see *Street Prices* in Table 3). Rosetown is used as a proxy for all primary elevators in the basis calculation. The actual handling and transportation costs from the West Coast to delivered elevator (Rosetown area) range from ~C\$58.00-C\$74.72/mt, depending on number of cars moved and elevator used.

- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
  - DNS 14% in the Pacific North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
  - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver
  - HRW in the Pacific North West (PNW) ≈ 3 CWRS in Vancouver
  - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)
  - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)
    - 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.

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<sup>1</sup> Gray, R.S. (2015). The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers 2012/13, 2013/14 and 2014/15.

“The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to producers is referred to as export basis: Basis can refer to the difference between any two prices. As the largest volume port, Vancouver FOB, minus the elevator bid prices representative measure of the “export” basis for grains in Western Canada.”

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

Relevant FOB Prices and Export Basis				March 9, 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	\$355.36	#VALUE!		
HRS	\$349.05			
HRW 11.5	\$302.96			
SWW 12.0	\$303.95			
1 CWRS 13.5 <sup>3</sup>	\$355.36		\$224.14	\$131.22
2 CWRS 13.0 <sup>3</sup>	\$349.05		\$200.25	\$148.80
3 CWRS <sup>3</sup>	\$302.96		\$169.02	\$133.93
CPS <sup>3</sup>	\$296.97		\$184.82	\$112.14
1 CWAD <sup>4</sup>		#VALUE!	\$286.60	#VALUE!
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$213.00			
French 11.5 (Rouen)	\$213.37			
APW 10.5 (W Coast)	\$250.00			
Argentine 12.5	\$220-\$230			
<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				

\*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 9, 2020
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.48	\$9.31	\$8.05	\$8.08	\$8.08
Parity Track Rosetown	\$7.98	\$7.81	\$6.56	\$6.59	\$6.59
Track Bid Rosetown Area	\$6.10	\$5.45	\$4.60	\$5.03	\$5.03
Gross Margin at Elevator (\$/bu)*	\$1.88	\$2.36	\$1.96	\$1.56	\$1.56
Gross Margin at Elevator (\$/mt)*	\$69.25	\$86.83	\$71.96	\$57.16	\$57.16

\* to cover elevation, elevator market risk, margin