

## Wheat Market Outlook and Price Report: Sept. 14, 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 September 14, 2020

#### USDA - WASDE September Global Wheat market summary:

USDA - WASDE Sept. 11/'20				
Global Wheat Balance Sheet				
(mIn mt)	2019/20 crop		2020/21 crop	
	Aug. est.	Sept. est.	Aug. est.	Sept. est.
Carry-in	283.4	284.0	300.9	299.8
Production	746.1	764.0	766.0	<b>770.5</b>
Exports	190.0	191.4	188.0	189.4
Domestic Use	747.2	748.2	750.1	750.9
Ending Stocks	300.9	299.8	316.8	<b>319.4</b>

- The **2020/21 global USDA wheat outlook** was for larger supplies, increased consumption, greater exports, and higher ending stocks.
- Overall, the global **2020/21 wheat production** was raised by 4.5 million tonnes to a record high 770.5 million mt.
- Global wheat ending stocks were increased by 2.6 million to 319.4 million mt.

#### ➤ **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 542-0, down 6-2 cents on Friday, *down 8-2 cents for the week.*
- Dec. '20 contract **Kansas hard red winter wheat** closed at 471-2, down 2-6 cents in Friday's trade, *down 1-2 cents for the week.*
- **Minneapolis** Dec. '20 **hard red spring wheat** closed at 532-2, down 3-2 cents on Friday, *down 10-2 cents for the week.*

**CBOT/CME Dec 2020 Wheat**



**KC Dec Wheat**



**Mpls. Dec. Wheat**



- Futures market summary: Technical selling pressured all wheat futures prices over the week.

**Canadian Wheat:**

- Harvest: According to SK Ag 32% of SK spring wheat was harvested as of Sept. 7. SK Ag yield projections are at 45 bu/acre for spring wheat. Alberta Ag indicates about a 14% progress on wheat. AB yields are projected at 56 bu/acre.
- In its report on Friday, **USDA** increased its wheat production forecasts for Canada to reach 36.0 million mt (wheat incl. durum), up 6% from USDA's August forecast and up 11% from last year. StatsCan is projecting 34.7 million mt.
- Having said that, **Statistics Canada** issued "Model-based" production estimates this morning. They are significantly different from their official Aug. 31/'20 production forecast for wheat, which will only serve to confuse the market:

StatsCan Estimated production of principal field crops (Aug. 31/20) vs. Model Based Est's Sept. 14/20)							
Production					SC Aug. 31/'20	SC Sept. 14/'20	Difference (mt)
	2016	2017	2018	2019	E2020	E2020	
Wheat, all	32,139,900	30,377,300 <sup>f</sup>	32,201,100 <sup>f</sup>	32,347,800	35,739,800	34,144,700	-1,595,100
Wheat, durum	7,761,800	4,962,200	5,744,800	4,977,000	6,925,700	6,134,100	-791,600
Wheat, spring	20,705,200	22,559,735 <sup>f</sup>	23,942,400 <sup>f</sup>	25,670,400	25,935,176	25,161,666	-773,510
Wheat, winter remaining	3,672,900	2,855,300	2,513,900	1,700,500	2,878,900	2,848,900	-30,000

- **Weekly wheat export loadings** were again decent at 349,000 mt for week 5 of the crop year. year-to-date shipments amount to 2.1 million mt, which is 510,000 mt ahead of last year's export loadings.
- *The WASDE report clearly was not bullish for wheat.* But at the same time, we note that Saudi Arabia (not applicable to Canadian wheat), Syria, Turkey, Ethiopia, Tunisia and Pakistan are all tendering between Thursday and this Tuesday for some 2 million mt of wheat in the cash markets. This continues to push prices higher both in the EU and Black Sea areas. Most of this will be covered by offers from the Black Sea/ Baltic, and Australian wheat could be a candidate for the later Dammam (Saudi Arabia) positions. The CME Black Sea futures hit new highs but eased into the end of the week. It seems there are still some significant shorts from previous business, who watch the coming tender line-up with near panic. This means the cash markets could still give us some short-term strength. But cheap S Hemisphere wheat will be available in less than 3 months.
- It seems that the much-feared demand destruction due to Covid-19 does not appear to be happening so far.
- *We think feed and food grain prices are too low compared to oilseeds, so we would hold from selling additional for the present.*

