

Wheat Market Outlook and Price Report: Sept. 28, 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 28, 2020

Latest International Grains Council (IGC) assessment of the 2020/21wheat production outlook:

	17/18	18/19	19/20 est.	20/21 f'cast	
million tons				27.08	24.09
WHEAT					
Production	762	732	762	763	763
Trade	176	168	185	181	183
Consumption	742	738	745	749	749
Carryover stocks	268	262	279	294	294
year/year change	20	-7	18		15
Major exporters ^{b)}	83	71	66	66	65

- The September 24 IGC figure for the **world wheat production** is little changed from last month, with higher production figures for Russia and Australia balanced by cuts for Argentina and Canada.
- **Wheat trade** was increased by 2 million mt to 183 million mt, but **overall consumption** and **carryover stocks** were left at 749 million mt and 294 million mt, respectively.

➤ **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:** December '20 contract **Chicago winter wheat** closed at 544-2, down 5-4 cents on Friday, *up 30-8 cents for the week.*
 December '20 contract **Kansas hard red winter wheat** closed at 475-2, down 7-6 cents in Friday's trade, *down 29 cents for the week.*
Minneapolis December '20 **hard red spring wheat** closed at 529-6, down 5-0 cents on Friday, *down 21-6 cents for the week.*

CBOT/CME Dec. 2020 Wheat



KC Dec. '20 Wheat



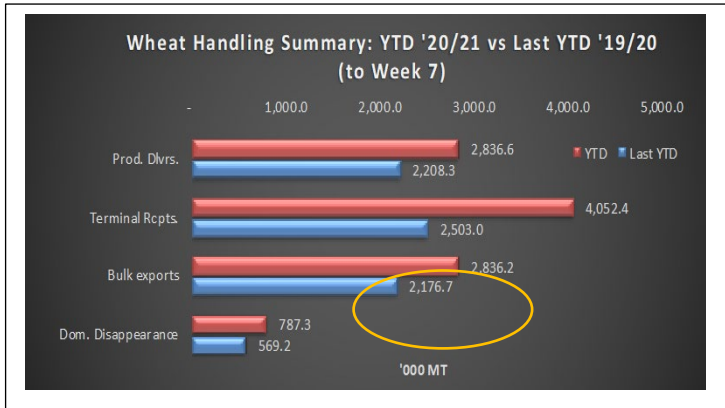
Mpls. Dec. '20 Wheat



- Futures market summary:** Technical selling pressured all wheat futures prices during the week. *Exchange rate developments were also very significant in this week's prices with the strong dollar making USA grains less competitive.* The Euro and Australian dollar fell to 10-week lows, the Russian Ruble to 6-month lows, while the Argentine Peso fell to all-time lows.

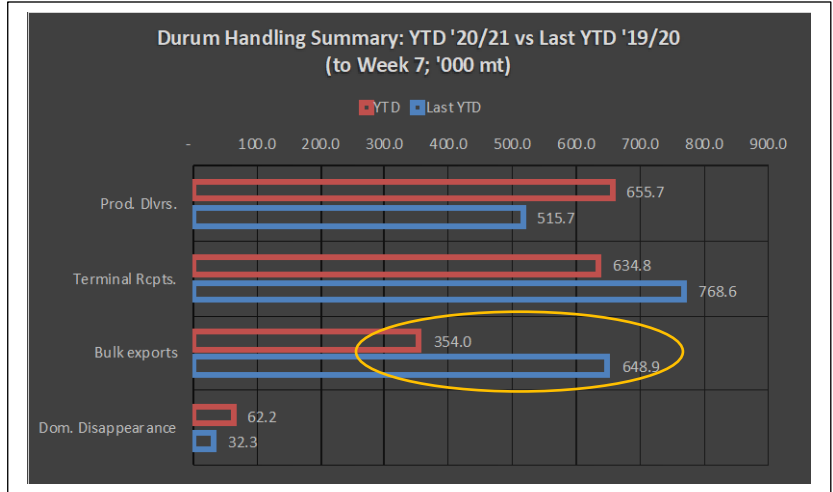
Canadian Wheat:

- Harvest:** According to Saskatchewan Ag 74% of Saskatchewan spring wheat was harvested as of September 21. Saskatchewan Ag yield projections remain at 45 bu/acre for spring wheat. Alberta Ag indicates a 55% progress on wheat. Alberta yields were lowered by 1.6 bu/ac to at 54.4 bu/acre.
- Week 7** grower deliveries were a big 509,000 mt. Weekly wheat export loadings were at 315,000 mt. Year-to-date shipments have reached 2.8 million mt, which is 660,000 mt (+30%) ahead of last years.
- Export numbers for US wheat were poor and this affected US futures. Exchange rates also made US wheat less competitive.
- A look at world weather shows us that several areas that need rain are now supposed to get at least some. Weather in Europe looks to be improving, but significant issues remain in Russia and eastern Ukraine, Argentina is still dry, WA needs more rain, and SE Australia has a frost risk. So far, the markets are ignoring the dryness in Canada and the USA.
- Uncertainty about final wheat production outcomes still persists. *Canadian demand continues to be good and we see better prices in the future.*
- Durum:** 95% of Canadian durum was harvested in Saskatchewan as of September Saskatchewan Ag yield projections are at 38 bu/acre for durum. Alberta Ag durum shows 82% harvested. US durum: The US The northern durum harvest is 91% complete in North Dakota and 85% in Montana, well ahead of last year. Protein content is holding steady at 13.7% (12% mb). The low



