

Wheat Market Outlook and Price Report: May 19, 2020
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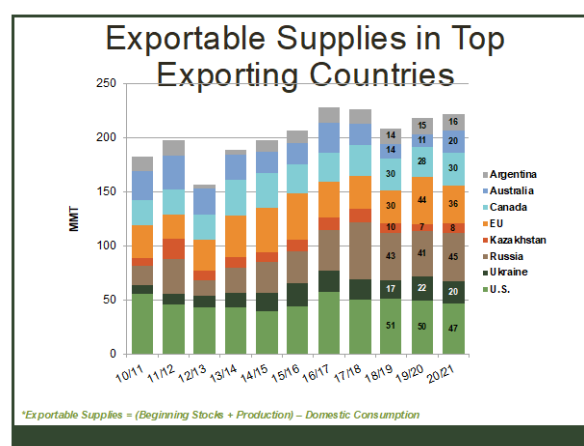
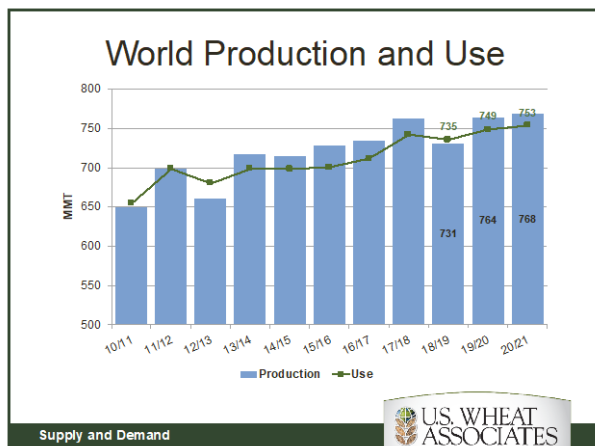
i) Background and Rationale for the Report

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 May 19, 2020

World Wheat Supply and Demand Outlook as seen by USDA last week:



- **Wheat production:** USDA-WASDE sees 2020'21 global wheat production jump to a record 768 million mt.
- **Consumption:** Global consumption is forecast at 753 million mt, the highest on record. - We think this is a very optimistic view of things given COVID-19 income reduction and very cheap corn, which will should reduce feed wheat usage.
- **Trade:** Global wheat trade is expected to a record 188 million mt, up 3% over last year.
- **Stocks:** Global ending stocks are projected at a record 310 million mt, 5% higher than last year and 14% greater than the 5-year average.

➤ **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 500-2, down 2-0 cents on Friday, *down 22-2 cents for the week.*
- Jul '20 contract **Kansas hard red winter wheat** closed at 452-2, up 0-4 in Friday's trade, *down 27-8 cents for the week.*
- **Minneapolis** Jul '20 contract **hard red spring wheat** closed at 506-2, down 1-6 cents in Friday's trade, *down 9-8 cents for the week* while Sep '20 hard red spring wheat closed at 518-0, down 1-4 cents on Friday, *down 8-2 cents for the week.*
- **May USDA-WASDE Report** last week:
USDA released its first global crop and marketing estimates for the 2020/21 marketing year. Global wheat production was pegged at 768.5 million mt and ending stocks at a big 310 million mt. 2020/21 trade was increased to 188 million mt, but we simply do not understand why world imports and exports should increase in '20/21; *we think production will be higher and demand will be lower. With non-Chinese stocks up 15 million mt, there is little hope for a wheat rally without a huge crop problem somewhere.*

Canadian Wheat:

- **Canadian wheat exports** for last week were a stellar 755,000 mt for a total of 12.6 million mt, *still down 9% (-1.3 million mt) from last year.* Visible supplies in export locations still is at 1.1 million mt in week 40, with the majority in Eastern ports.
- For the present, we would temporize on wheat trades while there are some weather concerns regarding the new crop in Europe. If \$7.00 per bushel can be achieved, we would continue selling old crop Canadian.

(CGC) Grain Handling Summary Wheat			Wk. 40		(May 10/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 40	310.4	522.5	755.0	50.0	
Week ago	408.8	479.2	295.1	119.8	
YTD	16,670.8	14,487.0	12,642.8	3,150.6	
Last YTD	16,773.0	15,651.4	13,961.2	3,082.6	
YTD less Last YTD	-102.2	-1,164.4	-1,318.4	68.0	
YTD over Last YTD	99%	93%	91%	102%	

Mercantile based on weekly CGC Handling Data

- Durum exports for week 40 were 205,000 mt for a season total of 4 million mt, *17% (+576,000 mt) bigger than last year.*
- We 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.
- Most traders expect durum acres to increase by 15% this spring (StatsCan pegged the acreage increase at +7%), but the increased demand for pasta during COVID-19 should help keep stocks under control, especially since carry-in will be small.
- As mentioned above, Tunisia projected a 31% drop in this year's crop and a 20% increase in imports. This follows on from the expected 42% drop in Morocco's harvest, which is supportive for durum values.
- Mercantile thinks the '19/20 ending stocks may be as small as 600,000 mt, which we have not seen in years.

