

Wheat Market Outlook and Price Report: Nov. 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 November 9, 2020

AMIS November 5/20 global wheat market assessment:

Wheat	FAO-AMIS			USDA		IGC	
	2019/20	2020/21		2019/20	2020/21	2019/20	2020/21
	est	f'cast		est	f'cast	est	f'cast
	8 Oct	5 Nov		9 Oct		29 Oct	
Prod	761.9	764.9	762.7	764.5	773.1	763.0	763.9
Supply	628.3	630.9	628.7	630.9	637.1	629.4	628.9
Utiliz.	1,033.2	1,039.7	1,038.5	1,048.5	1,072.5	1,024.6	1,042.2
Trade	784.3	777.9	776.8	775.1	784.8	772.4	778.3
Stocks	750.5	756.6	758.0	749.1	751.0	746.3	751.4
	625.0	626.7	628.1	623.1	621.0	617.5	619.4
	184.0	184.5	184.5	191.4	189.6	185.1	185.5
	178.8	177.5	177.5	186.0	182.1	178.4	178.1
	275.8	284.8	281.0	299.4	321.5	278.3	290.8
	148.1	146.2	142.4	147.7	157.3	148.1	151.5

Data shown in the second rows refer to world aggregates without China; world trade data refer to exports and world trade without China excludes exports to China.

- The **global wheat production forecast** for 2020 was lowered by 2.2 million tonnes from last month, reflecting lower output expectations in Ukraine, as well as in Argentina, where persistent dry weather curtailed yield prospects compared to earlier projections.
- **Utilization of wheat** in 2020/21 is expected to increase by 1.0 percent over last year, boosted by upward adjustments this month in the EU, Pakistan and the US more than offsetting downward revisions in Argentina and the Philippines.
- **Wheat trade** in 2020/21 (July/June) is projected to exceed the 2019/20 record, albeit marginally, supported by stronger demand from China, the EU, Morocco, Pakistan and Egypt, propelling bigger shipments from Australia, Canada, and the Russian Federation than in 2019/20.

- **Wheat ending stocks** (ending in 2021) were cut by 3.8 million tonnes since last month mostly on downward revisions in the EU, the Russian Federation, and the US; indicating further tightening of supplies in major exporters in 2020/21.

Global wheat conditions (based on AMIS report):

EU: Conditions are mixed as first dry and then wet conditions have hampered sowing activities in France and eastern Europe, however, central Europe remains under favourable conditions.

Ukraine: Recent rainfall has benefited winter wheat sowing and emergence in the central and western regions, while southern and eastern regions remain under watch conditions due to ongoing drought.

Russian Federation: Spring wheat harvesting is wrapping up under favourable conditions. Winter wheat sowing continues to be impacted by low soil moisture and above-average temperatures in Volga and the southern regions.

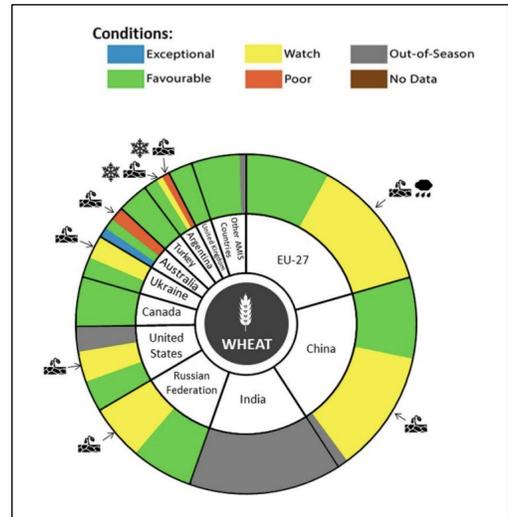
China: Sowing of winter wheat is ongoing under mixed conditions with some low soil moisture affecting emergence in the east.

US: Sowing of winter wheat is ongoing under mixed conditions due to expanding dryness in the central and southern Great Plains.

Canada: conditions are favourable as harvest is wrapping up for spring wheat and sowing of winter wheat is ongoing.

Argentina: Conditions continue to be mixed with favourable conditions in Buenos Aires and La Pampa, while in the remaining provinces, recent rainfall has come too late for many crops damaged by prolonged dryness.

Australia: Conditions are split with favourable conditions in South Australia and Victoria, exceptional conditions in New South Wales, and then poor conditions in Queensland and Western Australia due to prolonged dryness.



