

Wheat Market Outlook and Price Report: November 25, 2019

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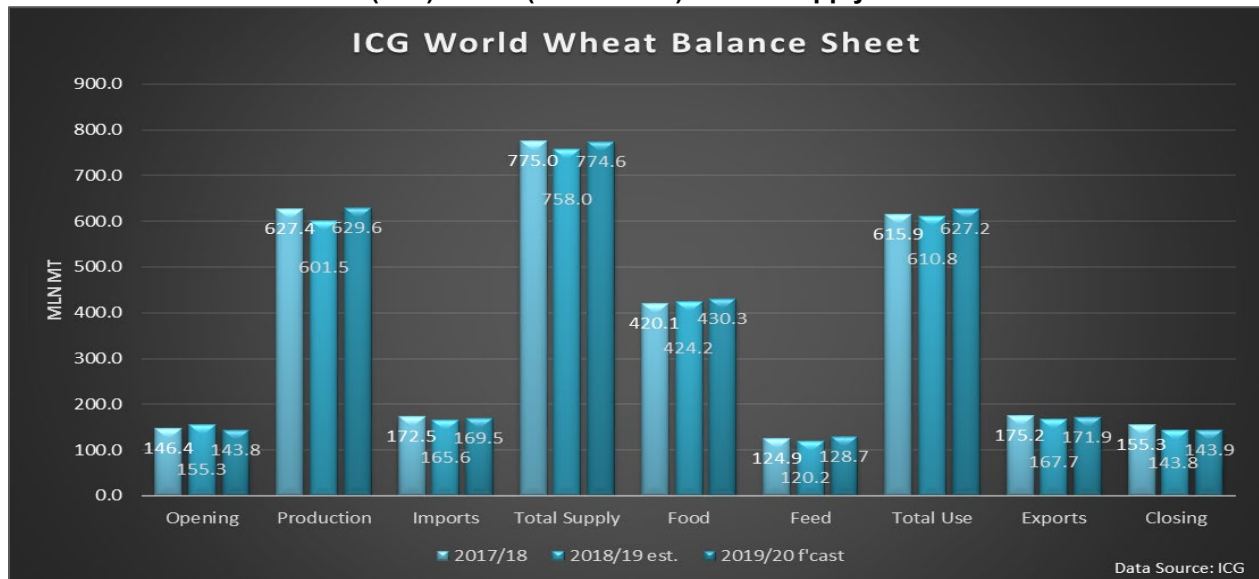
i) Background and Rationale for the Report

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 Nov 21st, 2019

International Grains Council (ICG) World (excl. China) Wheat Supply and Demand



- The ICG made minor revisions to the 2019/20 world wheat supply and demand in this month's Grain Market Report.
- On the supply side, offsetting changes in beginning stocks and production left world supply unchanged from last month at 774.6 million mt. Beginning stocks were seen 300,000 mt higher than last month at 143.8 million mt from an increase in Argentina, while production was put 700,000 mt lower at 629.6 million mt. Production was lower in Argentina (500k mt at 19 million mt) and the US (1.1 million mt at 52.3 million mt) while EU production was seen 1.2 million mt higher than last month at 154.9 million mt.
- On the demand side, total use was 300,000 mt lower than last month at 627.2 million mt. Food use was put 200,000 mt lower, but feed use was 600k mt higher.
- Overall, ending stocks were seen 100,000 mt lower than last month at 143.9 million mt, still 100,000 mt higher than last year's record of 143.8 million mt.

- Early estimates for the 2020/21 crop year are for a 1% increase in harvested area to 218 million acres as decreases in the US (to a historically low level) and Ukraine (because of a smaller planted area and poor stand from the dry fall) is offset by expanding acres in Russia.