(CGC) Grain Handling Summary Wheat ('000 mt)	Terminal		Wk. 5		(Sept. 6/'20)
	Prod. Dlvs.	Rcpts.	Bulk exports	Dom.	Disappearance
<b>Wk. 5</b>	412.2	411.5	348.9		87.0
Week ago	417.3	568.4	523.8		112.8
<b>YTD</b>	<b>1,881.1</b>	<b>2,996.2</b>	<b>2,138.9</b>		<b>563.7</b>
Last YTD	1,316.8	1,895.4	1,628.8		349.0
<b>YTD less Last YTD</b>	<b>564.3</b>	<b>1,100.8</b>	<b>510.1</b>		<b>214.7</b>
<b>YTD over Last YTD</b>	<b>143%</b>	<b>158%</b>	<b>131%</b>		<b>162%</b>

Mercantile based on weekly CGC Handling Data

- **Durum:** About 62% of durum was harvested in Saskatchewan as of Sept. 7. Saskatchewan Ag yield projections are at 38 bu/acre for durum. Alberta Ag indicates about a 60% progress on durum wheat.
- US durum update: Northern durum harvest is now 71% complete in North Dakota and 75% in Montana, well ahead of last year. Overall, the crop looks good with few quality issues observed so far. The overall grade remains U.S. No. 1 Hard Amber Durum (HAD).
- FWIW, the model-based StatsCan durum estimate pegged Canadian durum production at 6.1 million mt, 792,000 mt smaller than their official Aug. 31 production estimate. [See table above.]
- Week five **durum export shipments** were an improvement at 82,000 mt for the week. But year-to-date shipments at 321,000 mt trail last years by 175,000 mt. We think some importers still have some inventory stemming from the increased imports during the summer.
- *Longer term international demand prospects for durum look positive and should roughly match the demand seen during 2019/20. But our large durum crop will weigh on the market initially.*
- *We would target sales at around \$7.75/bu, which would represent a decent premium over spring wheat.*

(CGC) Grain Handling Summary Durum (000 mt)	Terminal		Wk. 5	(Sept. 6/'20)
	Prod. Dlvs.	Rcpts.	Bulk exports	Dom. Disappearance
<b>Wk. 5</b>	136.9	113.3	82.1	2.8
Week ago	124.8	97.0	6.8	17.2
<b>YTD</b>	<b>406.8</b>	<b>470.9</b>	<b>321.0</b>	<b>35.3</b>
Last YTD	309.3	581.8	495.5	26.1
<b>YTD less Last YTD</b>	<b>97.5</b>	<b>-110.9</b>	<b>-174.5</b>	<b>9.2</b>
<b>YTD over Last YTD</b>	<b>132%</b>	<b>81%</b>	<b>65%</b>	<b>135%</b>

Mercantile based on weekly CGC Handling Data

#### US Wheat:

- **US harvest progress:** The 2020 U.S. HRW and SRW is complete and preparations for the 2021 crop have started. About 88% of the HRS crop is now harvested.
- Increased export demand supported SW wheat export prices. The strong pace of U.S. exports to China continues to support Gulf and PNW HRW and HRS export basis values. Meanwhile, US commercial sales of 484,000 mt for 2020/21 were down 17% from last week's 585,000 mt, but were still within trade expectations of 250,000 mt-600,000 mt.
- **USDA-WASDE report:** Basically, the 2020/21 global wheat outlook was for larger supplies, increased consumption, greater exports, and higher stocks. - In its report on Friday, USDA increased its production forecasts for Australia and Canada. Australian wheat was increased to 28.5 million mt (up 10% from its August prediction and 87% more than Australia's production in 2019/20). Total Canadian wheat (incl durum) is expected to reach 36.0 million mt, up 6% from USDA's August forecast and up 11% from last year. No big arguments here. But USDA left the Russian wheat crop at 78 million mt, when reports say Russia has already harvested 80 million mt, with more to go (as much as 10-15%). (For example, SovEcon increased their output forecast for Russian wheat to 83.3 MMT, up 700,000 due good yields.) Argentine wheat was lowered 1 million mt to 19.5 million mt.  
Changes in exports essentially followed the changes in the crop estimates with increases in Australia, and Canada, but a reduction to the Argentine number.  
*USDA raised 2020/21 global wheat ending stocks by 2.6 million mt to 319.4 million mt (155.7 million mt excluding China).*
- *According to the USDA, the world stocks increase is all in the major exporters, which long-term is price negative. However, for now the cash markets seem to be saying something very different.*
- The FOB value for 13.5 pro HRS in the PNW for October dropped by \$1.00/mt from last week to \$271.00/mt, while PNW White wheat dropped by \$2.00/mt to \$225.00/mt.