➤ **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 602-0, down 7-2 cents on Friday, *up 3-4 cents for the week.*
- Dec. '20 contract Kansas hard red winter wheat closed at 555-2, down 7-6 cents in Friday's trade, *up 14-0 cents for the week.*
- Minneapolis Dec. '20 hard red spring wheat closed at 557-2, down 3-6 cents on Friday, *up 5-0 cents for the week.*

CBOT Dec. 2020 Wheat (1 yr.)



KC Dec. '20 Wheat



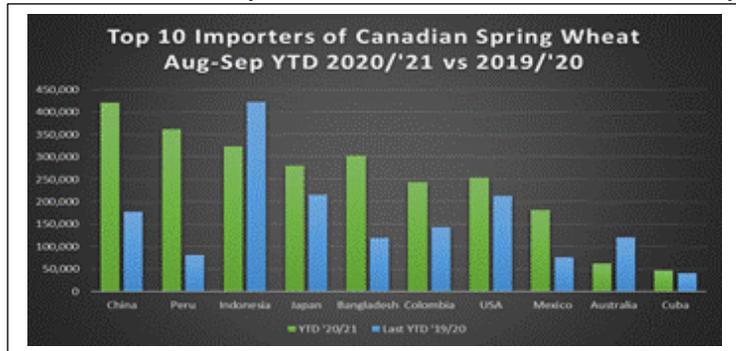
Mpls. Dec. '20 Wheat



- **Futures market summary:** All wheat futures rallied after corn through the week before closing lower on Friday from profit taking.

Canadian Wheat:

- Crop concerns in the USA, Black Sea and Argentina, along with seeming willingness by major importing countries to raise their pace of buying (which could be for “stockpiling” due to coronavirus infection increases) is keeping a floor under cash wheat markets.
- Week 13 grower wheat deliveries were 490,100 mt for a year-to-date total of 5.5 million mt. Weekly wheat export loadings were strong at 399,700 mt: year-to-date shipments are 5.1 million mt, 988,000 mt (+23%) more than last year.



- CIMT data shows that Aug-Sep Canadian wheat exports were 42% ahead of last year at 3.615 million mt. Large increases have been to China (+243,500 mt year-over-year) and Peru (+280,500 mt year-over-year).
- Indonesian wheat imports are normalizing from last year's fast pace. The Aussie crop has rebounded from their 3rd straight crop failure and we do not expect Australia to be significant buyers this year.
- Uncertainty about the final international wheat production outcomes persists. *Demand for Canadian wheat continues to be good and improved rail availability is helping tremendously.* But international markets are hard to define, in the short-term wheat will continue to follow corn. - *We would sell up to 75 percent of production where local bids exceed full costs.*

- Durum: Canadian durum exports had another strong week. Week 13 durum export shipments were 183,500 mt for the week. At 1.097 million mt, year-to-date durum exports are trailing last year by 87,400 mt (-7%). The port of Churchill saw 33,400 mt of durum shipped in week 13. There have been three shipments (95,700 mt worth) of durum exported through the Churchill port this year.

(CGC) Grain Handling Summary Durum				
('000 mt)	Wk.13 (Nov. 1/'20)			
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk.13	159.4	173.2	183.5	3.9
Week ago	138.0	198.1	116.0	7.4
YTD	1,509.6	1,654.4	1,097.0	112.4
Last YTD	1,186.8	1,627.3	1,184.4	86.5
YTD less Last Y	322.8	27.1	-87.4	25.9
YTD over Last	127%	102%	93%	130%

Mercantile based on weekly CGC Handling Data

- According to Stat's Canada's monthly export data, Aug-Sep exports were a total of 481,700 mt, 33% less than last year. Exports are down to most of the main destinations except for the US and Spain.
- International demand remains positive and the balance sheet is tight. *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:

- US crop ratings rose 2% from last week to 43% Gd/Ex, well below last year's 57% Gd/Ex. Winter wheat planting is 98% complete.
- Weekly US export sales were 579,000 mt for a season total 616 million bu, up 12% on last year's 549 million bu. USDA expects that US exports will be 1% higher than last year at 26.5 million mt. There is a strong chance they will increase this in Tuesday's report.
- China is the largest contributor to the y/y increase in US exports having spoken for 1.4 million mt more wheat this year over last.
- The US Ag Attaché put Chinese corn imports at 22 million mt against the USDA's current official 7 million mt. It is unlikely there will be any downward pressure on wheat from the corn market. The

question remains how much corn demand will overflow into the wheat market. There are reports of Chinese wheat and rice reserves being used to substitute corn.

