

Wheat Market Outlook and Price Report: December 2, 2019
By Marlene Boersch/ A.P. Temple
Mercantile Consulting Venture Inc.

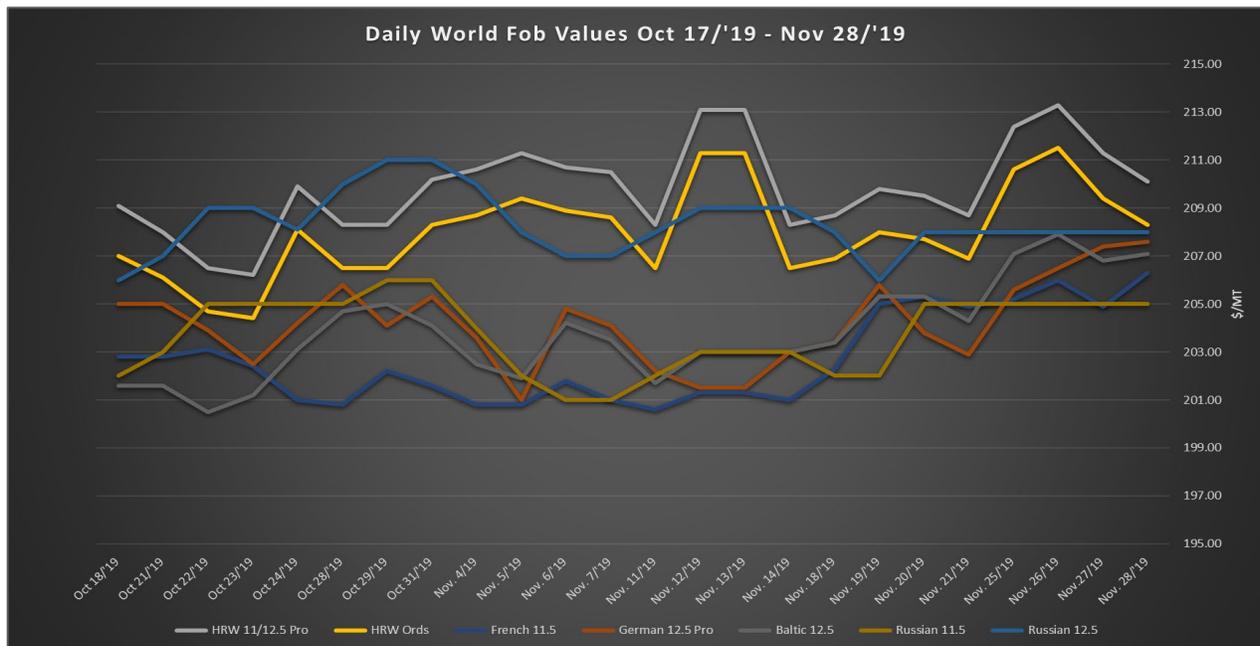
i) Background and Rationale for the Report

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 Nov 28th, 2019

Change in World Fob Wheat Values Oct 17/'19 to Present.



- Strong demand, production concerns and slow farmer selling has supported world FOB wheat values in recent weeks.
- Since the beginning of October, production levels in the Southern Hemisphere have been in question because of droughts in Australia and Argentina. While this has been largely priced into the market, planting delays in the EU and dryness in Russian gave the market concern about production for the 2020/21 marketing year. Limited farmer selling pushed prices as well.

- While Russia has received some rain to aid development of the Russian winter crop, persistent excessive moisture, especially in western regions of the EU, will prevent initial forecasts of EU seeded area to be met.
- The result of this has been a general increase in world Fob levels for wheat. Russian FOB values for 11.5 protein wheat is now \$205/mt, up \$1 since the start of November. Similarly, Baltic 12.5 protein is up \$3/mt at \$207.10/mt, German 12.5 pro is \$2.30 higher at \$207.60/mt and French wheat, the major competitor this season, is \$4.70 more than the start of November at \$206.30/mt for 11.5 protein.