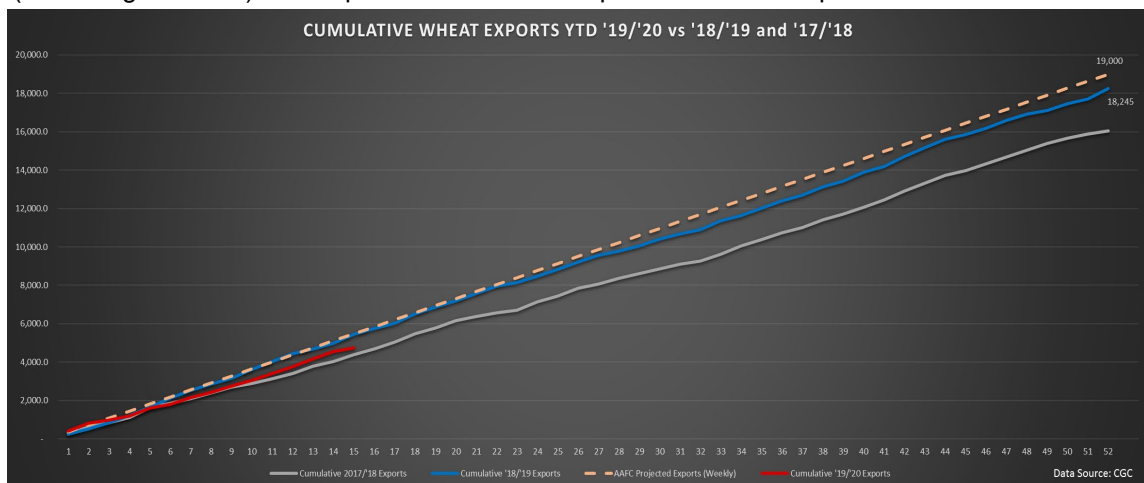
➤ **Global wheat production and trade:**

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 '19 contract **Chicago** winter wheat closed at 515-2, up 6-2 cent for the day, up 12-4 cents for the week.
- Dec '19 contract **Kansas** hard red winter wheat closed at 424-0, up 3-0 cents for the day, up 7-0 cents for the week.
- In **Minneapolis**, Dec '19 contract hard red spring wheat closed at 492-6, down 2-4 cents for the day, down 11-0 cents for the week, while March '20 hard red spring wheat closed at 506-6, down 2-4 cents for the day, down 12-4 cents for the week. **The reason behind the pressure on Minneapolis wheat futures is the threat that poor quality physical deliveries could take place on expired futures contracts.** Grading standards for expired contract delivery are so lax that no one wants to stick their neck out to take delivery of potentially very poor-quality HRS.

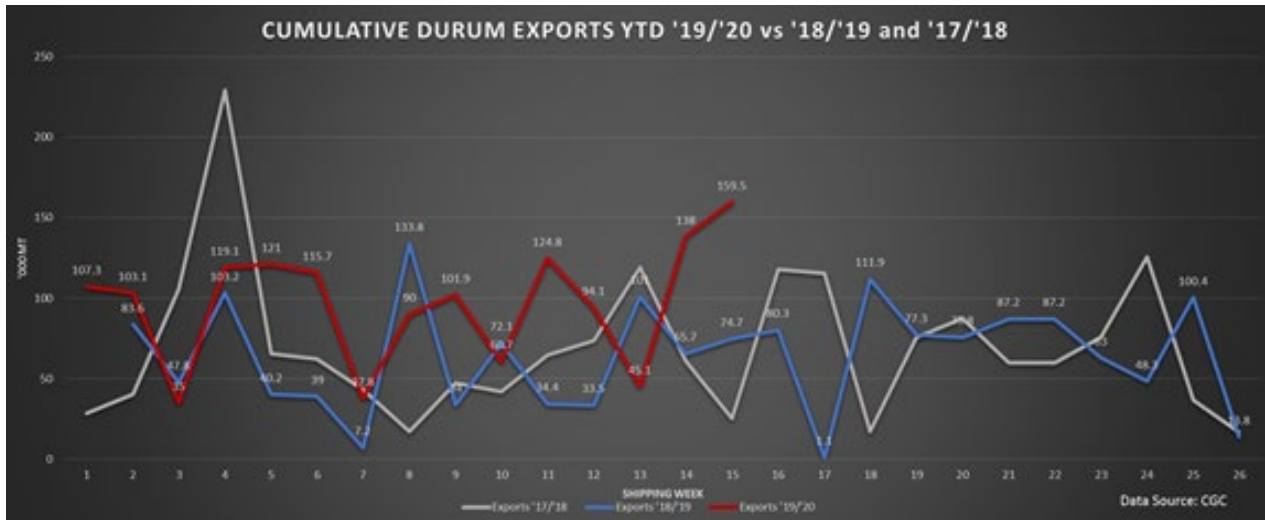
Canadian Wheat:

- The final SK crop report for the season was released last week showing spring wheat harvest at 94% complete as of Nov 18th, up 2% from Oct 28th. SAF is showing the 2019 average provincial HRS yield to be 45 bushels per acre, up 2 bushels (5%) from last year. Stats Canada's est. for SK's 2019 spring wheat yield is 45.9 bushels per acre, down 3% from last year. Given the current % harvested, and using Stat's Canada's acreage and yield number, there are ~522,000 acres accounting for ~646,000 mt of spring wheat remaining unharvested.
- Similarly, SAF put durum harvest at 96% complete as of Nov. 18th, up 6% from Oct 28th. Final average durum yields were 39 bushels per acre, up 7 bushels from last year's 32 bushels per acre, and in-line with Stats Can's 39.2 bushels per acre estimate. According to Stats Canada's planted area and estimated yield, there is 170,500 mt of durum remaining to be harvested in SK.
- Canadian producers delivered 403,000 mt of wheat (excl. durum) into the Canadian grain handling system during week 15 of the 2019/20 marketing year. Exports during the week were 213,400 mt, for a YTD total of 4.8 million mt, 644,500 mt (12%) less than this time last year. Last year was an exceptionally good year for wheat exports and 2019/20 exports are tracking more closely to the 2017/18 market year, during which, Canada exported 17.6 million mt of wheat (according to AAFC). We expect another week to pass before the impact of the rail strike to sets



in.

- During shipping week 15, 127,600 of durum was delivered into the Canadian grain handling system. Exports throughout the week were strong again at 159,500 mt for a YTD total of 1.482 million mt, 62% (566,000 mt) more than this time last year.



- **Given the wheat values that have traded in recent weeks, Canada should be doing more wheat business, particularly in durum and lower grade wheat.**
 - Last week, Tunisia bought 100,000 mt of durum which we hope was sourced from Canada. Traded C&F was \$326 which backs off to \$8.50+ at the elevator SK. We were unable to get an updated durum bid, but last bids we saw were poor. We recommend checking prices at US elevators.
 - Traded global feed wheat values are worth ~US\$200.00/mt parity Vancouver. Accounting for the exchange rate and backing off 112 car rail freight rates and actual handling expenditures calculates to C216.60/mt (\$5.90 per bushel) at the elevators in central SK. The current posted bid is \$4.80, for a generous \$40.24/mt margin after costs.
- While the government has not ordered the rail strikers back to work, we don't expect elevators to improve their bids. **We expect bids for No. 2 CWSR to be around \$6.50 per bushel, and in the short term do not expect any improvement. If not sold already per our suggestions, we would sell at these levels.**

US wheat:

- HRS export basis in the Lakes was down as traders rolled Dec contracts to March. HRS basis levels in the Gulf were up 20 cents from low farmer selling. The same lack of farmer selling supported HRW in the Gulf, tight SRW stocks and steady export demand supported SRW. There was limited demand in the PNW which softened basis levels for all classes.
- US wheat sales for the week ending Nov 14th were at the higher end of 200,000-500,000 mt expectations at 437,700 mt. This makes a YTD total of 430.1 million bushels, well ahead of last year's 343.4 million bushels.
- NASS put US winter wheat planting at 95% complete with 83% of the crop emerged as of the 17th. The crop condition lost 2 points from last week and is now 52% good to excellent vs 56% last year.

Australian wheat:

- Aussie futures made their lowest weekly close in 2 months despite most harvest progress being put on hold as farmers focused on building fire stops rather than harvesting. Harvest progress will likely pick up next week.

- Private estimates in the Australia are supporting ABARES' 15.5 million mt est. vs USDA's 17.2 million mt. ASF in China is creating a large draw on Aussie livestock and is creating the possibility that there will be more than expected culling and thus lower wheat feed use.
- Fob was largely unchanged from last week at \$230, too expensive for most origins especially with Argentine origin hitting the market.