#### Australian wheat:

- ABARES pegged wheat the Australian crop at 28.9 million mt, the USDA followed with 28.5 million mt (up 2.5 million mt), and raised exports to 19.5 million mt, some 10 million mt above last years.
- Australian new crop wheat fell by \$4/mt.

#### Argentine wheat:

- BAGE raised crop ratings to 22% Gd./Exc. (17% last week) with soil moisture 54% Good/Optimum compared to 46% last week and 51% last year.
- USDA lowered the '20/21 Argentine crop estimate and exports by 500,000 mt to 19.5 million mt and 13.5 million mt respectively.
- Argentine 11.5 pro wheat for Dec. rose \$4-5/mt to \$205-210/mt.

#### EU wheat:

- Matif wheat ended the week flat after making 4-month highs mid-week.
- **Soils across Europe** and the Black Sea remain very dry for winter planting which added to their farmers' reluctance to sell.
- There were reports of **Romanian farmers** defaulting on their sales commitments due to crop losses following the drought.
- The USDA raised the EU crop by 650,000 mt but left exports unchanged at 25.5 million mt.
- FOB values in the EU were mixed over the week. French 11.5 pro wheat decreased by \$0.39/mt to US\$229.27/mt, but German 12.5 pro increased sharply by \$6.72/mt from last week to \$220.02/mt, and Baltic 12.5% pro wheat rose \$6.38/mt to \$223.18/mt

#### Black Sea wheat:

- Black Sea futures rose \$5 and cash was also sharply higher with the bid-offer on Russian 12.5 pro at \$225-227.
- *Existing short holders are getting squeezed: Farmers are not selling due to the dry soils, and this week brings a list of tenders aimed at Black Sea origination for close to 1 million mt of wheat (Syria, Turkey, Pakistan).*

#### ➤ Significant purchases/ trades:

- **Jordan** purchased 60,000 tonnes of wheat for LH Oct at \$252.60/mt
- **Pakistan** bought 60,000 tonnes wheat for Oct 11.5 pro at \$248
- **Tunisia** bought 25,000 tonnes at \$241/mt
- **Saudi Arabia** tendered Friday for 715,000 tonnes wheat for Nov-Jan (results Monday)
- **Turkey** returns Sept 15th for 500,000 tonnes 12.5 pro wheat with Pakistan the same day for 175,000 tonnes.
- **US sales** were 484,000 tonnes for a season total 476 myn bushels, up 8%.
- Nigeria's President directed the central bank to stop all and any issuing of foreign exchange for food and fertilizer purchases/imports with immediate effect (**we expect more of these types of announcements as governments start to feel the real financial effects of the coronavirus**).
- **EU shipments** rose to 2.94 myn tonnes but they remain 44% below last year.

#### ➤ Wheat Market Outlook:

##### Significant events:

- The **2020/21 global USDA wheat outlook** was for larger supplies, increased consumption, greater exports, and higher ending stocks. *USDA raised 2020/21 global wheat ending stocks by 2.6 million mt to 319.4 million mt (155.7 million mt excluding China).*
- **Soils across Europe** and the Black Sea remain very dry for winter planting which added to their farmers' reluctance to sell, and there were reports of **Romanian farmers** defaulting on their sales commitments due to crop losses following the drought.
- **Existing short holders are getting squeezed: Farmers are not selling due to the dry soils, and this week brings a list of tenders aimed at Black Sea origination for close to 1 million mt of wheat (Syria, Turkey, Pakistan).**
- **Weekly Canadian wheat export loadings** were again decent at 349,000 mt for week 5 of the crop year. year-to-date shipments amount to 2.1 million mt, which is 510,000 mt ahead of last year's export loadings.