➤ **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.

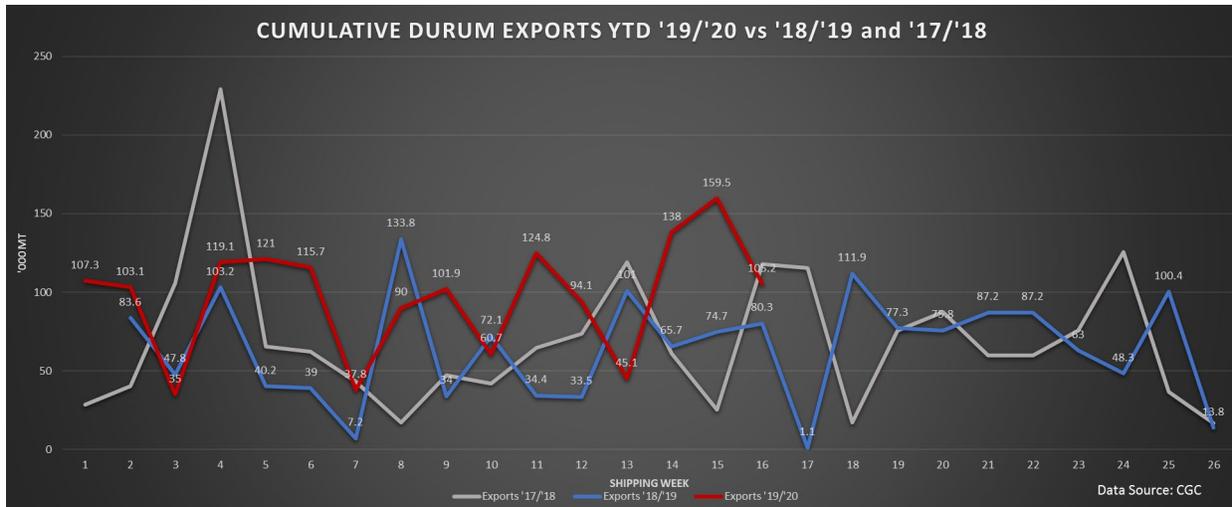
- **Futures:** Mar '20 contract **Chicago** winter wheat closed at 542-0, up 15-2 cents for the day, up 30-0 cents for the week.
- Mar '20 contract **Kansas** hard red winter wheat closed at 447-2, up 9-6 cents for the day, *up 18-6 cents for the week.*
- **Minneapolis**, Mar '20 contract hard red spring wheat closed at 514-4, up 6-0 cents for the day, *up 5-2 cents for the week*, while May '20 hard red spring wheat closed at 523-0, up 4-4 cents for the day, *up 3-4 cents for the week.*
- Note that the **Chicago wheat market strength is purely technical (not fundamental), as it punishes the shorts that stayed too long with out of position hedges. The CBOT-KC spread pushed to a record \$1.15 before closing at \$1.12 per bushel premium in Chicago. Kansas and/or Minneapolis are the only futures market, which represent world price values presently. European values have risen steadily due to problems in seeding the winter crop, and the current spread between European and USA wheat values is quite narrow.**

Canadian Wheat:

- Canadian producers delivered 445,800 mt of wheat (excl. durum) into the Canadian grain handling system during week 16 of the 2019/20 marketing year. Exports during the week were poor at 195,800 mt, for a year-to-date total of 5.0 million mt, 754,500 mt (13%) less than this time last year. We were expecting that exports would reflect the CN rail strike last week and unfortunately this was the case. It will likely be another week before the backlog from the strike will work out of the system.

