

Wheat Market Outlook and Price Report: Oct. 19, 2020

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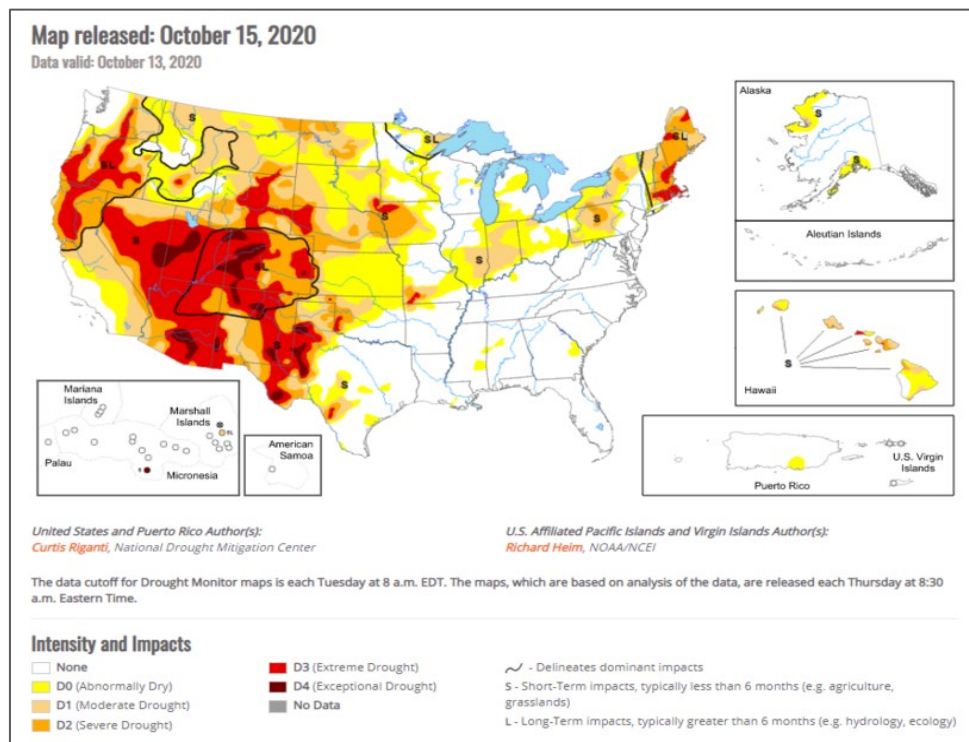
i) Background and Rationale for the Report

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.

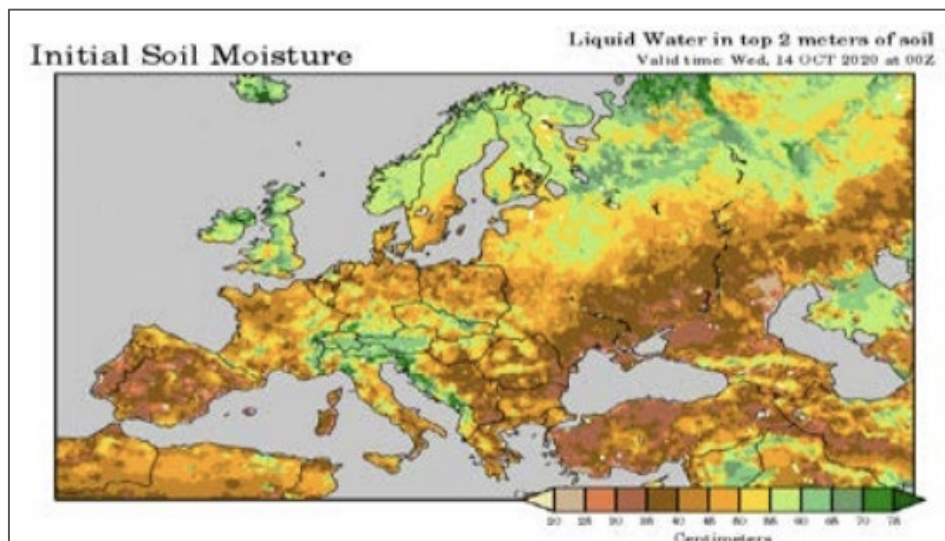
ii) Wheat Market Outlook October 19, 2020

Dryness in and the US and EU-Black Sea Soil Moisture status, Oct. 2020:



- US wheat growing areas:** According to the US Drought Monitor, *abnormal dryness* has spread into eastern Montana, southwestern North Dakota and most of Kansas and central Oklahoma. *Moderate drought* expanded in central Montana, western South Dakota, western Kansas, northern Oklahoma and the Texas Panhandle. *Extreme drought* spread across the Nebraska Panhandle. All of eastern Colorado is now under *severe, extreme or exceptional drought*. Looking ahead, extreme dryness is expected to persist across the Southern Plains and could challenge early winter

wheat development in that region. Colder temperatures and pockets of snow are expected across the Northern Plains.