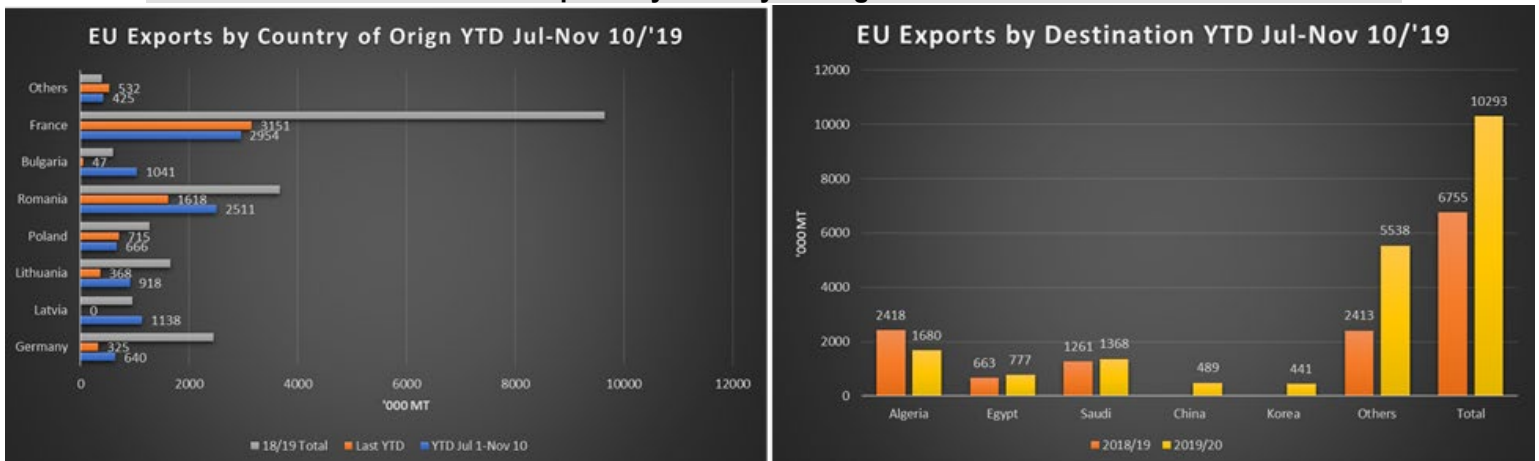
Argentine wheat:

- With 20% of the country's crop harvest, Argentina's gov't put their wheat crop estimate at 19 million mt, 500,000 mt more than BAGE's number but 1 million mt less than the USDA.
- Just 5.7% of Argentina's wheat crop is rated Gd/Ex having lost another 4 points from last week, now down 29% from last year.
- Exporters in Argentina were counting on a faster/earlier harvest pace as current nearby export commitments are larger than harvested production.
- Argentine Fob values bid at \$189.00-194.00 are nominally \$0.50 higher than last week.

EU wheat:

- Brussels released their data for EU wheat exports showing that 625k mt of soft wheat had been exported from the EU last week for a YTD total of 10.293 million mt, up 50% from last year. We cannot help but be skeptical with Brussel's data about EU wheat exports as they seem to be too low vs port data in the respective countries (French port data shows 3.642 million mt worth of exports vs Brussels' 2.954 million mt). Regardless, the numbers are helpful in illustrating the change in the amount of exports by country of origin and the destinations of EU wheat. According to Brussel's numbers, exports from France are lower than they were last year, while exports from Romania, Lithuania and Latvia are well ahead of last year's pace. Exports to Algeria (the EU's largest customer) are down y/y while exports to all other destinations are well ahead of last year, including significant purchases from China and Korea.
- Last week Algeria announced that it will cap soft wheat imports at 4 million mt instead of 6.2 million mt. It is an odd move esp. amidst current civil unrest. The question is if the drop will happen in the 2020 calendar year or the 2020/21 market year. During the 2019 calendar year, the country imported 5.49 million mt of wheat and they have already imported 3.16 million mt YTD this 2019/20 market year. So, if the cap is on the remainder of the 2019/20 season, they only have another 700,000-800,000 mt remaining to buy between now and July 2020.

EU Exports by Country of Origin and Destination



- As heavy rain continues to hamper winter planting in the EU, Strategies Grains trimmed EU 2020 wheat area 200,000 ha to 23.7 million ha, 100,000 mt lower than in 2019. As we are getting late into the planting season, EU weather will need to be closely watched.
- After a recent decline in prices, Romanian farmers are restricting sales, waiting for wheat prices to recover.