('000 mt)	(CGC) Grain Handling Summary Wheat (excl. Durum)			
	Producer Deliveries	Terminal Receipts	Exports	Domestic Dissappearance
Current Week	445.80	269.30	195.80	117.30
Week Ago	403.00	308.20	213.40	85.90
YTD	6,499.10	6,089.30	4,995.90	1,361.80
Last YTD	6,641.00	7,020.60	5,750.40	1,285.10
YTD less Last YTD (k mt)	↓ -141.9	↓ -931.3	↓ -754.5	↑ 76.7
YTD over Last YTD (%)	↓ -2%	↓ -13%	↓ -13%	↑ 6%

- *Canadian basis levels are going to have to do the work for good quality CWRS, but they remain well below respective US bids. We hope that since the CN strike is over line companies will be looking to move some tonnes, but we have been disappointed before.*



- Canadian producers delivered 120,600 of durum into the grain handling system during week 16 of the marketing year. Exports throughout the week continue to be excellent at 105,200 mt for a year-to-date total of 1.56 million mt 56% (561,500mt) more than this time last year.
- Although durum exports to the US have been down significantly (just 236,000 mt this year vs 400,000 mt last year) large volumes are being shipped to overseas destinations. Brussels data shows that EU durum imports (from all origins) are 73% higher than last year at 670,743 mt. Italy has taken the lion's share of this, importing 625,625 mt.
- **Given the wheat values that have traded in recent weeks, Canada should have been doing more wheat business, particularly in durum and lower grade wheat. However, we fear that import buying is slowing now.**
 - **Durum was traded for values that back off to ~US\$285/mt parity Thunder Bay. Accounting for the exchange rate and backing off 112 car rail freight rates and actual handling expenditures calculates to C\$334.00/mt (\$9.09/bu) at the elevators in central SK. The current posted bid is \$8.00, for a generous \$40.17/mt spread after costs.**
 - **Similarly, traded global feed wheat values are worth ~US\$205.00/mt parity Vancouver. Using a similar method as above, this backs off to C\$222.82/mt (\$6.06/bu) at the elevator in central SK vs the current posted bid of \$4.80. This is another healthy \$46.46/mt spread.**
- Freight costs have come down enormously in recent years. It is possible to fix container freight house to house Oregon-Shanghai at around C\$50.00/mt. That represents a distance of 9,400 kilometers across the ocean, while Canadian elevators are charging growers C\$100.00 for grains from Saskatoon to FOB Vancouver, a distance of 1,300 kilometers. Something is very wrong with the Canadian cost of moving grain and it is no wonder our exports and grower returns are not increasing. Buyers no longer need to book vessel sizes to get supplies to destinations.
- *Bids for good quality CWRS should improve, but in the short-term we do not see bids rising above the \$6.50 level for No. 2 CWRS. Remember to shop grade discounts for damaged wheat with the elevators in your area!*

US wheat:

- News was limited in the US as US markets were closed Thursday because of the Thanksgiving holiday, and Friday was a reduced trading day.
- The Chicago wheat market strength is purely technical, as it punishes the shorts that stayed too long with out of position hedges. Kansas and/or Minneapolis are the only futures market, which currently represent world price values.
- US crop ratings were unchanged for the week at 52% Good/Excellent (55% last year), with 87% of the crop is emerged

- US export inspections were 421,000 mt for a season total of 454 million bu, up 22% from last year while sales were strong at 613,000 mt (trade was expecting 300,000-600,000 mt) for a season total of 596 million bu, up 9% from last year.

Australian wheat:

- Harvest restarted in Australia and dry conditions allowed for fast progress. Quality is reportedly good, but variable.
- ABARES put forecasts for the 2019/20 Australian crop up by 300,000 mt from last month.
- Aussie FOB values were unchanged from last week at \$230/mt, too expensive for most origins especially with Argentine origin wheat hitting the market.