- **Black Sea:** The central Black Earth region got some rain over the weekend, but there is no follow up in the forecast which is potentially very concerning. S Russia should see some showers during the middle of this week but here too, there is no follow up moisture in the forecast. The Ukraine also looks completely dry for the next two weeks.
- **EU:** Western Europe saw more light rain over the weekend. French wheat plantings are 12% complete and are now down from 16% last year. Farmers across Europe are not selling.
- **Argentina:** Abandonment in the central region due to the drought was put at 8% last Friday.

➤ **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 625-2, up 7-0 cents on Friday, *up 31-6 cents for the week*.
Dec. '20 contract *Kansas hard red winter wheat* closed at 558-6, up 0-6 cents in Friday's trade, *up 23-2 cents for the week*.
Minneapolis Dec. '20 hard red spring wheat closed at 559-6, up 1-0 cents on Friday, *up 16 cents for the week*.

CBOT Dec. 2020 Wheat (1 yr.)



KC Dec. '20 Wheat



Mpls. Dec. '20 Wheat

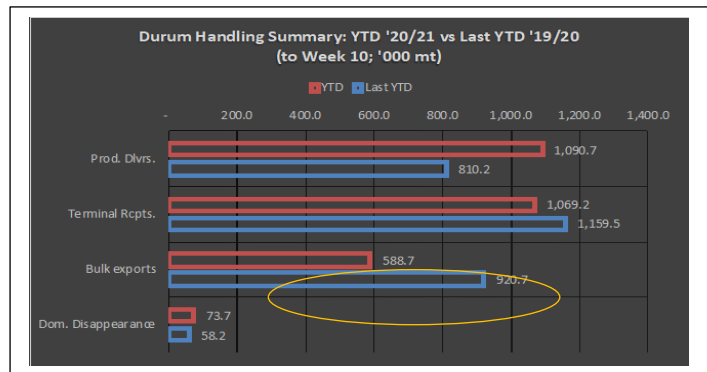
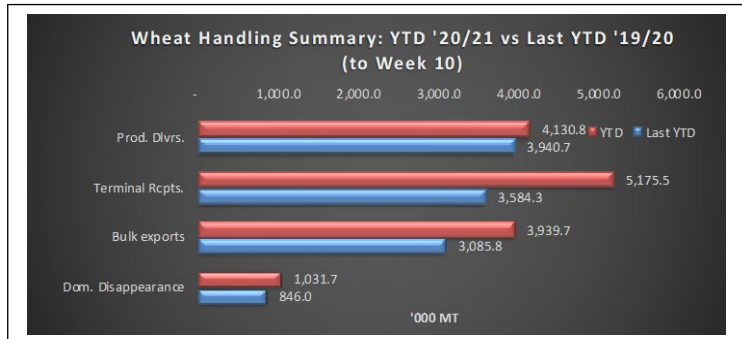


- **Futures market summary:** Technical buying and concerns about dryness in the US, the Black Sea and Argentina and supported all wheat futures last week. The strong futures closes are reflecting

the anxiety about weather, with Chicago well above \$6/bu, Matif had four days of contract highs, and Black Sea wheat futures are at contract highs.

Canadian Wheat:

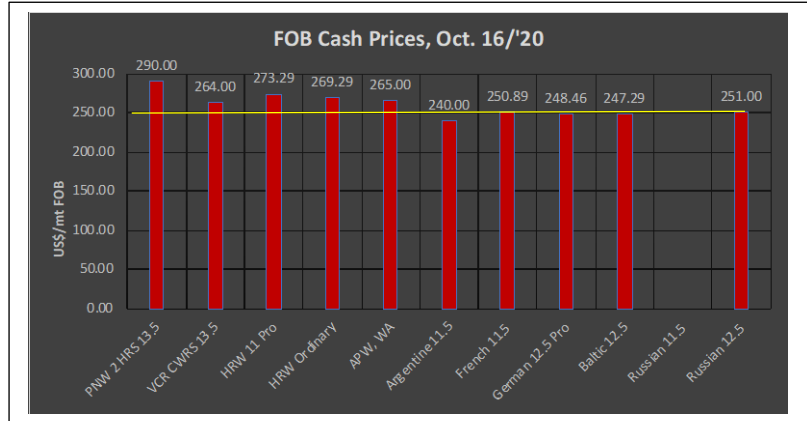
- Weather remains the primary topic in the wheat markets. Dryness is an issue in the US Plains and in Russia, too much rain is becoming the problem in south and east Australia, and drought is seen to have caused irreversible damage in Argentina. The imminent arrival of rains in Argentina is likely too late. There was also talk about the possibility of serious cold in Russia over the next two weeks, although this should come as no surprise at this time of year.
- Strong cash markets are reflecting the unwillingness of growers in the EU, Russia and Argentina to sell their wheat.
- In Canada, week 10 grower deliveries were 387,000 mt, with a 10-week total of 4.1 million mt. Weekly wheat export loadings were a small 187,000 mt; year-to-date shipments amount to 3.9 million mt, which is 854,000 mt (+28%) ahead of last year's loadings.
- *Demand for Canadian wheat continues to be good and we expect to see improved prices on the prairies in the future. Grower bids on the Canadian prairies still do not reflect full world values*
- Durum: Canadian durum exports are off to a slow start, but week 10 durum export shipments improved to 102,000 mt for the week, and at 589,000 mt year-to-date. Year-to-date exports trail last years by 332,000 mt (a big -36%).
- *We think that longer-term international demand prospects for durum look positive and durum is going to be in short supply. Canadian elevator bids are below the market.*