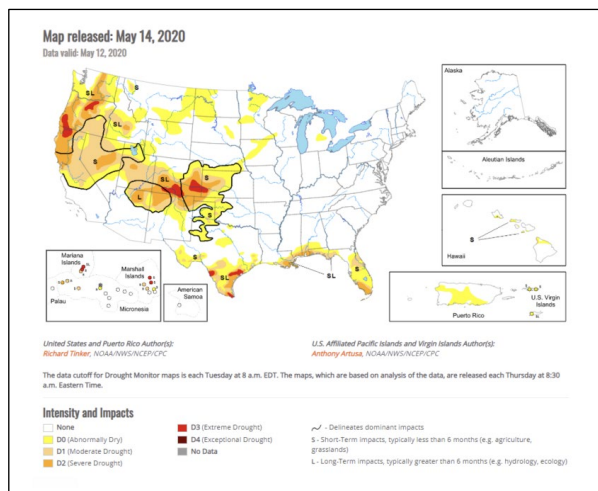
(CGC) Grain Handling Summary Durum			Wk. 40		(May 10/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 40	67.6	124.4	204.9	6.4	
Week ago	66.8	235.3	180.7	12.9	
YTD	3,958.7	4,737.9	4,017.4	308.1	
Last YTD	3,453.1	3,787.4	3,441.3	265.2	
YTD less Last YTD	505.6	950.5	576.1	42.9	
YTD over Last YTD	115%	125%	117%	116%	

Mercantile based on weekly CGC Handling Data

- 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 bullish new crop durum.

US wheat:

- **USDA** in their May report last week expects U.S. wheat production in 2020 to fall 3% from last year to 50.8 million mt, as lower yields are forecast to offset higher harvested area. The US is expected to export 25.9 million mt of wheat in 2020/21, down 2% from the 2019/20 export volume forecast of 26.4 million mt.
- Beneficial precipitation fell in central Kansas reducing areas under abnormal dryness. However, extreme drought spread in western Kansas and eastern Colorado. Dryness expanded in southern Nebraska, western Oklahoma, the Texas High Plains and the Idaho Panhandle.
- USDA reduced the total U.S. winter wheat crop rated as good to excellent from 55% last week to 53% this week as worsening dryness, earlier freeze damage and recent high temperatures continue to challenge crop development across the Great Plains. Total crop ratings fell in Kansas from 42% good to excellent on May 4 to 38% on May 11. Colorado's total crop ratings fell from 38% good to excellent last week to 35% this week. In Oklahoma, winter wheat rated as good to excellent fell from 64% last week to 56% this week.
- US weekly export sales were 203,000 mt for old crop (season total 969 million bu, against the USDA's 970 million bu forecast), new crop sales were 150,0090 mt. *The FOB wheat price line-up showed again that US new crop wheat remains largely uncompetitive.*
- The FOB value for 13.5 pro HRS in the PNW for June is unchanged from last week at \$235.00/mt.



Australian wheat:

- The forecast remains generally favorable in the east of Australia.
- Seeding is about 50% complete, and the USDA put the Australian wheat crop at 24 million mt, which is about in line with current trade ideas. However, last week there was talk of Australian farmers switching barley acres into wheat acres due to the threat of Chinese import tariffs on barley.
- Australian new crop futures fell US\$12/mt this week, hitting contract lows following the threat of Chinese tariffs on Australian barley.
- Australian APW WA FOB wheat was unchanged on the week at \$277.00/mt.

Argentine wheat:

- Argentina remains dry for the next two weeks except for showers in the far north-east.
- There was no report by BAGE on crop progress.
- USDA estimated the 20/21 Argentine wheat crop at a record 21 million mt, in line with BAGE. Assuming normal weather, we can expect Argentina to again be an aggressive exporter of wheat.
- Old crop Argentine FOB values were slightly lower at \$225.00-\$235.00/mt. Farmers are sold out of old crop while exporters are long ~15 million mt. Bid-offers for new crop Argentine 11.5 pro wheat remained wide at \$180-190/mt, *which is the world's cheapest wheat for that position.*

EU wheat:

- Dryness will continue across all the major crop regions in northern Europe just as crops move into their peak water requirement period. And the biggest producer in the south, Romania, has also seen its crop sharply reduced by unfavorable weather.

