

Wheat Market Outlook and Price Report: Oct. 26, 2020  
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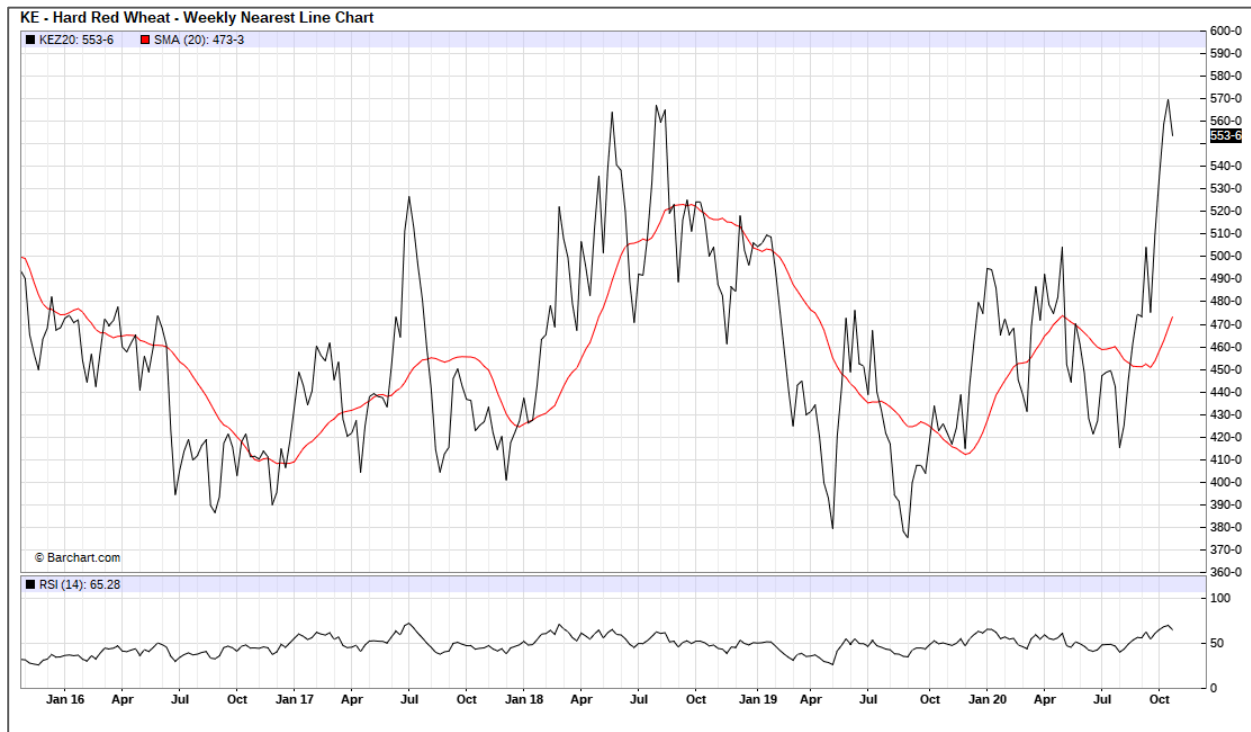
**i) Background and Rationale for the Report**

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 26, 2020**

**Hard Red Winter 5-Year Chart:**



- KC futures has rallied from US\$4.26 on August 10 to as high as \$5.70/bu last week. That is a C\$1.89/bu gain (C\$69.60/mt) in little more than 2 months. This is also the highest level since Aug. 2015. *Technical buying and continued dryness in Russia supported all wheat future prices through the week.* – How much higher can/ will the market go? Let’s not forget to book profitable returns. Rain in Russia over the weekend seems to have put a stop to futures increases today.

- CBOT wheat made contract highs last week on poor crop ratings, ongoing dryness in the US Plains and freezing temperatures dropping as far south as OK and northern TX.
- HRS reportedly worked into CBOT delivery, which lifted MGE futures.
- Matif made contract highs early last week, but then fell back.
- CME Black Sea futures rose \$8 to new highs.

