

Wheat Market Outlook and Price Report: May 25, 2020

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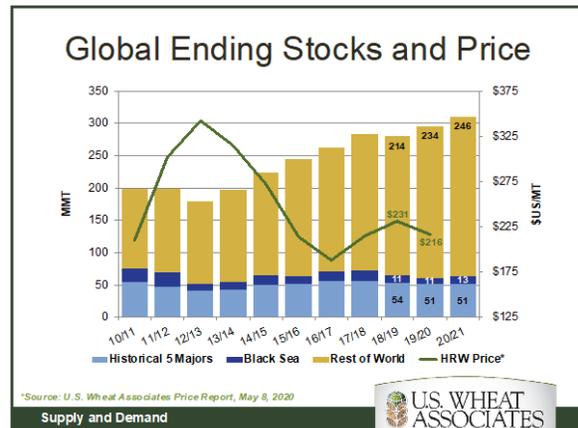
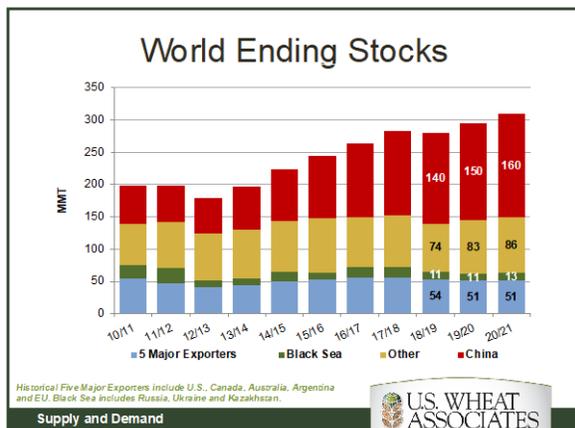
i) Background and Rationale for the Report

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 25, 2020

Focus on 2020/21 Global Wheat Ending Stocks (USDA numbers):



- **Global wheat ending stocks:** Global '20/21 wheat ending stocks are projected at a record 310 million mt, 5% higher than last year and 14% greater than the 5-year average.
- **Chinese** ending stocks are projected to reach 160 million mt, 7% (+10 million mt) bigger than last years and 27% bigger than the 5-year average.
- **Russian** ending stocks could jump to 24% from last year to 10.3 million mt, unless the current drought conditions there continue.
- **US** wheat ending stocks are forecast by USDA to decrease by 7% from last year to 24.7 million mt, the lowest in 6 years.
- **Canada's** wheat ending stocks are forecast by USDA at 5.5 million mt in '19/20, and at 5.7 million mt in '20/21. AAFC put all wheat stocks at 5.9 million mt for '19/20, and at 6 million mt for '20/21. We think Canada will have great trouble reaching even AAFC's wheat (excl. durum) export number of 18 million mt for '19/20, which would mean '19/20 ending stocks will be even bigger than the AAFC number. According to the CGC, year-to-date exports to week 41 have only reached 13 million mt, which works to a troublesome annualized 16.5 million mt by week 52.

➤ **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 508-6, down 7-2 cents on Friday, *up 8-4 cents for the week*.
- Jul '20 contract Kansas hard red winter wheat closed at 444-4, down 10-0 in Friday’s trade, *down 7-8 cents for the week*.
- Minneapolis Jul '20 contract hard red spring wheat closed at 513-0, down 5-0 cents in Friday’s trade, *down 6-8 cents for the week* while Sep '20 hard red spring wheat closed at 524-2, down 4-4 cents on Friday, *down 4-2 cents for the week*.
- The markets in the US are closed today for Memorial Day. Traders will be watching the weather reports over the weekend to establish how we start the week on Tuesday.
- “Coronavirus” is still an issue even with more countries opening up to improve their economies. There were fears in China over a second wave of the virus as there was news that it had re-surfaced in Jilin province, where schools and transport were shut down. Rumours talk about a potentially mutated form of the virus in Jilin Province.