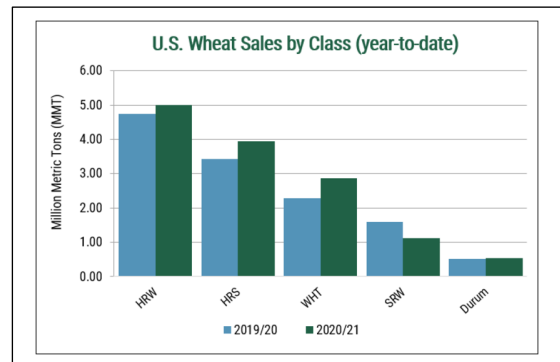
moisture content (10.8%) and high falling Number (424 sec) reflect dry conditions across the growing region. The overall grade remains U.S. No. 1 Hard Amber Durum.

- Week 7 durum deliveries were 133,000 mt. Export shipments were miniscule at 7,000 mt. Year-to-date shipments at 354,000 mt trail last years by 295,000 mt.
- *We would target sales at around \$7.75/bu, which would represent a decent premium over spring wheat.*



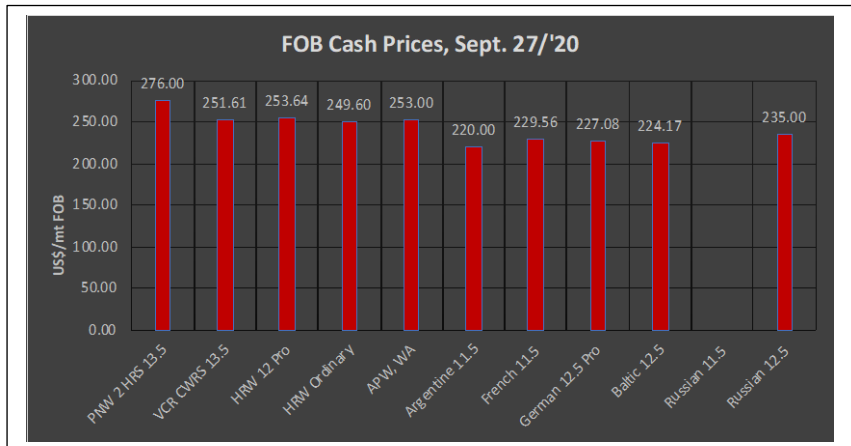
US Wheat:

- **US harvest progress:** The 2020 HRS harvest is all but complete with less than 4% of the crop remaining in the fields, well ahead of last year's pace. And, according to USDA, U.S. farmers have now planted 20% of the total intended winter wheat area for harvest in 2021, 2 points ahead of this time last year and 1 point ahead of the 5-year average.
- **Net US sales** of 3.2 million mt for 2020/2021 were primarily for China (1.9 million mt) and unknown destinations (771,000 mt). This was in line with estimates and 24% above the same week last year.
- **Exchange rate developments** were also very significant in this week's prices with the strong dollar making USA grains less competitive. The Euro and Australian dollar fell to 10-week lows, the Russian Ruble to 6-month lows, while the Argentine Peso fell to all-time lows. - North American prices are still too high for the major markets.



Australian wheat:

- New crop Australian wheat futures closed up A\$5/mt but fell US\$5/mt on the Australian dollar's 6-week low. FOB values stayed firm.
- W Australia needs rain, and there was concern over the frost forecast for this past weekend for Victoria and southern NSW.
- Australian new crop FOB APW wheat values for Dec. closed unchanged from last week at 247.00/mt.



Argentine wheat:

- Last week BAGE did lower its wheat crop estimate to 17.5 million mt (USDA is at 19.5 million mt). BAGE called the wheat situation "critical" with damage in many cases irreversible, and rain from here on can only prevent further yield losses rather than bring any real improvement.

- The weekly crop update showed another drop in crop ratings with just 9% Gd/Exc against 14% last week and 41% last year. The Poor/V Poor rating rose to 44% from 40% last week and just 21% last year. 59% of nation's soil moisture was termed "dry or drought".
- Note that Argentine wheat remains the world's cheapest wheat on a FOB basis December forwards, but is largely priced out of non-Mercosur demand given current freight rates.
- Argentine new crop 12% pro wheat for Dec. rose \$5/mt to \$215-225/mt.