- US HRS for November is valued at \$291/mt FOB PNW (+\$2/mt from last week), PNW White wheat is at \$255/mt FOB PNW (+\$2/mt).

Australian wheat:

- A large crop and political tensions with China sent Aussie wheat futures down A\$13 over the week, almost A\$30 off the highs experienced 2 weeks ago.
- USDA expects the 2020/21 Aussie wheat crop will be 28.5 million mt, 87% more than the previous year. This is compared to domestic estimates of 32 million mt.
- Aussie wheat is now the cheapest wheat for the Asian market. APW wheat is being quoted at \$275/mt C&F, \$10/mt cheaper than the next alternative in the Black Sea at \$285/mt C&F. *However, China is expected to impose a ban on Aussie wheat imports as tensions between the two countries grows. This will pose an additional opportunity for US wheat.*
- Australian new crop FOB APW wheat values for Nov. closed down \$15/mt from last week at 255.00/mt. APW.

Argentine wheat:

- Weather in Argentina continues to be concerningly dry.
- BAGE put the Argentine wheat harvest at 9% complete vs 7% last year. Although yields remain below 1 tph, BAGE left current crop estimates unchanged at 16.8 million mt (USDA's 19 million mt).
- FOB prices in Argentina fell \$4/mt for 11.5 pro wheat with the bid-offer at \$243-\$253 for Nov delivery. This is still far too expensive for any non-Mercosur countries.

EU wheat:

- Matif wheat and corn rallied €3-4 in tandem with feed markets. Domestic markets are trying to compete with export prices. Last week's rally has priced the EU out of the export market bringing interesting changes to the trade matrix.
- Winter wheat planting in France progressed 9% from last week to 66% complete, in-line with the 5-year average.
- FOB values in the EU were higher across the board. French 11.5 pro wheat rose \$13.62/mt to US\$258.83/mt, German 12.5 pro was \$13.78/mt higher to US\$255.02/mt, while Baltic 12.5 pro was up \$14.93/mt to \$255.00.

Black Sea wheat:

- Crops around the Black Sea are heading into dormancy and weather will have less impact on prices until next spring.
- Ukraine's winter wheat area for harvest in 2021 was put at 5.65 million ha, just 92% of the expected planted area.
- Based on vessel loading, Russian October wheat exports were 4 million mt for a season total of 17 million mt vs 16 million mt this time last year.
- FOB values in the Black Sea were nominally \$2/mt higher representing the \$2-3 rally in futures and the 2.44% fall in the Rouble. Russian 12.5 pro was bid at US\$255/mt, \$1/mt higher than last week.

➤ **Significant purchases/ trades:**

- **GASC** bought 300,000 mt of Russian wheat for 15-30 Dec and 8-18 Jan at \$275.75.
- **Pakistan** bought 320,000 mt at \$286.20.
- **Tunisia** bought 50,000 mt of Dec at \$274.38.
- **Saudi** tendered for 600,000 mt Feb-March.
- **USA** inspections were 287,000 mt (season total 418 million bu, up 4%), sales were 597,000 mt (season total 616 million bu, up 12%).
- **EU** soft wheat shipments advanced 450,000 mt to 6.9 million mt, down 29% on last year.

➤ **Wheat Market Outlook:**

Significant events:

- The EU is having difficulty sourcing corn. **The lack of, and high corn prices in the EU is causing higher prices and more demand for wheat** to be used as a substitute for feeding. This combination, and the high price of Chicago wheat affecting the import levy is allowing **more Canadian wheat to find a home in the EU**. Canadian exports are increasing. Provided rail supply can keep up with the increased demand and the extra new fobbing capacity that Canada has we see an increase of up to 3 million mt of additional exports for wheat compared to the 2019/20 crop year.
- **World food prices rose for the fifth straight month in October**. The United Nations (UN) Food and Agriculture Organization's (FAO) food price index reported that cereal prices increased 7% from last month and jumped 16% on the year.
- FranceAgriMer, **France's agriculture office, reported the country's winter wheat farmers made considerable progress last week**, 66% of France's soft (non-durum) wheat is now in the ground, up from last week's 45% and in line with the five-year average.
- **Australia's wheat crop has rebounded following three years of extended drought conditions**. USDA now expects Australian wheat production in 2020/21 will reach 28.5 million mt, up 87% on the year. IKON Commodities, an Australian agriculture consultancy, estimates Australia's 2020/21 wheat harvest will reach 32.0 million tonnes.
- **Weather Update:**
 - *Central USA will stay mostly dry allowing harvest of corn and beans and the planting of winter wheat to reach completion. Central and Southern Brazil and most of Argentina look dry with building temperatures amidst a strengthening La Nina. The models maintain a dry trend over northern and central Brazil for the rest of November, whilst dryness in Argentina is expected to continue into December. The whole of Europe and the Black Sea look completely dry for at least the next 10 days with temperatures above normal. The 8-15-day outlook however brings a sharp drop in temperatures with zero snow cover. Australia will see light showers over most of the crop regions with generally cool temperatures, especially in the west.*