Canadian Wheat:

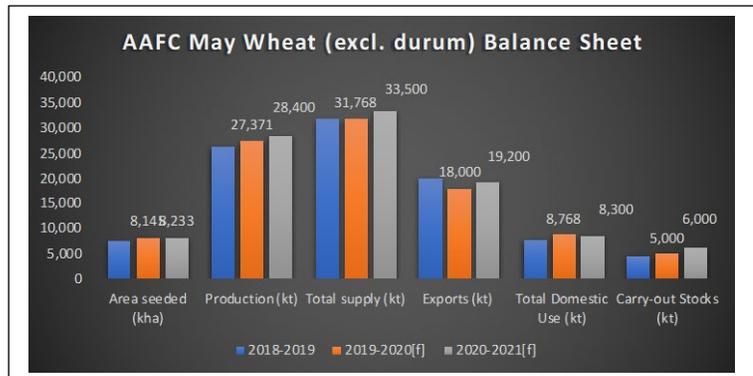
- Per weekly CGC data, **wheat exports** for week 41 were 351,000 mt, bringing year-to-date exports to 13 million mt, 9% smaller than last years (-1.3 million mt). This contrasts sharply with a 63% increase in EU wheat exports this crop year.
- Commercial wheat stocks in Canada are down a little at 2.4 million mt.

(CGC) Grain Handling Summary Wheat				Wk. 41	(May 17/'20)
'000 mt)	Prod. Dlvs.	Terminal		Bulk exports	Dom. Disappearance
		Rcpts.			
Wk. 41	269.6	396.3		350.8	35.7
Week ago	310.4	522.5		755.0	50.0
YTD	16,943.4	14,914.3		12,993.6	3,189.0
Last YTD	17,104.6	16,140.0		14,249.6	3,218.7
YTD less Last YTD	-161.2	-1,225.7		-1,256.0	-29.7
YTD over Last YTD	99%	92%		91%	99%

Mercantile based on weekly CGC Handling Data

- Canadian wheat stocks (excl. durum) will increase this year, and are also expected to increase again in the new crop year. However, ongoing dryness in Europe and the Black Sea region could help tighten supplies.
- **AAFC** published their May balance sheets last Friday. For 2019/20 wheat (excl. durum), they tinkered with imports and domestic numbers, but left exports unchanged from their April estimate at 18 million mt. They also left ending stocks at 5 million mt. As mentioned above, we think AAFC exports are too high. The CGC year-to-date exports to week 41 have only reached 13 million mt, which works to an annualized 16.5 million mt by week 52, much lower than 18 million mt. Not reaching the export number will mean that ending stocks rise accordingly!

For the 2020/21 crop year, AAFC is increasing exports to 19.2 million mt. While higher exports certainly would be beneficial for farmers, we think this may be difficult to achieve in the Covid-19 environment, unless significant drought problems persist in the EU and the Black Sea regions. Should Canada be unable to lift exports next crop year (and we do not reach this year’s export targets), then ‘20/21 wheat ending stocks could potentially rise to 8 million mt, a 29% stock-use ratio!



- We have an old crop - new crop inverse in cash prices saying that new crop North American values are too high to compete for export. So, *our suggestions remain the same: Liquidate old crop, hold new for the present.*
- **Seeding progress** in Saskatchewan more than doubled last week, thanks to minimal rainfall and few disruptions in field work. Spring wheat planting in SK was 51% complete as of May 18th. In Alberta, spring wheat was 68% planted as of May 19th, up from 26% last week.
- **U.S.** spring wheat planting for fall 2020 harvest is 60% complete, slightly behind last year's 63% and well behind the 5-year average of 80% complete. Across much of the Northern Plains, cool temperatures, overly wet field conditions and delayed field work from the 2019 harvest are slowing farmers down.
- According to the **Russian** Ministry of Agriculture, Russian spring wheat planting is now 71% complete at 9.30 million hectares (23.0 million acres). The spring wheat regions of **Siberia** are expected to remain dry and the soil moisture and vegetation maps look poor.