➤ **Outlook:**

The balance sheet suggests the world has plenty of wheat. However, it should be noted that with the high price of proteins wheat is becoming cheap for its protein and feed value, which will increase demand. “Coronavirus” is expanding, so we need to watch if this affects overall demand and dry weather is affecting winter plantings in Europe.

*We think feed and food grain prices are too low compared to oilseeds, so we would hold from selling additional volume for the present.*

**iii) Primary Elevator Price Tables and Grade Spreads**

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

					Date:	14-09-2020
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)	
<b>1 CWRS 13.5</b>	\$6.12	\$224.87	<b>1 CWRS 13.5</b>	n/a		
<b>1 CWAD 13.0</b>	\$7.22	\$265.29	<b>1 CWAD 13.0</b>			
<b>1 CPSR 11.5</b>	\$5.45	\$200.25	<b>1 CPSR 11.5</b>			
<b>SW Sask</b>			<b>SW Sask</b>			
<b>1 CWRS 13.5</b>	\$5.99	\$220.10	<b>1 CWRS 13.5</b>	n/a		
<b>1 CWAD 13.0</b>	\$7.23	\$265.66	<b>1 CWAD 13.0</b>			
<b>1 CPSR 11.5</b>	\$5.38	\$197.68	<b>1 CPSR 11.5</b>			
<b>NE Sask</b>			<b>NE Sask</b>			
<b>1 CWRS 13.5</b>	\$5.85	\$214.95	<b>1 CWRS 13.5</b>	6.06	\$222.67	
<b>1 CWAD 13.0</b>	\$7.23	\$265.66	<b>1 CWAD 13.0</b>	7.48	\$274.85	
<b>1 CPSR 11.5</b>	\$5.38	\$197.68	<b>1 CPSR 11.5</b>	5.44	\$199.89	
<b>SE Sask</b>			<b>SE Sask</b>			
<b>1 CWRS 13.5</b>	\$5.85	\$214.95	<b>1 CWRS 13.5</b>	6.06	\$222.67	
<b>1 CWAD 13.0</b>	\$7.20	\$264.56	<b>1 CWAD 13.0</b>	7.48	\$274.85	
<b>1 CPSR 11.5</b>	\$5.26	\$193.27	<b>1 CPSR 11.5</b>	5.44	\$199.89	

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 14.0</b>	0.05	1.89
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.10)	-3.67
<b>1 CWRS 12.5</b>	(0.15)	-5.51
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.00	0.00
<b>2 CWAD 13.0</b>	(0.10)	-3.67
<b>2 CWAD 12.5</b>	(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/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)

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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.”

- 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				14-09-2020
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)
<b>DNS 14.0</b>	\$322.02	\$379.16		
<b>HRS</b>	\$314.75			
<b>HRW 11.5</b>	\$303.62			
<b>SWW 12.0</b>	\$268.27			
<b>1 CWRS 13.5<sup>3</sup></b>	\$322.02		\$217.16	\$104.86
<b>2 CWRS 13.0<sup>3</sup></b>	\$314.75		\$211.28	\$103.48
<b>3 CWRS<sup>3</sup></b>	\$303.62		\$186.66	\$116.96
<b>CPS<sup>3</sup></b>	\$261.49		\$199.15	\$62.34
<b>1 CWAD<sup>4</sup></b>		\$372.38	\$259.41	\$112.97
<b>Competing wheat:</b>	<b>US\$/mt</b>			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	\$225.00	August		
<b>French 11.5 (Rouen)</b>	\$229.27	August		
<b>ASW 10.5 (W Coast)</b>	\$234.00	December		
<b>Argentine 12.0</b>	\$205-210.00	December		

<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				14-09-2020
<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>	\$8.38	\$8.08	\$5.40	\$5.40
<b>Parity Track Rosetown</b>	\$6.89	\$6.58	\$5.62	\$5.62
<b>Track Bid Rosetown Area</b>	\$5.75	\$5.08	\$5.42	\$5.42
<b>Gross Margin at Elevator (\$/bu)*</b>	\$1.14	\$1.50	\$0.20	\$0.20
<b>Gross Margin at Elevator (\$/mt)*</b>	\$41.71	\$55.19	\$7.35	\$7.35
* to cover elevation, elevator market risk, margin				