

Wheat Market Outlook and Price Report: Nov. 2, 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 November 2, 2020

CFTC Wheat Speculative Net Positions as of Oct. 30, 2020:



- **Fund positions** changed from -15,000 contracts on August 7 to +44,000 contracts on October 30th, thus lending support to the wheat markets.
- CFTC data showed that managed money **Soft Red Wheat** traders were 48,896 contracts net long on 10/27. That was an 832-contract reduction to the net position by way of additional shorts. Managed money open interest increased 14,740 contracts from week to week.
- For **Hard Red Wheat**, spec traders were net buyers and increased their net long by 3,264 contracts to 41,410.
- Managed money speculative traders doubled their **Minneapolis** net long to 8,877 contracts.

➤ **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:** Dec. '20 contract **Chicago winter wheat** closed at 598-4, down 5-2 cents on Friday, *down 34-2 cents for the week.*
Dec. '20 contract **Kansas hard red winter wheat** closed at 541-2, down 0-6 cents in Friday's trade, *down 28-4 cents for the week.*
Dec. '20 **Minneapolis hard red spring wheat** closed at 552-2, unchanged on Friday, *down 34-8 cents for the week.*

CBOT Dec. 2020 Wheat (1 yr.)



KC Dec. '20 Wheat



Mpls. Dec. '20 Wheat



- **Futures market summary:** All wheat futures prices fell due to beneficial precipitation in the Southern Plains, Russia and Argentina.

Canadian Wheat:

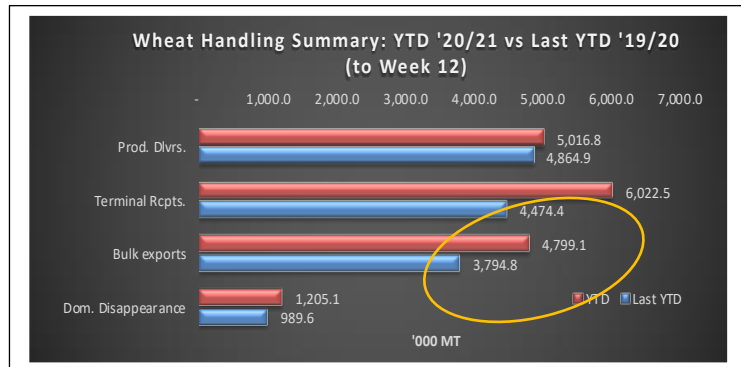
- Last week, growers sold some grain and the weaker outside markets and better weather were the main reason for the decline. Markets closed higher on Friday.
- Grain markets are tough to read with the Funds showing a huge long and the trade getting more concerned about the effects of "coronavirus" on overall demand. We expect the markets to trade in a narrow range, as we will have a new WASDE report issued the following week on November 10th. This may give traders a better view of the markets going forwards. In the meantime, we expect markets to trade in a narrow range with the overall trend a little bearish as some traders continue to take profits. The overall Fund position needs to be monitored.

- In Canada, week 12 grower deliveries were a big 540,000 mt, with a 12-week total of 5 Million mt.

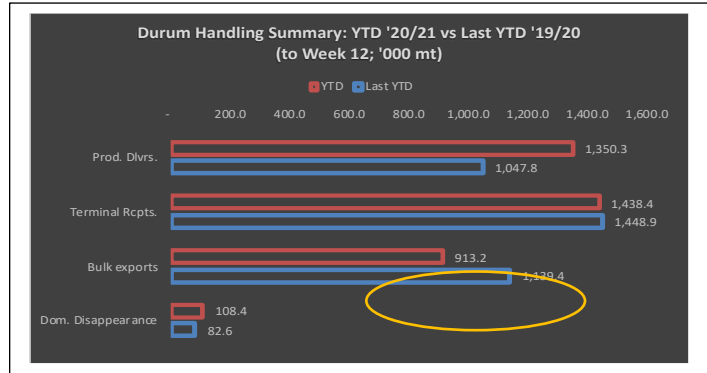
At 279,000 mt, weekly wheat export loadings were smaller than last week's; year-to-date export shipments amount to 3.8 Million mt, which is 1 million mt (+26%) ahead of last year's year-to-date loadings.

There are still opportunities in the international wheat markets this year (supported by better rail availability) to increase Canadian wheat exports this year and to recover some market share.