EU wheat:

- Matif hit a 22-month high before falling back on much needed widespread rain.
- French wheat was offered to Egypt (GASC) but was out by \$7. The French vessel line-up shows China as easily the biggest destination year-to-date (250,000t mid-week).
- German and Baltic shipments are mainly going to Saudi Arabia and Algeria.
- Northern EU wheat has regained its competitiveness against Black Sea wheat [see graph previous page].
- FOB values in the EU were all down over the past week. French 11.5 pro wheat decreased by \$7.00/mt to US\$229.56/mt, German 12.5 pro decreased by \$5.78/mt from last week to \$227.08/mt, and Baltic 12.5% pro wheat dropped \$5.13/mt to \$224.17/mt

Black Sea wheat:

- Russia sold wheat to Egypt (GASC) at ~\$235/mt FOB parity after costs.
- The Ruble fell to a 6-month low, but despite the low in the Ruble, Russian wheat is becoming uncompetitive, because there are still shorts that need to cover. But there is little rain in the forecast, and so farmers are not sellers.
- The Ukrainian Ag Min. lowered the current crop to 25.1 million mt (USDA is using 27 million mt). The Ag Min. also said that winter seeding is lagging. However, the forecast for W Ukraine is for much wetter conditions.
- FOB values were unchanged with the bid-offer on Russian 12.5 pro at \$232-238/mt.

➤ Significant purchases/ trades:

- **Egypt** (GASC) bought 405,000mt Russian wheat for 21-30 November at a season high of \$256.50/mt (180-day payment).
- **Thailand** bought 180,000 mt December-April
- feed wheat at \$258/mt.
- **Korea** bought 65,000 mt January feed wheat at \$255/mt.
- USA export sales were 351,000 mt for a season total 495 million bushels, up 7% on last year.
- EU shipments rose 566,000 mt to 4.14 million mt, still down 39% on last year.

➤ Wheat Market Outlook:

Significant events:

- **Exchange rate developments** were very significant in last week's prices with the strong dollar making USA grains less competitive. The Euro and Australian dollar fell to 10-week lows, the Russian Ruble to 6-month lows, while the Argentine Peso fell to all-time lows.
 - Australian wheat futures rose A\$5/mt, but FOB prices fell US\$5/mt as the Australian dollar collapsed to ten-week lows.
- Where we go from here in **futures** for corn and soybeans depends upon weather and if China has quenched its earlier appetite or not yet. This will influence wheat futures.
- There were **signs of precipitation** in the EU and Ukraine in their dry regions.

➤ **Outlook:**

The trade's attention is focused on weather. If we get rain in the dry areas of the EU and the Ukraine the markets will fall further, but a continuance of the dryness will support markets. So far, the markets have been ignoring the dryness in Canada and the USA.

We had very heavy deliveries in Canada during week 7, so we would hold off delivering more while we have uncertainty in the markets concerning weather and China. Canadian demand continues to be good and we will see better prices in the future.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 28-09-2020					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb.'20 (bu.)	Feb.'20 (mt)
1 CWRS 13.5	\$6.23	\$228.92	1 CWRS 13.5	n/a	
1 CWAD 13.0	\$7.43	\$273.01	1 CWAD 13.0		
1 CPSR 11.5	\$5.58	\$205.03	1 CPSR 11.5		
SW Sask			SW Sask		
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	n/a	
1 CWAD 13.0	\$7.53	\$276.68	1 CWAD 13.0		
1 CPSR 11.5	\$5.58	\$205.03	1 CPSR 11.5		
NE Sask			NE Sask		
1 CWRS 13.5	\$5.95	\$218.63	1 CWRS 13.5	6.18	\$227.08
1 CWAD 13.0	\$7.49	\$275.21	1 CWAD 13.0	7.68	\$282.19
1 CPSR 11.5	\$5.37	\$197.32	1 CPSR 11.5	5.52	\$202.83
SE Sask			SE Sask		
1 CWRS 13.5	\$5.94	\$218.26	1 CWRS 13.5	6.13	\$225.24
1 CWAD 13.0	\$7.56	\$277.78	1 CWAD 13.0	7.66	\$281.46
1 CPSR 11.5	\$5.37	\$197.32	1 CPSR 11.5	5.54	\$203.56

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/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)

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 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				28-09-2020
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	\$325.39	\$384.86		
HRS	\$318.02			
HRW 11.5	\$314.08			
SWW 12.0	\$279.68			
1 CWRS 13.5 ³	\$325.39		\$223.40	\$101.99
2 CWRS 13.0 ³	\$318.02		\$205.03	\$112.99
3 CWRS ³	\$314.08		\$190.33	\$123.75
CPS ³	\$272.80		\$207.24	\$65.56
1 CWAD ⁴		\$377.98	\$275.58	\$102.40
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$235.00	August		
French 11.5 (Rouen)	\$229.56	August		
ASW 10.5 (W Coast)	\$247.00	December		
Argentine 12.0	\$215-225	December		

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				28-09-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Sept/Oct delivery	\$8.47	\$8.36	\$5.55	\$5.55
Parity Track Rosetown	\$6.97	\$6.86	\$5.93	\$5.93
Track Bid Rosetown Area	\$5.58	\$5.18	\$5.64	\$5.64
Gross Margin at Elevator (\$/bu)*	\$1.39	\$1.68	\$0.29	\$0.29
Gross Margin at Elevator (\$/mt)*	\$51.12	\$61.88	\$10.58	\$10.58

* to cover elevation, elevator market risk, margin