US Wheat:

- The weekly US Export Sales report showed 529,000 mt of wheat bookings for the week, *at the high end of estimates at 200,000 – 600,000 mt*. Top buyers were Mexico and Japan.

- Futures hit their highest level for a nearby contract in 5 years, and the premium of US wheat FOB further widened over Black Sea and EU values (HRW was priced US\$25/mt over German wheat and US\$22/mt above Russian wheat).
- The US HRW Belt has decent chances for small rains in the 6-10 day window. Not enough, but some!
- US HRS for November is valued at \$290/mt FOB PNW (+\$10/mt from last week), White wheat is at \$247/mt Fob PNW (+\$11/mt), and HRW (11% protein) is valued \$273.29/mt Fob Gulf (+\$10.38/mt).



Australian wheat:

- The Australian market tracked world prices higher while still pricing competitively into Asia. There is some concern over the ongoing rain in the east and the potential threat to wheat quality.
- Australian new crop FOB APW wheat values for Dec. closed up \$5/mt from last week at 265.00/mt.

Argentine wheat:

- The Rosario Grain Exchange lowered its crop estimate by 2 million mt to 17 million mt (BAGE is at 17.5 million mt, USDA is using 19 million mt). Abandonment in the central region due to the drought was put at 8% last Friday. BAGE estimates the harvest at 1.3% complete with yields at a low 0.3-1.2 mt/ha. Crop ratings were raised last week by 5% to 13% Gd./Exc., but they reversed course this week going back to 9% Gd/Exc. (compared to 34% last year). 52% of the crop rated Poor against 47% last week and 30% last year.
- Argentine new crop 11.5% pro wheat for Dec. rose \$8/mt to \$235-245/mt.

EU wheat:

- Matif made 4 straight contract highs, also due to the weather issue.
- The French AgMin lowered the crop 300,000 mt to 29.2 million mt,
- There were unconfirmed rumours of more wheat sales to China.
- *Farmers across Europe are not selling.*
- Fob values in the EU were all up again over the past week. French 11.5 pro wheat increased by \$6.92/mt to US\$250.89/mt, German 12.5 pro increased by \$9.30/mt from last week to \$248.46/mt, and Baltic 12.5% pro wheat increased \$9.31/mt to \$247.29/mt.

Black Sea wheat:

- CME Black Sea futures also hit contract highs, and the Fob 12.5 pro bid-offer spread ended at \$249-253/mt.
- Origination of wheat continues to push ever further into central regions to source wheat, which is significantly increasing turnaround times and leading to cargo shortages at the ports.
- The overall shipment pace remains rapid.
- Farmers are in no mood to start letting wheat go while the market is also awaiting a decision on Russian quotas.
- FOB values were up with Russian 12.5 pro up \$6/mt at \$251/mt.