- A national rail strike in France is scheduled to begin Dec 5th which will hamper movement in the top wheat exporting countries in the EU. A small cash inverse is already starting to build.
- FOB values in the EU were mixed with French 11.5 pro bid at \$204.9 (+\$3.90 wk/wk), German 12.5 pro bid at \$202.9 (-\$0.10) and Baltic 12.5 pro bid at 204.3 (+\$1.30).

Black Sea wheat:

- The ICG is predicting that 2020/21 MY wheat area will be 1% higher than last year as decreases in the US, EU and Ukraine will be offset by increases in Russia. This will make Russian weather conditions very important when the focus turns to the 2020/21 MY.
- So far, the Black Sea is dryer than normal which is affecting germination and early development, but it is far too early to make any judgements as to how much (if at all) this will affect the crop.
- Black Sea values were mixed. Interior prices were firm as CME futures rose \$2-4, but Fob values for 12.5 pro were \$208, down a dollar from last week while 11.5 pro FOB rose \$2 to \$205.

➤ **Significant purchases/ trades:**

- **Algeria** bought 550,000 mt of January wheat at \$223-224/mt C&F.
- **Tunisia** bought 75,000 mt of Dec-Jan wheat at \$228.25 **and 100,000 mt of durum at \$326 (hopefully this was Canadian durum; it calculates to over \$8.50 at the elevator Saskatchewan).**
- **Jordan** bought 60,000 mt of LH Feb hard wheat at \$238.
- **USA** inspections were 449,000 mt (season total 438 million bushels, up 21%), sales were 438,000 tonnes (season total 574 million bushels up 8%).

➤ **Wheat Market Outlook:**

Significant events:

- **Technical buying and short covering supported both winter wheat futures contracts week-over-week while technical selling pressured the spring wheat futures contract.** Soft red winter (SRW) March 2020 futures gained 13 cents on the week to close at \$5.19/bushels. Hard red winter (HRW) March futures gained 7 cents to end at \$4.33/bushels. Hard red spring (HRS) March futures lost 12 cents to close at \$5.06/bushels. CBOT March corn futures lost 2 cents to end at \$3.78. CBOT March soybean futures lost 19 cents to close at \$9.11/bushels.
- **Great Lakes Hard Red Spring Wheat export basis softened for nearby delivery** as traders roll price indications forward from the December HRS futures contract to the higher March HRS futures contract. Gulf HRS export basis for December delivery is steady and high week-over-week while Gulf HRS export basis for January delivery came up 20 cents due to minimal farmer selling. Minimal farmer selling kept Gulf HRW export basis steady and high on the week. Extremely tight exportable supplies and steady domestic and export demand supported SRW export basis for nearby and deferred deliveries. Limited export demand out of the Pacific Northwest (PNW) softened HRW export basis and soft white (SW) wheat export prices for December and January deliveries.
- **About 3,000 unionized workers from Canada's largest rail company went on strike last week.** According to AgriCensus, the strike follows the failure of Teamsters Canada and Canadian National Railway (CNR) to reach an agreement on pay and worker conditions. The strike could delay grain shipments in Canada and add more challenges for farmers following an already difficult and wet fall harvest.
- **CN rail strike:** As of noon on Monday, there is no sign of a deal between CN rail and the Teamsters Union as the strike enters the 7th day and analysts are warning that a prolonged dispute would weigh on ag exports and economic growth.
- The VCR Grain Exchange, an association of Canadian West Coast exporters of wheat, canola and other crops, declared "event of delay" on Friday due to the rail strike. This declaration is similar to 'force majeure', and allows all BC grain shippers, including Cargill Ltd, Richardson Int'l and Viterra Inc, to avoid penalties for late delivery due to circumstances outside their control.