Argentine wheat:

- Argentina received some rain which will have minimal benefit to wheat crops. The outlook has turned dry again which will aid harvest progress.
- BAGE put harvest in Argentina up 11% on the week and is now 31% done, in-line with last year. Crop ratings were down again with just 5% of the crop now rated as Gd/Ex. BAGE left their production forecast unchanged at 18.5 million mt.
- The Argentine market was nominally unchanged, but there was a sharp 900,000 mt jump in new crop export licenses to 9 million mt. Old crop licenses were unchanged at 10.6 million mt vs official figures that show exporters own 2.7 million mt fewer licenses than wheat. Sources say that exporters are fully hedged against export taxes potentially jumping to 15-20% (they are 7% right now) on December 10th when the new president takes office. If this is the case, then farmers have sold less than official figures suggest leaving them exposed to the tax risk.
- Argentine Fob values bid at \$190.00-195.00 are nominally \$1.00 higher than last week.

EU wheat:

- EU, winter crop sowing is essentially done following a decrease in soil temperature. Wet and cold conditions across western EU hampered winter cereal planting in Germany, France, the UK, Ireland and the Benelux countries. The **UK**, one of the areas most heavily impacted has planted area down 9% from last year at 1.65 million ha. Early-seeded crops in W EU are in good condition, but late seeded crops are stunted. Conditions in E Europe were overall favorable for seeding progress and germination. Area planted in Bulgaria, Romania, and Hungary is expected to be lower than last year, while planted area in France in Germany will be similar to last year (still below the 5-year average).
- The EU commission decreased their number for 2019 soft wheat by 200,000 mt to 146.8 million mt.
- Planting in France is up 6% from last week and is now 80% complete (99% last year). Their crop ratings lost 3 points from last week and is now 75% good/excellent.
- As yield potential is coming under scrutiny, shorts are covering both shipments and MATIF delivery while farmers are small sellers, already being well sold, and having received their Brussels top-up payment.
- Fob values in the EU firmed with French 11.5 protein bid at \$206.30 (+\$1.40 week-over-week), German 12.5 protein bid at \$207.60 (+\$4.70) and Baltic 12.5 protein bid at 207.10 (+\$2.80).

Black Sea wheat:

- There was some rainfall in the Black Sea which will help improve conditions for their winter crop.
- Russia's agriculture ministry decreased 2019/20 production 3 million to 75 million mt, closer to USDA's 74 million mt estimate.
- Black Sea values were unchanged from last week with FOB values for 12.5 protein at \$208, while 11.5 protein FOB was \$205.

➤ **Significant purchases/ trades:**

- The only trade we heard of in last week's short trading week was to **Jordan**, which bought 60,000 mt of hard wheat for FH April at \$239.30.
- **EU** soft wheat exports for this season totaled 10.8 million mt, an increase of 51% more than the last season.
- **US** export inspections were 421,000 mt for a season total of 454 million bu, up 22% from last year. Export sales were strong at 613,000 mt (trade was expecting 300,000-600,000 mt) for a season total of 596 million bu, up 9% from last year.

➤ **Wheat Market Outlook:**

Significant events:

- **It was a very quiet week in the markets due to the "Thanksgiving Holiday" in the USA.** Futures traded in a wide range of prices, but trade was very thin and sporadic with the major traders on vacation. Both corn and soybeans traded down in futures, while wheat trended up led by the squeeze on the CBOT.
- **CN and the Teamsters worker union were able to come to an agreement** after a strike that lasted one week. Full operations resumed Wednesday morning.
- **First notice saw no CBOT wheat put out** (as expected) while KCBT wheat saw just 11 contracts delivered and MPLS saw 343 contracts put out, vs the wide range of expectations of 200-1,500.
- **A heavy snowstorm hit the much of the northern and Midwest US last week** which will essentially halt most of the corn harvest progress. Last Monday, NASS reported that corn harvest was just 84% complete (up 8% from last week).
- **Weather around the world:**
 - The **USA** forecast has significant and widespread rain/snow (up to 24" in parts of the Midwest) this week, which will continue to slow the remaining harvest. **Brazil** remains generally well watered except in the far north-east, but the driest part of **Argentina** in the south and west are again expected to miss out as once again the forecast fails see the rain that was in the deferred maps pulled forward. **Europe** will see more rain in a band from the UK through the whole of France down through Italy, which will further slow/stop any fieldwork. Elsewhere it remains mostly dry, although **Ukraine** could see some showers, and temperatures are moving back above seasonal norms everywhere. **Australia** brings rain back into Queensland and northern New South Wales, and temperatures drop sharply across the country, which should allow harvest to restart. ***The winter plantings in Europe need to be followed closely further delays could make wheat markets friendly.***