- Uncertainty about the final international wheat production outcomes still persists. *Demand for Canadian wheat continues to be good and improved rail availability is helping tremendously.* But international markets are hard to define at this time in the short term we don't see wheat leading the markets. - *We would be sold up to 75 percent of production where local bids exceed full costs.*



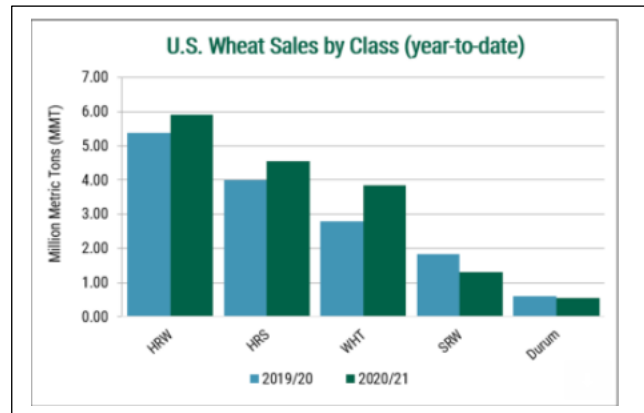
- **Durum:** Canadian durum exports have started to improve. Week 12 durum export shipments amounted to 116,000 mt for the week, and at 913,000 mt year-to-date. Year-to-date exports trail last years by 226,000 mt (-20%).
- We think that longer-term international demand prospects for durum look positive and durum is going to be in short supply. *We note that durum bids actually improved over the past week.*



There seems to be demand for durum in south and south-eastern Saskatchewan at up to \$8.30/bu. We would begin looking at sales starting at \$8.50/bu (# 2 CWAD's), which is a decent premium to hard red spring wheat.

US Wheat:

- Weekly US export sales were 743,000 mt for a season total 594 Million bu, up 11% on last year's 536 million bu. This was a bigger than expected weekly sales number.
- However, about 60% of total sales was white wheat destined mostly to Asia, and the white wheat season total of 141 Million bu has already reached 76% of the USDA's total projection. PNW white wheat is currently valued around \$250/mt against compared to Australian ASW at over \$260/mt, and as such is the cheapest feed wheat into Asia. In comparison, HRW sales have reached 53% of the USDA projection. And while US wheat remains expensive on the FOB market, KC continues to reduce the spread against the CBOT.
- USDA rated 41% of the U.S. winter wheat crop in good to excellent condition, lower than the lowest pre-report estimate. Analysts had estimated that the USDA would rate 42% to 65% of the wheat as good to excellent.
- US HRS for November is valued at \$289/mt FOB PNW (-\$7/mt from last week), PNW White wheat is at \$253/mt FOB PNW (+\$1/mt), and Nov. Gulf HRW (11% protein) is valued \$268.70/mt FOB (-\$10.47/mt).



Australian wheat:

- Australian wheat futures lost the previous week's gains due to the lower US values, a two-week high in the Australian dollar, and an improved weather forecast (more rain in the West, less rain in the East).
- Australian new crop FOB APW wheat values for Nov. closed down \$5/mt from last week at 270.00/mt. *APW still prices into Asia compared to Black Sea wheat.*

Argentine wheat:

- BAGE raised crop ratings to 14% Gd./Exc. compared to 10% last week (41% last year). Harvest is 6% complete (4% both last year and average). The north is 56% complete (compared to 30% average), but yields remain low at just 0.82 mt/ha. Still, BAGE kept the crop at 16.8 million mt (USDA 19 Million mt).
- FOB prices dropped. Argentine new crop 11.5% pro wheat for Dec. was offered at \$250/mt.

EU wheat:

- Matif closed lower last week due to more rain in the forecast for the Black Sea, poor exports from the EU, and renewed fears that demand may suffer as much of Europe moves back into lockdown.
- However, cash bids continued to struggle to prise grain away from the interior market. The EU needs to ration exports much more in order to divert supplies to the domestic market.
- FOB values in the EU were all down over the past week. French 11.5 pro wheat fell by \$9.41/mt to US\$243.65/mt, German 12.5 pro decreased by \$9.37/mt from last week to \$241.24/mt, and Baltic 12.5% pro wheat fell \$9.35/mt to \$240.08/mt.

Black Sea wheat:

- Generally improving rains in Russia and Ukraine took wheat values lower, and while the rain has not reversed three months of drought, it has supported germination and crops perhaps have a better chance now to establish themselves ahead of winter than ten days ago. Still, the size of the N Hemisphere winter wheat production will not be known until next spring.
- Russian winter plantings were put at 95% complete with Ukraine at 91% complete.
- The weather forecast for Russia shows little change with the first week of November showing light rains while the second week turns dry again.
- FOB values were nominally around \$3 lower, although Black Sea futures fell \$9-10/mt (both old and new crop). With crude oil down 10%, the Ruble made its lowest intraday close since March.
- FOB values were down a bit, with Russian 12.5 pro lower \$3/mt at \$253/mt.