➤ **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 632-6, up 10 cents on Friday, *up 7-4 cents for the week.*  
Dec. '20 contract *Kansas hard red winter wheat* closed at 569-6, up 9-4 cents in Friday's trade, *up 11 cents for the week.*  
*Minneapolis Dec. '20 hard red spring wheat* closed at 587-0, up 3-0 cents on Friday, *up 17-8 cents for the week.*

**CBOT Dec. 2020 Wheat (1 yr.)**



**KC Dec. '20 Wheat**



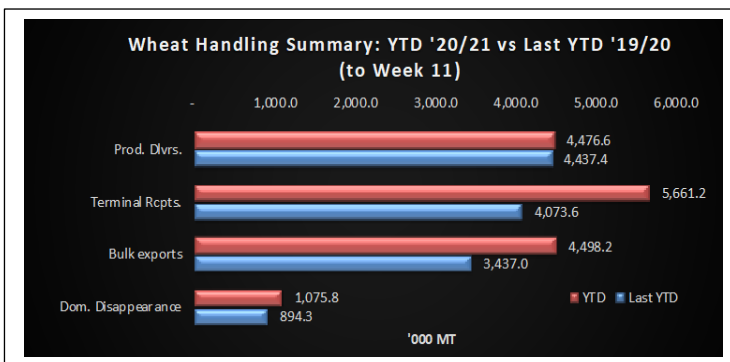
**Mpls. Dec. '20 Wheat**



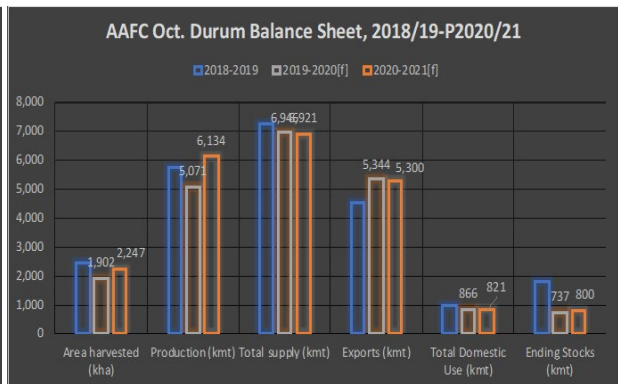
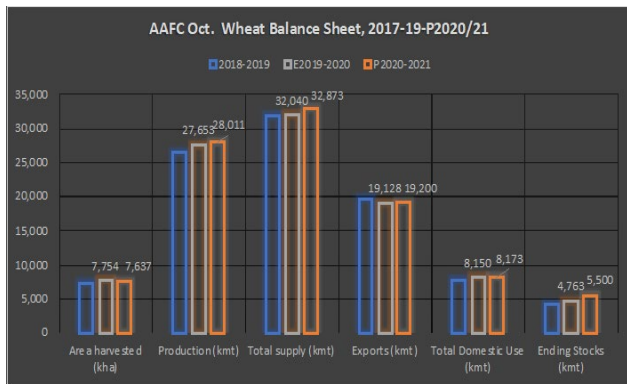
- **Futures market summary:** Technical buying and continued dryness in Russia supported all wheat future prices through the week.