➤ **Outlook:**

We don't expect much trade at the beginning of the week as traders return from holidays. By the end, we expect to see some wheat tenders from the Middle East, which should be serviced by FSU/Russian/EU origin wheat. European values have risen steadily due to problems in seeding the winter crop, and the current spread between European and US wheat values is quite narrow.

There is still some open interest in December CBOT wheat, so there could be some squeeze left in the contract against the shorts. If this helps Canadian prices to rally, **we would sell 2 CWRS 12.5 protein at \$6.50 or better if the opportunity arises.** We don't expect Canadians to narrow their basis levels, as they are likely to have sufficient quantities booked to cover them through the Holiday season. We don't think the signs are good for an early signing of a trade deal between the USA/China that will help prices.

iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb. 20 (bu.)	Feb. 20 (mt.)
1 CWRS 13.5	\$5.86	\$215.32	1 CWRS 13.5	\$5.97	\$219.36
1 CWAD 13.0	\$7.23	\$265.66	1 CWAD 13.0	\$7.28	\$267.50
1 CPSR 11.5	\$5.34	\$196.21	1 CPSR 11.5	\$5.40	\$198.42
SW Sask			SW Sask		
1 CWRS 13.5	\$5.76	\$211.65	1 CWRS 13.5	\$5.81	\$213.48
1 CWAD 13.0	\$7.22	\$265.29	1 CWAD 13.0	\$7.28	\$267.50
1 CPSR 11.5	\$5.26	\$193.27	1 CPSR 11.5	\$5.31	\$195.11
NE Sask			NE Sask		
1 CWRS 13.5	\$5.67	\$208.34	1 CWRS 13.5	\$5.75	\$211.28
1 CWAD 13.0	\$7.59	\$278.89	1 CWAD 13.0	\$7.67	\$281.83
1 CPSR 11.5	\$5.09	\$187.03	1 CPSR 11.5	\$5.13	\$188.50
SE Sask			SE Sask		
1 CWRS 13.5	\$5.70	\$209.44	1 CWRS 13.5	\$5.77	\$212.01
1 CWAD 13.0	\$7.59	\$278.89	1 CWAD 13.0	\$7.66	\$281.46
1 CPSR 11.5	\$5.06	\$185.92	1 CPSR 11.5	\$5.10	\$187.39

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/tonne. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/tonne, 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 Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. 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 YTD (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				December 1, 2019
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	\$339.50	\$322.89		
HRS	\$334.61			
HRW 11.5	\$302.37			
SWW 12.0	\$295.05			
1 CWRS 13.5 ³	\$339.50		\$213.48	\$126.02
2 CWRS 13.0 ³	\$334.61		\$189.60	\$145.01
3 CWRS ³	\$302.37		\$151.02	\$151.36
CPS ³	\$288.21		\$191.44	\$96.77
1 CWAD ⁴		\$375.40	\$0.00	
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$208.00			
French 11.5 (Rouen)	\$206.30			
APW 10.5 (W Coast)	\$230.00			
Argentine 12.5	\$190.00-195.00			
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					December 1, 2019
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.05	\$8.92	\$8.04	\$7.84	\$7.84
Parity Track Rosetown	\$7.56	\$7.42	\$6.55	\$6.35	\$6.35
Track Bid Rosetown Area	\$5.81	\$5.16	\$4.11	\$5.21	\$5.21
Gross Margin at Elevator (\$/bu)*	\$1.75	\$2.26	\$2.44	\$1.14	\$1.14
Gross Margin at Elevator (\$/mt)*	\$64.19	\$83.19	\$89.53	\$41.79	\$41.79

* to cover elevation, elevator market risk, margin