- The **International Grains Council (IGC)** forecasts **total global area planted to wheat for harvest in marketing year (MY) 2020/21 will increase 1%** over last year. IGC expects global wheat planted area will total 218 million hectares (538 million acres) next year, up 2 million hectares (4.94 million acres) from the year prior.
- **Weather around the world:**
 - The **USA** forecast has significant and widespread rain/snow (up to 24" in parts of the Midwest) this week, which will continue to slow the remaining harvest. **Brazil** remains generally well watered except in the far north-east, but the driest part of **Argentina** in the south and west are again expected to miss out as once again the forecast fails see the rain that was in the deferred maps pulled forward. **Europe** will see more rain in a band from the UK through the whole of France down through Italy, which will further slow/stop any fieldwork. Elsewhere it remains mostly dry, although **Ukraine** could see some showers, and temperatures are moving back above seasonal norms everywhere. **Australia** brings rain back into Queensland and northern New South Wales, and temperatures drop sharply across the country, which should allow harvest to restart. ***The winter plantings in Europe need to be followed closely further delays could make wheat markets friendly.***

➤ **Outlook:**

Weather continues to pose questions on production levels: Southern Hemisphere crops are not made; Northern Hemisphere crops are not off to the best start; winter plantings in Europe are delayed. Farmer selling has slowed, while the ongoing tender demand provides support. EU shipments remain heavily ahead of last year and there is still debate over what Russia's beginning stocks really were.

Currently there is still no shortage of wheat offers in the world and there are no compelling reasons for any imminent or sustained rally in the market. However, further delays in the winter plantings in Europe should be monitored. Futures trade in the USA will be slow this week due to the "Thanksgiving Holiday". **We do not see fresh demand for quality wheat, so C\$6.50 or better we consider being a good sale.**

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)		Jan. 20 (bu.)	Jan. 20 (mt.)
1 CWRS 13.5	\$5.80	\$213.12	1 CWRS 13.5	\$5.87	\$215.69
1 CWAD 13.0	\$7.22	\$265.29	1 CWAD 13.0	\$7.25	\$266.39
1 CPSR 11.5	\$5.17	\$189.97	1 CPSR 11.5	\$5.21	\$191.44
SW Sask			SW Sask		
1 CWRS 13.5	\$5.71	\$209.81	1 CWRS 13.5	\$5.79	\$212.75
1 CWAD 13.0	\$7.20	\$264.56	1 CWAD 13.0	\$7.25	\$266.39
1 CPSR 11.5	\$4.90	\$180.05	1 CPSR 11.5	\$4.97	\$182.62
NE Sask			NE Sask		
1 CWRS 13.5	\$5.61	\$206.13	1 CWRS 13.5	\$5.64	\$207.24
1 CWAD 13.0	\$7.57	\$278.15	1 CWAD 13.0	\$7.62	\$279.99
1 CPSR 11.5	\$4.91	\$180.41	1 CPSR 11.5	\$4.94	\$181.52
SE Sask			SE Sask		
1 CWRS 13.5	\$5.67	\$208.34	1 CWRS 13.5	\$5.67	\$208.34
1 CWAD 13.0	\$7.55	\$277.42	1 CWAD 13.0	\$7.61	\$279.62
1 CPSR 11.5	\$4.83	\$177.47	1 CPSR 11.5	\$4.87	\$178.94

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			November 25, 2019	
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	\$337.61	\$320.63		
HRS	\$332.76			
HRW 11.5	\$299.29			
SWW 12.0	\$293.95			
1 CWRS 13.5 ³	\$337.61		\$210.91	\$126.70
2 CWRS 13.0 ³	\$332.76		\$187.03	\$145.73
3 CWRS ³	\$299.29		\$148.45	\$150.84
CPS ³	\$287.16		\$188.13	\$99.03
1 CWAD ⁴		\$372.78	\$0.00	
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$208.00			
French 11.5 (Rouen)	\$204.90			
APW 10.5 (W Coast)	\$230.00			
Argentine 12.5	\$189.00-194.00			
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					November 25, 2019
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.00	\$8.87	\$7.96	\$7.82	\$7.82
Parity Track Rosetown	\$7.51	\$7.37	\$6.46	\$6.32	\$6.32
Track Bid Rosetown Area	\$5.74	\$5.09	\$4.04	\$5.12	\$5.12
Gross Margin at Elevator (\$/bu)*	\$1.77	\$2.28	\$2.42	\$1.20	\$1.20
Gross Margin at Elevator (\$/mt)*	\$64.92	\$83.95	\$89.07	\$44.05	\$44.05

* to cover elevation, elevator market risk, margin