- The **USDA** made some significant changes to their EU 19/20 S&D: An increased carry-in and production, plus lower feed/ethanol demand increased ending stocks by 3 million mt to 13.5 million mt, in spite of raising exports by 1.5 million mt. USDA estimated the '20/21 EU crop at 143 million mt, which took 6.5 million mt out of the exportable surplus, despite a 3 million mt projected fall in domestic use. Further losses are possible with soil moisture maps pointing to new significant declines.
- EU exports were 350,000 mt for the week, for an all-wheat season total of 30.8 million tonnes, *up 60% on last year*.
- FOB values in the EU were mixed: French 11.5 pro was \$1.15/mt lower at \$220.77, German 12.5 pro wheat lost \$3.33/mt over the week to \$224.31/mt, and Baltic 12.5 pro wheat also lost \$3.33/mt from last week at \$222.69/mt.

Black Sea wheat:

- The maps do maintain better rains for S Russia, but this really needs to come through if production estimates are not to be lowered further.
- The Ukrainian forecast is turning wetter, but the southern region (around 25% of the wheat crop) has already seen significant damage and crop estimates are dropping to 25-27 million mt compared to the USDA's 28 million mt.
- S Russia continued to see very limited rainfall last week, and with daily evaporation still present despite the cool temps, the USDA's initial 77 million mt crop number could go lower. USDA made no changes to Russia's '19/20 wheat balance sheet. USDA put '20/21 exports at 35 million mt (33.5 million mt this year), despite a slightly higher domestic number and a 2 million mt increase in stocks.
- Russian spring wheat plantings are at 49% complete on 5.9 million ha (14.6 million acres).
- We have Russian FOB wheat values down \$4.00/mt at \$225.00/mt for Russian 12.5 pro wheat.

➤ **Significant purchases/ trades:**

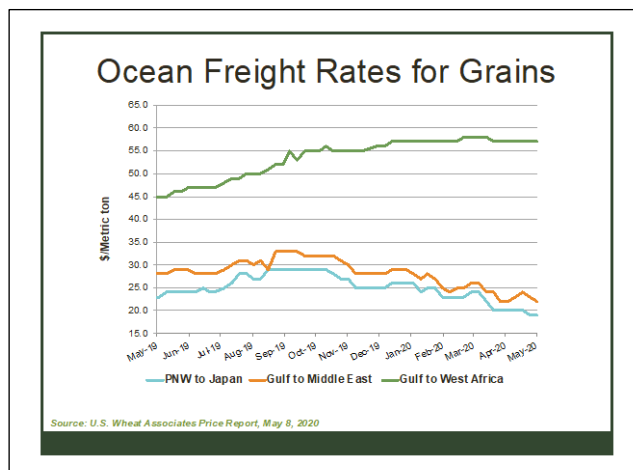
- **Algeria** bought 500,000 mt of wheat for Jul-Aug at \$218/mt.
- **Tunisia** bought 67,000 mt of wheat for July at \$207-213/mt.
- **Korea** bought 67,000 mt Oct arrival feed wheat at \$209.
- **Jordan** tenders today for 120,000 mt of wheat Oct/Nov.
- **Syria** tenders Wednesday for 200,000 mt of wheat.
- The UN bought 80,000 mt May-July wheat from the Ukraine for **Sudan**.
- US season export sales are 969 million bu (USDA 970 million bu).

➤ **Wheat Market Outlook:**

Significant events:

- **Dryness** in northern Europe, S Russia, S Ukraine and parts of the Balkans is becoming the focus of the market, *but this is being alleviated by seeming lack of consumer demand*.
- There are questions about next year's **global demand**, including how much feed demand will be lost to cheap corn.
- Re. **durum wheat**, Tunisia projected a 31% drop in this year's crop and a 20% increase in imports. This follows on from the expected 42% drop in Morocco's harvest, which is supportive for durum values.
- **May WASDE report:** Global wheat production was pegged at 768.5 million mt and ending stocks at a big 310 million mt. 2020/21 trade was increased to 188 million mt, but we simply do not understand why world imports and exports should increase in '20/21; *we think production will be higher and demand will be lower. With non-Chinese stocks up 15 million mt, there is little hope for a wheat rally without a huge crop problem somewhere.*
- **Global Wheat News:**