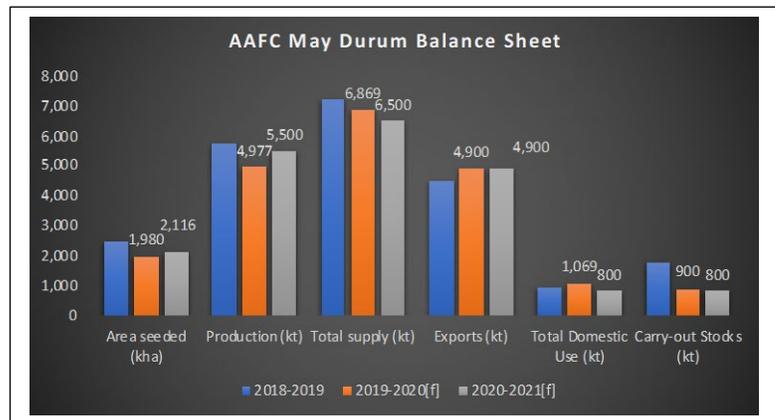
- **Durum** exports for week 41 were a smallish 95,000 mt for a season total of 4.1 million mt, 17% (+603,000 mt) bigger than last year.

(CGC) Grain Handling Summary Durum				
('000 mt)	Wk. 41		(May 17/'20)	
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 41	75.5	89.3	94.9	3.2
Week ago	67.6	124.4	204.9	6.4
YTD	4,034.3	4,834.1	4,114.7	311.4
Last YTD	3,519.1	3,888.2	3,512.1	280.0
YTD less Last YTD	515.2	945.9	602.6	31.4
YTD over Last YTD	115%	124%	117%	111%

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.

- The **AAFC** May balance sheet for durum showed increased exports for '19/20 at 4.9 million mt (+100,000 mt from their April publication), lowered Feed/ Seed/ Waste, but ending stocks were left unchanged at 900,000 mt. We think the export estimate may be too low, as year-to-date exports annualize to 5.2 million mt. For the 2020/21 crop year, AAFC actually lowered their new crop acreage estimate to a 7% increase (from a 15% increase in April). We think this is too low; we are still using a 15% acreage increase. AAFC production falls to 5.5 million mt (we use ~6 million mt), and exports were reduced to 6.5 million mt. '20/21 ending stocks are reduced to 800,000 mt, an 11% stock-use ratio. – We think exports can be higher lowering ending stocks to ~700,000 mt for both crop years. – This certainly would be beneficial for farmers.



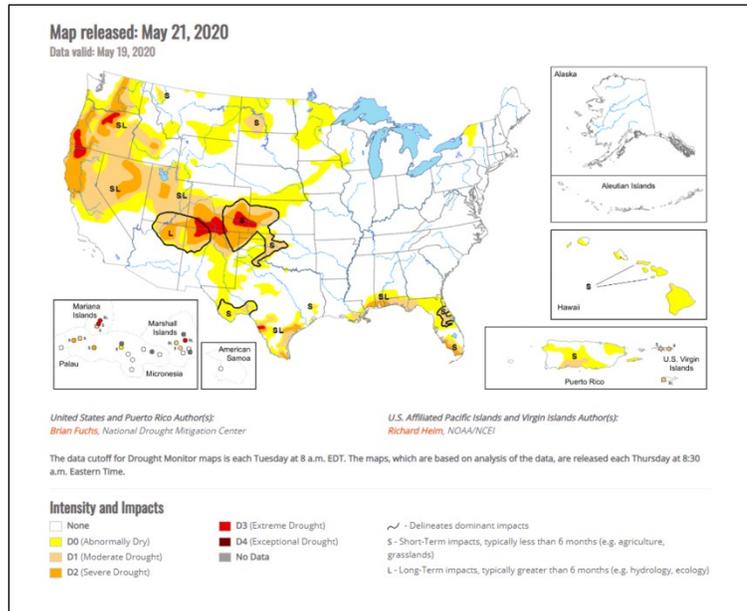
- Tightening stocks will continue to support old crop bids. Durum demand is strong which will keep exports steady until the EU crop starts being harvested. Moderate stocks and strong export demand in 2020/21 are supportive to new crop durum.

US wheat:

- Beneficial rain fell in parts of eastern Colorado and western Kansas this week, but the Drought Monitor still shows severe to extreme drought across that region. Favourable rainfall was also reported in dry areas in eastern Washington and eastern Oregon, boosting yield potential in that region after an extremely dry spring.

Moderate drought spread in southwestern Oklahoma and abnormal dryness spread into eastern Nebraska. Looking ahead, more beneficial precipitation is expected in areas across the central and southern Great Plains.