**Canadian Wheat:**

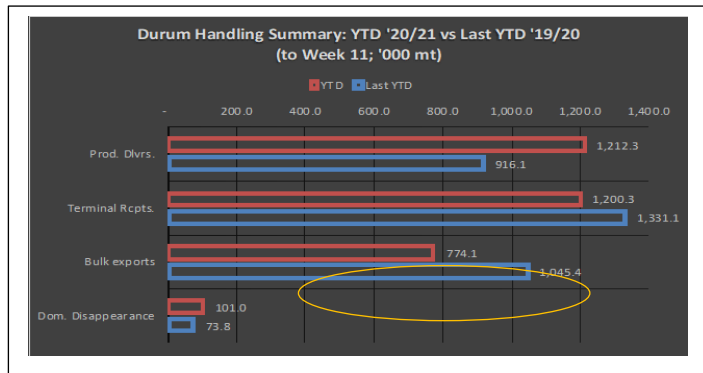
- Weather remains a major topic in wheat markets with concerns about dryness in the US HRW belt, dryness in Russia and Argentina, potentially too much rain in E Australia, and the threat of La Nina. Farmers in Russia and the EU are not selling, and cash markets have moved up as well. On Friday, Egypt (GASC) purchased 165,000 mt of Russian wheat for December at a stunning \$30/mt higher than their last purchase on Sept. 22<sup>nd</sup>. It has been a big rally, but domestic markets in the Black Sea and in the EU are driving wheat higher
- In Canada, week 11 grower deliveries were 345,000 mt, with an 11-week total of 4.5 Million mt. Weekly wheat export loadings were an excellent 558,000 mt; year-to-date shipments amount to 4.5 Million mt, which is a 1.1 Million mt (+31%) ahead of last year's loadings.
- The situation in the international wheat markets combined with better rail availability are a big chance for Canada to increase wheat exports this year and to recover some market share.



- Uncertainty about final wheat production outcomes still persists. *Demand for Canadian wheat continues to be good and improved rail availability is helping tremendously! We expect to see improved bases and prices on the prairies in the future.* Grower bids on the Canadian prairies still do not reflect full world values, but we need to be careful not to miss improved prices. *We recommend being sold up to 75 percent of production where local bids exceed full costs.*
- AAFC published their October commodity balance sheets. These can be misleading to growers. In our view, the AAFC has taken no notice of:
  - the increased export capacity on the West Coast
  - the increased availability of rail transportation for grain (due to the reduced demand for other exports e.g. coal)
  - increased demand and excellent margins for grain companies.
 In 11 weeks, exports are already up by 2.4 Million mt (27 percent).

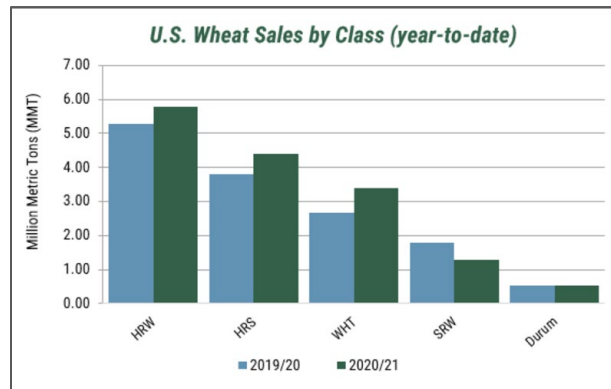


- Durum: Canadian durum exports have started to improve. Week 11 durum export shipments improved to 185,000 mt for the week, and at 774,000 mt year-to-date. Year-to-date exports trail last years by 271,000 mt (-26%)
- *We think that longer-term international demand prospects for durum look positive and durum is going to be in short supply. Canadian elevator bids are still below the international market.*



## US Wheat:

- In the US, beneficial precipitation this past week alleviated areas under moderate drought in western Montana. However, most of the Northern plains remain abnormally to severely dry. Nearly all the winter wheat producing regions in the Great Plains are abnormally to extremely dry.
- Weekly US Export Sales report showed 368,000 mt for '20/21, down 31% from the previous week and 23% from the prior 4-week average. Sales were primarily for Mexico (193,000 mt), Nigeria (61,000 mt), the Philippines (60,000 mt), - US wheat export bookings were expected at 200,000 to 800,000 mt, so came in at the lower end of expectations.



- US futures rose up to 17 cents higher with CBOT making contract highs on poor crop ratings, ongoing dryness in the Plains and freezing temperatures dropping as far south as Oklahoma and northern Texas.
- US HRS for November is valued at \$296/mt FOB PNW (+\$6/mt from last week), PNW White wheat is at \$252/mt FOB PNW (+\$5/mt), and Gulf HRW (11% protein) is valued \$249.13/mt FOB (\$24.16/mt).