➤ Significant purchases/ trades:

- **Korea** bought 50,000 mt of March feed wheat (from the US) at \$269/mt.
- **Jordan** bought 120,000 mt Feb-Mar milling wheat at \$279.50/mt.
- **Syria** tendered for 200,000 mt Black Sea wheat, but with no results.
- **USA** inspections were 364,000 mt (season total 406 million bushels, up 4%); sales were 743,000 mt (season total 594 million bushels, up 11% on last year).
- The 2-week update put **EU** soft wheat shipments at 6.4 Million mt against last year's 9.25 Million mt (69%).

➤ Wheat Market Outlook:

Significant events:

- On the "bear side": There was a big jump in planting progress of **European winter crops** last week.
- The worldwide **surge in "Coronavirus" infections** and the increasingly **negative outside markets** pressured wheat markets.
- **China** sold 2.699 million mt of wheat from state reserves, citing its competitiveness as a corn feed substitute given historically high corn prices.
- On the "bull side", La Nina is keeping the **USA Plains** dry, the **Black Sea** still has a long way to go to catch up on soil moisture losses. The Northern Hemisphere winter wheat production will not be known until next spring. At the same time, the jury is still out on **Southern Hemisphere** crops, **Russian export quotas** remain an unknown, and the **EU** still has a major domestic feed shortage to resolve.

➤ **Outlook:**

The surge in “Coronavirus” infections and the increasingly negative outside markets pressured wheat markets. On the “bull side”, La Nina is keeping the USA Plains dry, the Black Sea still has a long way to go to catch up on soil moisture losses. The Northern Hemisphere winter wheat production will not be known until next spring. At the same time, the jury is still out on Southern Hemisphere crops, Russian export quotas remain an unknown, and the EU still has a major domestic feed shortage to resolve. Markets are hard to define at this time; in the short term we don’t see wheat leading the markets.

Where there are good margins, we would be 75 percent sold. If bids and margins are poor, we would wait out the markets until after the next WASDE report is released on November 10th.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	02-11-2020
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)	
1 CWRS 13.5	\$6.52	\$239.57	1 CWRS 13.5	6.76	\$248.39	
1 CWAD 13.0	\$7.77	\$285.50	1 CWAD 13.0	8.06	\$296.16	
1 CPSR 11.5	\$6.02	\$221.20	1 CPSR 11.5	6.14	\$225.61	
SW Sask			SW Sask			
1 CWRS 13.5	\$6.41	\$235.53	1 CWRS 13.5	6.62	\$243.25	
1 CWAD 13.0	\$7.87	\$289.18	1 CWAD 13.0	7.98	\$293.22	
1 CPSR 11.5	\$5.93	\$217.89	1 CPSR 11.5	6.09	\$223.77	
NE Sask			NE Sask			
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	6.51	\$239.20	
1 CWAD 13.0	\$7.90	\$290.28	1 CWAD 13.0	8.24	\$302.77	
1 CPSR 11.5	\$5.82	\$213.85	1 CPSR 11.5	5.92	\$217.52	
SE Sask			SE Sask			
1 CWRS 13.5	\$6.25	\$229.65	1 CWRS 13.5	6.47	\$237.73	
1 CWAD 13.0	\$7.92	\$291.01	1 CWAD 13.0	8.21	\$301.67	
1 CPSR 11.5	\$5.77	\$212.01	1 CPSR 11.5	5.90	\$216.79	

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.05)	(1.84)
1 CWRS 12.5	(0.30)	(11.02)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.5	(0.10)	(3.67)
2 CWAD 12.5	(0.30)	(11.02)

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/mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mt, 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 Canadian. FOB Prices minus primary elevator bids, the FOB prices are translated into Canadian. 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

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.”

- 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.

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

Relevant FOB Prices and Export Basis				02-11-2020
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	\$334.68	\$381.45		
HRS	\$327.37			
HRW 11.5	\$339.55			
SWW 12.0	\$301.55			
1 CWRS 13.5 ³	\$334.68		\$236.26	\$98.41
2 CWRS 13.0 ³	\$327.37		\$221.57	\$105.80
3 CWRS ³	\$339.55		\$212.38	\$127.17
CPS ³	\$294.73		\$221.20	\$73.53
1 CWAD ⁴		\$374.63	\$277.78	\$96.84
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$253.00	November		
French 11.5 (Rouen)	\$243.65	November		
ASW 10.5 (W Coast)	\$264.00	November		
Argentine 12.0	\$250.00	November		

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				02-11-2020
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.72	\$9.06	\$6.05	\$6.05
Parity Track Rosetown	\$7.23	\$7.56	\$6.52	\$6.52
Track Bid Rosetown Area	\$6.03	\$5.78	\$6.02	\$6.02
Gross Margin at Elevator (\$/bu)*	\$1.20	\$1.78	\$0.50	\$0.50
Gross Margin at Elevator (\$/mt)*	\$44.00	\$65.36	\$18.55	\$18.55
* to cover elevation, elevator market risk, margin				