- Rainfall across the Northern Plains could continue to slow spring wheat planting.
- The virtual winter wheat tour across Kansas wrapped up on Friday and crops improved into the center of the state. Yields were estimated at 49.5 bpa for south-central Kansas, 47.6 bpa for the center of the state, and 46.5 bpa in the eastern third. The average for the tour came in at 44.6 bushels per acre for the 3 days. This compares to the USDA estimated yield of 47 for the state.



- At 176,000 mt, US weekly export sales were at the low end of expectations and with 125 million bushels still to ship, US 19/20 ending stocks are like increase above 1 billion bushels compared to the USDA's current forecast of 978 million bu.
- The FOB value for 13.5 pro HRS in the PNW for June is up \$3.00/mt from last week at \$238.00/mt.

Australian wheat:

- Recent rains continue to raise hopes for a good crop, although there still is a long way to go until harvest. Last week's talk of switching Australian barley acres to wheat seem to have been at least partially replaced by a switch to lentils.
- Australian APW WA FOB wheat was unchanged on the week at \$277.00/mt, while new crop APW FOB WA was put at \$220/mt.

Argentine wheat:

- Argentina and pretty much the whole of Brazil look completely dry next week.
- BAGE's first new crop report put plantings at 5% complete against 3% last year, they kept their acreage at 6.8 million ha compared to the USDA's 6.5 million ha.
- Old crop Argentine FOB values were \$5.00 lower at \$220.00-\$230.00/mt. Bid-offers for new crop Argentine 11.5 pro wheat remained wide at \$184-192/mt, *still the world's cheapest wheat for that position.*

EU wheat:

- Dryness across all of northern Europe just as crops move into their peak water requirement period, along with sharp reductions in Romania's crop provided support to the wheat markets. Note that French crop ratings surprisingly rose slightly to 57% GD/EX this past week (55% previous week, 79% last year), and the late week rain in Germany, Poland, the Balkans and the Black Sea, brought Friday's correction.
- EU shipments advanced 1.1 million mt for an all-wheat season total of 31.9 million mt, up 63%.
- FOB values in the EU were mixed: French 11.5 pro was \$0.34/mt lower at \$220.43/mt, while German 12.5 pro wheat gained \$2.41/mt over the week to \$226.72/mt.

Black Sea wheat:

- **Last week, Ukraine and Southern Russia** were again short changed with rain, and while the second half of this week's forecast again looks more promising, this has been the pattern for weeks, with the rain never actually being brought forward. This will be the key going forward.
- Note the *Siberian spring wheat regions* remain very dry.
- Most crop estimates for Russia are at 76-77 million mt, but the Russian Agriculture Ministry lowered its all-grain crop by 5 million mt to 120 million mt last week, which is now 1 million mt below last year. However, there was no commodity split to detail the wheat number.
- We have Russian FOB wheat values (12.5% pro) were down \$3.00/mt at \$222.00/mt.

➤ **Significant purchases/ trades:**

- The **Philippines** bought 56,000 mt g feed wheat for July-August at \$215/mt.
- **Ethiopia** bought 600,000 mt milling wheat at the tenders held back in April, but the prices do not reflect the current market.
- US export sales were at the lower end of expectations at 176,000 mt for a season total 976 million bushels against the USDA's 970 million bushels, but with 125 million bushels still unshipped and just two weeks of the season left.

➤ **Wheat Market Outlook:**

Significant events:

- **Dryness across all of northern Europe** just as crops move into their peak water requirement period, along with sharp reductions in Romania's crop provided support to the wheat markets. Note that French crop ratings surprisingly rose slightly to 57% GD/EX this past week (55% previous week, 79% last year), and the late week rain in Germany, Poland, the Balkans and the Black Sea, brought Friday's correction.
- Note the **Siberian spring wheat regions** remain very dry.
- **Global Wheat News:**
 - **Russia** will harvest about 120 million tonnes of grain in 2020, slightly less than in 2019 as yields are going to decline in several southern regions of the country, Agriculture Minister Dmitry Patrushev told a government meeting on Wednesday. Russia and Ukraine - major exporters of wheat from the Black Sea region - were hit by dry weather in April, though beneficial May rain fixed most of the damage for the upcoming crop.
 - **Kazakhstan's** Ministry of Agriculture is working to extend the list of regions able to export wheat to China, namely the central-western province of Aktobe and the eastern-most province of East Kazakhstan. According to Trade Data Monitor, Kazakhstan exported 507,000 MT of wheat to China in 2018/19.
 - Dryness persists in northern **France, northern Germany and England**, countries where the most European Union (EU) wheat is grown. According to DTN, beneficial precipitation is expected to cover the region in the coming week.
 - The State Statistical Service of **Ukraine** estimates the country's wheat ending stocks have fallen to a nine-year low of 2.80 MMT following a significant uptick in exports for the month of April on worries of a possible export ban. Ukrainian wheat exports for the month of April totaled 1.2 MMT, up 33% year-over-year. Ukrainian wheat exports now total 19.1 MMT, up 34% from last year.
 - The **World Bank** approved \$500 million in grants to help Africa and the Middle East fight the worst locust outbreak in 70 years. Crops are being decimated, and as countries across the region face up to the coronavirus making their existing economic paralysis even worse, fears are growing that the pandemic will be followed by a food security catastrophe.

➤ **Outlook:**

World wheat will be about weather for the coming weeks. Eastern Europe and the Black Sea turned somewhat wetter this weekend, Southern Hemisphere conditions look favourable, but most of the crop is still in the seed bag.

Monday is a holiday in the USA, so trade next week will be lower but volatile.

Longer-term, we don't see too much that is bullish and are not too concerned about current weather conditions. We hear conditions improved across the Prairies and seeding in Canada really took off over the past two weeks.

Liquidate old crop, hold new for the present.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 25-05-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept.'20 (bu.)	Sept.'20 (mt)
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	6.34	\$232.96
1 CWAD 13.0	\$7.82	\$287.34	1 CWAD 13.0	7.43	\$273.01
1 CPSR 11.5	\$5.75	\$211.28	1 CPSR 11.5	5.55	\$203.93
SW Sask			SW Sask		
1 CWRS 13.5	\$6.39	\$234.79	1 CWRS 13.5	6.21	\$228.18
1 CWAD 13.0	\$7.78	\$285.87	1 CWAD 13.0	7.36	\$270.44
1 CPSR 11.5	\$5.64	\$207.24	1 CPSR 11.5	5.44	\$199.89
NE Sask			NE Sask		
1 CWRS 13.5	\$6.24	\$229.28	1 CWRS 13.5	6.09	\$223.77
1 CWAD 13.0	\$8.15	\$299.46	1 CWAD 13.0	7.65	\$281.09
1 CPSR 11.5	\$5.57	\$204.66	1 CPSR 11.5	5.40	\$198.42
SE Sask			SE Sask		
1 CWRS 13.5	\$6.32	\$232.22	1 CWRS 13.5	6.11	\$224.51
1 CWAD 13.0	\$8.15	\$299.46	1 CWAD 13.0	7.63	\$280.36
1 CPSR 11.5	\$5.51	\$202.46	1 CPSR 11.5	5.35	\$196.58

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				25-05-2020
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	\$357.96	\$394.94		
HRS	\$350.26			
HRW 11.5	\$312.26			
SWW 12.0	\$317.91			
1 CWRS 13.5³	\$357.96		\$230.02	\$127.95
2 CWRS 13.0³	\$350.26		\$209.81	\$140.45
3 CWRS³	\$312.26		\$191.44	\$120.82
CPS³	\$310.72		\$206.87	\$103.85
1 CWAD⁴		\$387.75	\$255.74	\$132.01
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$222.00	June		
French 11.5 (Rouen)	\$220.43	June		
ASW 10.5 (W Coast)	\$274.00	June		
Argentine 12.0	\$220-230	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				25-05-2020
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$9.34	\$8.30	\$6.05	\$6.05
Parity Track Rosetown	\$7.84	\$6.81	\$6.96	\$6.96
Track Bid Rosetown Area	\$5.71	\$5.21	\$5.63	\$5.63
Gross Margin at Elevator (\$/bu)*	\$2.13	\$1.60	\$1.33	\$1.33
Gross Margin at Elevator (\$/mt)*	\$78.28	\$58.64	\$48.86	\$48.86
* to cover elevation, elevator market risk, margin				