#### **Australian wheat:**

- More heavy rain is expected in East Australia.
- Australian wheat futures hit 6 1/2 months highs with cumulative precipitation in the east (from QLD down to VIC) through next Friday projected at 75-175 mm (3-7"), which could present a quality issue for the northern half of the crop regions.
- Australian new crop FOB APW wheat values for Dec. closed up \$10/mt from last week at 275.00/mt. *However, APW still prices into Asia compared to Black Sea wheat.*

#### **Argentine wheat:**

- BAGE in Argentina estimated their wheat crop at 16.8 Million mt (their previous estimate was 17.5 Million mt, USDA is using 19 Million mt). There are rumours of possible export controls to curb domestic inflation.
- The forecast is wetter, but with damage in the north seems irreversible.
- Farmers are still not selling.
- Argentine new crop 11.5% pro wheat for Dec. rose \$10/mt to \$245-258/mt.

#### **EU wheat:**

- Matif made contract highs early but then fell back. *Overall EU price gains were much more muted than elsewhere.*
- FOB values in the EU were all up again over the past week. French 11.5 pro wheat increased by \$2.17/mt to US\$253.06/mt, German 12.5 pro increased by \$2.14/mt from last week to \$250.61/mt, and Baltic 12.5% pro wheat increased \$2.13/mt to \$249.42/mt.

#### **Black Sea wheat:**

- CME Black Sea wheat futures rose \$8/mt to new highs.
- The US attaché in the Ukraine forecast the '20/21 wheat crop 8% lower (24.97 Million mt) than the USDA's official number (27 Million mt). The attaché's export forecast is 14% lower compared to the USDA's official number based on production forecast.
- ***There was some rain in Russia, but probably not near enough to repair the damage. However, the rain is being noted by the markets.***
- There were newswire reports of a possible deal between the Russian Government and the trade to create a "millers' reserve" of 2-4 month's supply (4-8 Million mt equivalent), in order to combat record high prices, but it lacked details on timing and how it might operate. If it happens, this would reduce Russian exports. In our view, it's unlikely, but for now it's another bullish influence while the trade is long wheat.
- FOB values were up with Russian 12.5 pro up \$5/mt at \$256/mt.

#### ➤ **Significant purchases/ trades:**

- **Algeria** bought 720,000 mt of wheat for Dec at \$276/mt.
- **Tunisia** bought 50,000 mt wheat for Nov-Dec at \$279.50 (around \$254 FOB parity for 11.5 pro).
- **Turkey** bought 175,000 mt wheat for Nov at around \$256 FOB parity for 12.5 pro.
- **Korea** bought 130,000 mt May arrival USA feed wheat at \$265.
- **USA** sales of 367,000 mt took the season total to 567 Million bushel, up 9%.
- There was no update to **EU** shipments.
- **Sudan** is reportedly working to acquire 1 Million mt of wheat through USA assistance, but details are sketchy; **Syria** put its import requirements at 200,000 mt per month against the USDA's annual projection of 700,000 mt.

➤ **Wheat Market Outlook:**

**Significant events:**

- Last Friday, **Egypt** (GASC) purchased 165,000 mt of Russian wheat for December at a stunning \$30/mt higher than their last purchase on Sept. 22<sup>nd</sup>.
- **HRS** reportedly worked into CBOT delivery, which lifted MGE futures.
- **EU interior prices** continue to climb as the feed sector buys to compensate for the shortage of corn offers.
- The market remains unsure of how much wheat **Russia** will export because of high domestic prices.
- **Australia** will be watching the rains very closely in the coming weeks to see if damages is caused.
- There was some rain in **Russia** over the weekend.