➤ **Outlook:**

Crop concerns in the USA, Black Sea and Argentina, along with seeming willingness by major importing countries to raise their pace of buying (which could be for "stockpiling" due to coronavirus infection increases) is keeping a floor under cash wheat markets. There is still no decision on Russian export quotas for 2021. In the absence of corn imports, EU domestic feeders will continue to compete to keep wheat out of EU export channels. Northern Hemisphere crops are moving into dormancy which should make weather less important however the late planting in Russia and the Ukraine makes this less certain. *Durum prices are getting better we hear that a number of Elevator companies are bidding \$8.50 per bushel for large quantities of nearby delivery in SK. Deferred prices will get better.*

We see no need to chase prices. We expect the WASDE report to be supportive. We hear bids of \$7.50 for 2 CWRS in Manitoba. Where there are good margins, we would be 75 percent sold.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 06/11/2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)
1 CWRS 13.5	\$6.58	\$241.78	1 CWRS 13.5	6.76	\$248.39
1 CWAD 13.0	\$7.90	\$290.28	1 CWAD 13.0	8.02	\$294.69
1 CPSR 11.5	\$6.16	\$226.34	1 CPSR 11.5	6.27	\$230.38
SW Sask			SW Sask		
1 CWRS 13.5	\$6.46	\$237.37	1 CWRS 13.5	6.62	\$243.25
1 CWAD 13.0	\$7.98	\$293.22	1 CWAD 13.0	8.07	\$296.52
1 CPSR 11.5	\$6.07	\$223.04	1 CPSR 11.5	6.21	\$228.18
NE Sask			NE Sask		
1 CWRS 13.5	\$6.33	\$232.59	1 CWRS 13.5	6.49	\$238.47
1 CWAD 13.0	\$7.91	\$290.65	1 CWAD 13.0	8.13	\$298.73
1 CPSR 11.5	\$5.96	\$218.99	1 CPSR 11.5	6.05	\$222.30
SE Sask			SE Sask		
1 CWRS 13.5	\$6.28	\$230.75	1 CWRS 13.5	6.47	\$237.73
1 CWAD 13.0	\$7.97	\$292.85	1 CWAD 13.0	8.12	\$298.36
1 CPSR 11.5	\$5.89	\$216.42	1 CPSR 11.5	6.02	\$221.20

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
 - 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.

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.”

- 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				09/11/2020
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	\$329.53	\$376.20		
HRS	\$322.39			
HRW 11.5	\$335.25			
SWW 12.0	\$297.15			
1 CWRS 13.5 ³	\$329.53		\$232.96	\$96.58
2 CWRS 13.0 ³	\$322.39		\$218.26	\$104.13
3 CWRS ³	\$335.25		\$198.05	\$137.20
CPS ³	\$290.49		\$222.67	\$67.82
1 CWAD ⁴		\$369.54	\$303.14	\$66.40
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$255.00	November		
French 11.5 (Rouen)	\$258.83	November		
ASW 10.5 (W Coast)	\$249.00	November		
Argentine 12.0	\$246.00	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 CWRS 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 9, 2020
Canadian Funds				Grade	
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.79	\$8.63	\$8.94	\$7.91	\$7.91
Parity Track Rosetown	\$7.29	\$7.13	\$7.45	\$6.41	\$6.41
Track Bid Rosetown Area	\$6.34	\$5.94	\$5.39	\$6.06	\$6.06
Gross Margin at Elevator (\$/bu)*	\$0.95	\$1.19	\$2.06	\$0.35	\$0.35
Gross Margin at Elevator (\$/mt)*	\$34.93	\$43.77	\$75.55	\$12.83	\$12.83
* to cover elevation, elevator market risk, margin					