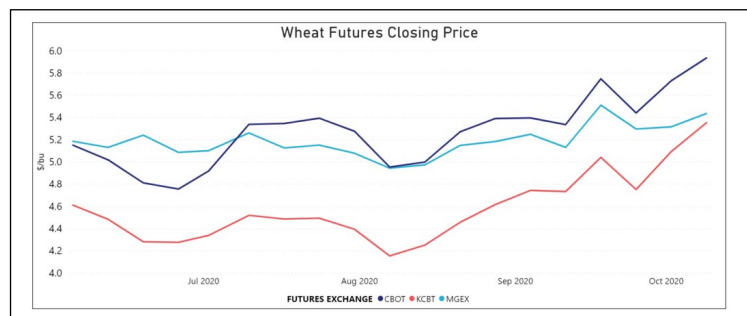
➤ **Significant purchases/ trades:**

- **Algeria** bought 510,000 mt of wheat for Nov at \$264/mt.
- **Pakistan** bought 340,000 mt wheat for Dec at around \$284.
- **Jordan** bought 60,000 mt wheat for FH Feb at \$272 (the only other offer was at \$288); offers to **Ethiopia** were reportedly around \$270 Fob parity.
- **Korea** bought 65,000 mt Feb-Mar USA feed wheat at \$267.
- **Thailand** passed at its feed wheat tender (the cheapest offer was \$270).
- **Turkey** (TMO) returns next week for 175,000 mt of wheat for Nov 9-24.
- **USA** inspections were 514,000 mt (season total 383 million bushels up 10%), sales were 528,000 mt (season total 553 million bushels up 9%).
- After a 2-week lag, **EU** soft shipments advanced to 5.73 million mt, still 30% below last year.

➤ **Wheat Market Outlook:**

Significant events:

- The **world's weather problems** on wheat seem to be intensifying and are perhaps compounded by the possibility that the EU maybe unable to source all the corn it needs and may require more of its wheat to be used as feed. There may be some profit taking in between, but there is little to suggest a sustained move lower.
- Futures remained strong reflecting the **anxiety about weather**, with Chicago well above \$6/bu, Matif had three days of contract highs, and Black Sea wheat futures are at contract highs.
- **Strong cash markets** are reflecting the unwillingness of growers in the EU, Russia and Argentina to sell their wheat.



➤ **Outlook:**

Russian Fob wheat is once again starting to look expensive against other origins for new business. Russian/FSU farmers have received good returns and are now better capitalized and don't have to chase sales for cash flow. Black Sea farmers remain extremely tight fisted and current weather and export demand do not argue for a break in the world wheat market while estimates of the Australian crop are lower. Weather becomes remains a key element.

We see no reason to be in any rush to sell additional Canadian grain. "Basis" levels will improve, and we expect China will soon need to buy Canadian grain as alternatives become limited. Durum is going to be in short supply and Canadian elevator bids are below the market.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 19-10-2020					
NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Feb.'20 {bu.}	Feb.'20 {mt}
1 CWRS 13.5	\$6.67	\$245.08	1 CWRS 13.5		
1 CWAD 13.0	\$7.64	\$280.72	1 CWAD 13.0		
1 CPSR 11.5	\$6.27	\$230.38	1 CPSR 11.5		
SW Sask			SW Sask		
1 CWRS 13.5	\$6.53	\$239.94	1 CWRS 13.5	6.70	\$246.18
1 CWAD 13.0	\$7.77	\$285.50	1 CWAD 13.0		
1 CPSR 11.5	\$6.17	\$226.71	1 CPSR 11.5	6.31	\$231.85
NE Sask			NE Sask		
1 CWRS 13.5	\$6.42	\$235.90	1 CWRS 13.5	6.55	\$240.67
1 CWAD 13.0	\$7.70	\$282.93	1 CWAD 13.0	7.92	\$291.01
1 CPSR 11.5	\$6.04	\$221.93	1 CPSR 11.5	6.10	\$224.14
SE Sask			SE Sask		
1 CWRS 13.5	\$6.38	\$234.43	1 CWRS 13.5	6.53	\$239.94
1 CWAD 13.0	\$7.75	\$284.77	1 CWAD 13.0	7.92	\$291.01
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	6.09	\$223.77

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	0.10	3.67
2 CWAD 13.0	(0.20)	(7.35)
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).

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.”

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				19-10-2020
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	\$339.38	\$378.53		
HRS	\$330.67			
HRW 11.5	\$348.56			
SWW 12.0	\$296.83			
1 CWRS 13.5 ³	\$339.38		\$241.04	\$98.34
2 CWRS 13.0 ³	\$330.67		\$226.34	\$104.33
3 CWRS ³	\$348.56		\$217.16	\$131.40
CPS ³	\$290.07		\$228.55	\$61.52
1 CWAD ⁴		\$371.77	\$272.27	\$99.49
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$251.00	November		
French 11.5 (Rouen)	\$250.89	November		
ASW 10.5 (W Coast)	\$259.00	November		
Argentine 12.0	\$235-245	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				19-10-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.82	\$9.30	\$6.00	\$6.00
Parity Track Rosetown	\$7.32	\$7.81	\$6.40	\$6.40
Track Bid Rosetown Area	\$6.16	\$5.91	\$6.22	\$6.22
Gross Margin at Elevator (\$/bu)*	\$1.16	\$1.90	\$0.18	\$0.18
Gross Margin at Elevator (\$/mt)*	\$42.58	\$69.65	\$6.53	\$6.53

* to cover elevation, elevator market risk, margin