➤ **Outlook:**

EU interior prices continue to climb as the feed sector buys to compensate for the shortage of corn offers. The EU wheat supply-demand is shaping up for historically tight ending stocks and will increasingly pull wheat away from the export market. The USDA is too high on Argentina's crop; Australia will be watching the rains very closely in the coming weeks, and the US Plains also need significant rain. The market remains unsure of how much wheat the Russians will export because of high domestic prices.

*We recommend being sold up to 75 percent of production where local bids exceed full costs.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 26-10-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)
<b>1 CWRS 13.5</b>	\$6.78	\$249.12	<b>1 CWRS 13.5</b>	6.95	\$255.37
<b>1 CWAD 13.0</b>	\$7.63	\$280.36	<b>1 CWAD 13.0</b>	7.88	\$289.54
<b>1 CPSR 11.5</b>	\$6.31	\$231.85	<b>1 CPSR 11.5</b>	6.40	\$235.16
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$6.65	\$244.35	<b>1 CWRS 13.5</b>	6.82	\$250.59
<b>1 CWAD 13.0</b>	\$7.78	\$285.87	<b>1 CWAD 13.0</b>	7.81	\$286.97
<b>1 CPSR 11.5</b>	\$6.20	\$227.81	<b>1 CPSR 11.5</b>	6.35	\$233.32
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.55	\$240.67	<b>1 CWRS 13.5</b>	6.71	\$246.55
<b>1 CWAD 13.0</b>	\$7.81	\$286.97	<b>1 CWAD 13.0</b>	8.07	\$296.52
<b>1 CPSR 11.5</b>	\$6.11	\$224.51	<b>1 CPSR 11.5</b>	6.18	\$227.08
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$6.49	\$238.47	<b>1 CWRS 13.5</b>	6.66	\$244.72
<b>1 CWAD 13.0</b>	\$7.83	\$287.71	<b>1 CWAD 13.0</b>	8.05	\$295.79
<b>1 CPSR 11.5</b>	\$6.05	\$222.30	<b>1 CPSR 11.5</b>	6.16	\$226.34

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

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

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<sup>1</sup> 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.”

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

Relevant FOB Prices and Export Basis				26-10-2020
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$340.83	\$380.16		
HRS	\$332.09			
HRW 11.5	\$341.80			
SWW 12.0	\$307.82			
1 CWRS 13.5 <sup>3</sup>	\$340.83		\$242.51	\$98.32
2 CWRS 13.0 <sup>3</sup>	\$332.09		\$227.45	\$104.65
3 CWRS <sup>3</sup>	\$341.80		\$217.89	\$123.91
CPS <sup>3</sup>	\$301.02		\$225.98	\$75.05
1 CWAD <sup>4</sup>		\$373.36	\$279.62	\$93.74
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$256.00	November		
French 11.5 (Rouen)	\$253.06	November		
ASW 10.5 (W Coast)	\$269.00	November		
Argentine 12.0	\$245-258	November		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB



## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities				26-10-2020
<b>Canadian Funds</b>		<b>Grade</b>		
<b>PNW value/Vancouver</b>	<b>2CWRS</b>	<b>3CWRS</b>	<b>Winter wht.</b>	<b>CPS</b>
<b>Sept/Oct delivery</b>	\$8.85	\$9.12	\$6.20	\$6.20
<b>Parity Track Rosetown</b>	\$7.36	\$7.62	\$6.70	\$6.70
<b>Track Bid Rosetown Area</b>	<b>\$6.19</b>	<b>\$5.93</b>	<b>\$6.15</b>	<b>\$6.15</b>
<b>Gross Margin at Elevator (\$/bu)*</b>	<b>\$1.17</b>	<b>\$1.69</b>	<b>\$0.55</b>	<b>\$0.55</b>
<b>Gross Margin at Elevator (\$/mt)*</b>	<b>\$42.87</b>	<b>\$62.13</b>	<b>\$20.06</b>	<b>\$20.06</b>
* to cover elevation, elevator market risk, margin				