- According to Reuters, **Ukraine's** Economy Ministry will not increase its wheat export quota for the 2019/20 export season. Ukraine will allow 20.2 MMT of wheat exports in 2019/20, 26% greater than last year and an all-time export record.
- USDA estimates **world wheat ending stocks** in 2020/21 will reach a record 310 MMT, up 5% from last year if realized. Global trade is estimated to reach a record 188 MMT, 3% from 2019/20. Total global production is expected to reach a record 768 MMT and total global consumption is forecast to reach a record 753 MMT.
- **Chinese wheat ending stocks** are forecast to reach a record 160 MMT, up 7% from last year and 27% greater than the 5-year average on stable domestic consumption and significantly higher beginning stocks compared to last year.
- USDA forecasts **Australian wheat production** will rebound by 58% in 2020/21 to 24.0 MMT as beneficial precipitation could pull the country out of a three-year drought. Australian exports are expected to jump 83% from last year to 15.0 MMT.
- **Russia** has sent a second shipment of wheat to Saudi Arabia after its first export cargo arrived in the Gulf kingdom earlier in May, Saudi state grain buyer SAGO said on Thursday. The cargo is expected to arrive in Saudi Arabia later this month, SAGO said, confirming an earlier report from Reuters.
- The **Baltic Dry Index (BDI)**, an assessment of the average cost to ship raw materials like grains, coal and iron ore, increased slightly from last week to end at 465.80..



➤ Outlook:

Overall, dryness in northern Europe, S Russia, S Ukraine and parts of the Balkans is becoming the focus of the market, *but this is being alleviated by seeming lack of consumer demand*. The big problem with the demand is how to quantify it this year.

For the present, we would temporize on wheat trades while there are some weather concerns on new crop wheat in Europe. If \$7.00 per bushel can be achieved, we would continue selling old crop Canadian. Wheat still looks overpriced when compared to corn, but for the time being, the market's attention will be on the supply side of the equation with the current weather outlook arguing for increasing caution when North American returns are poor. There were some late week reports of buying interest from Morocco, East Africa and Asia based on drought concerns.

Durum: 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 bullish new crop durum.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 19-05-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept.'20 (bu.)	Sept.'20 (mt)
1 CWRS 13.5	\$6.36	\$233.69	1 CWRS 13.5	6.23	\$228.92
1 CWAD 13.0	\$7.87	\$289.18	1 CWAD 13.0	7.48	\$274.85
1 CPSR 11.5	\$5.72	\$210.18	1 CPSR 11.5	5.49	\$201.72
SW Sask			SW Sask		
1 CWRS 13.5	\$6.25	\$229.65	1 CWRS 13.5	6.12	\$224.87
1 CWAD 13.0	\$7.83	\$287.71	1 CWAD 13.0	7.41	\$272.27
1 CPSR 11.5	\$5.62	\$206.50	1 CPSR 11.5	5.38	\$197.68
NE Sask			NE Sask		
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	5.97	\$219.36
1 CWAD 13.0	\$8.24	\$302.77	1 CWAD 13.0	7.74	\$284.40
1 CPSR 11.5	\$5.52	\$202.83	1 CPSR 11.5	5.32	\$195.48
SE Sask			SE Sask		
1 CWRS 13.5	\$6.16	\$226.34	1 CWRS 13.5	5.99	\$220.10
1 CWAD 13.0	\$8.22	\$302.04	1 CWAD 13.0	7.70	\$282.93
1 CPSR 11.5	\$5.46	\$200.62	1 CPSR 11.5	5.27	\$193.64

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

v) 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				19-05-2020
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	\$353.71	\$392.50		
HRS	\$346.05			
HRW 11.5	\$308.79			
SWW 12.0	\$318.49			
1 CWRS 13.5³	\$353.71		\$223.77	\$129.94
2 CWRS 13.0³	\$346.05		\$203.56	\$142.49
3 CWRS³	\$308.79		\$185.19	\$123.60
CPS³	\$311.35		\$201.72	\$109.62
1 CWAD⁴		\$385.36	\$255.74	\$129.62
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$225.00	June		
French 11.5 (Rouen)	\$223.70	June		
ASW 10.5 (W Coast)	\$274.00	June		
Argentine 12.0	\$225-235	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				19-05-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$9.22	\$8.21	\$6.10	\$6.10
Parity Track Rosetown	\$7.73	\$6.71	\$6.98	\$6.98
Track Bid Rosetown Area	\$5.54	\$5.04	\$5.49	\$5.49
Gross Margin at Elevator (\$/bu) *	\$2.19	\$1.67	\$1.49	\$1.49
Gross Margin at Elevator (\$/mt) *	\$80.36	\$61.47	\$54.64	\$54.64
* to cover elevation, elevator market risk, margin				