

Wheat Market Outlook and Price Report: February 3, 2020
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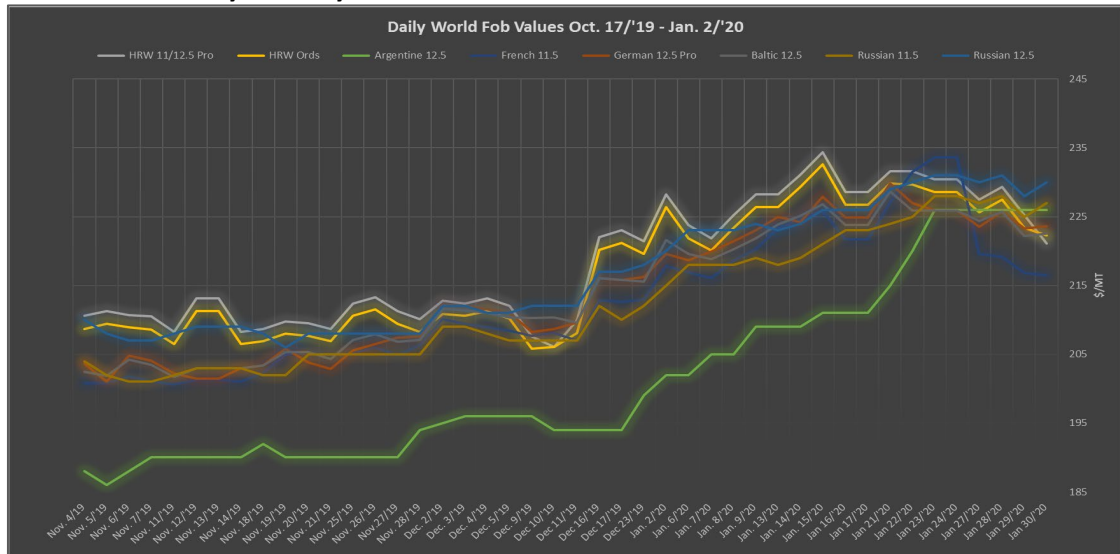
i) Background and Rationale for the Report

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 January 30th, 2020

World FOB Values for Nearby Delivery Wheat



- **World wheat values have changed direction from the steady increase they have seen since harvest.** The trend started the change in early Jan., but was confirmed on Thursday when Egypt bought 180,000 mt of French wheat for \$3-4/mt cheaper than their last tender on Jan 13th. This is the first time since August that prices declined between GASC purchases.
- **French wheat is now the cheapest on a Fob basis** having experienced a steep decline in price since Jan 24th when the backlog from their port and rail strikes started to become burdensome. As GASC's last purchase was from France, they must be confident that the strikes will be resolved by the March shipment window.
- **Outside of a major issue with new crop production, world prices have seen their ceiling.** Russia, now with the most expensive wheat in the world, has ~14 million mt worth of wheat that will need to be exported in Feb-Jun, to meet their export goal. This will not happen at current prices. Also, GASC only has April-May positions remaining to fill before they switch to cheaper new crop supply, something that Jordan has already started to do.

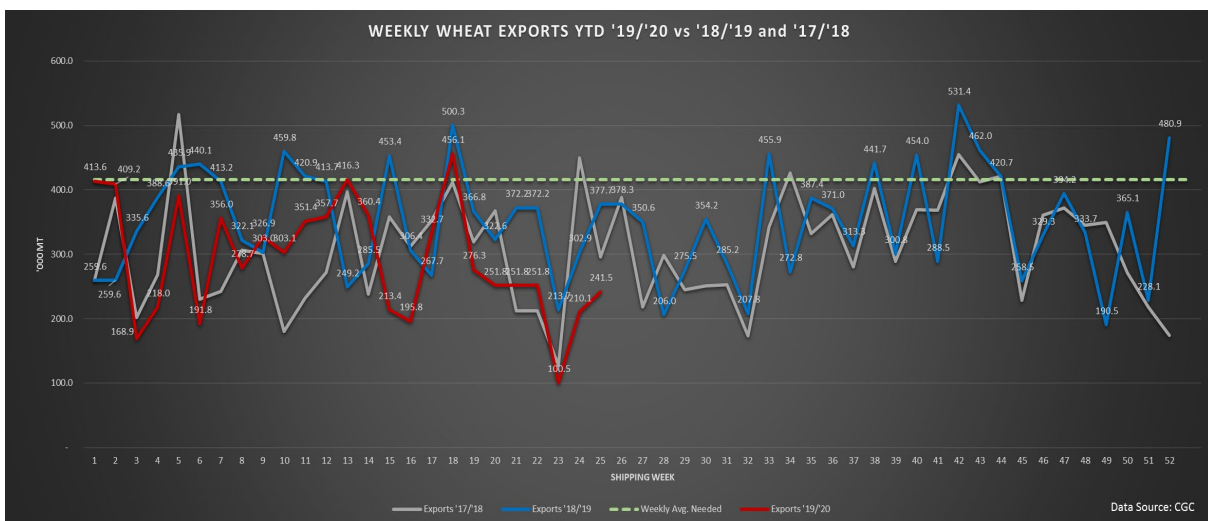
➤ **Global wheat production and trade:**

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 553-6, down 6-6 cents for the day, *down 19-6 cents for the week*.
Mar '20 contract **Kansas** hard red winter wheat closed at 465-4, down 5-4 cents for the day, *down 20-4 cents for the week*.
In **Minneapolis**, Mar '20 contract hard red spring wheat closed at 533-6, down 2-6 cents for the day, *down 13-6 cents for the week*, while May '20 hard red spring wheat closed at 543-2, down 2-6 cents for the day, *down 13-6 cents for the week*.

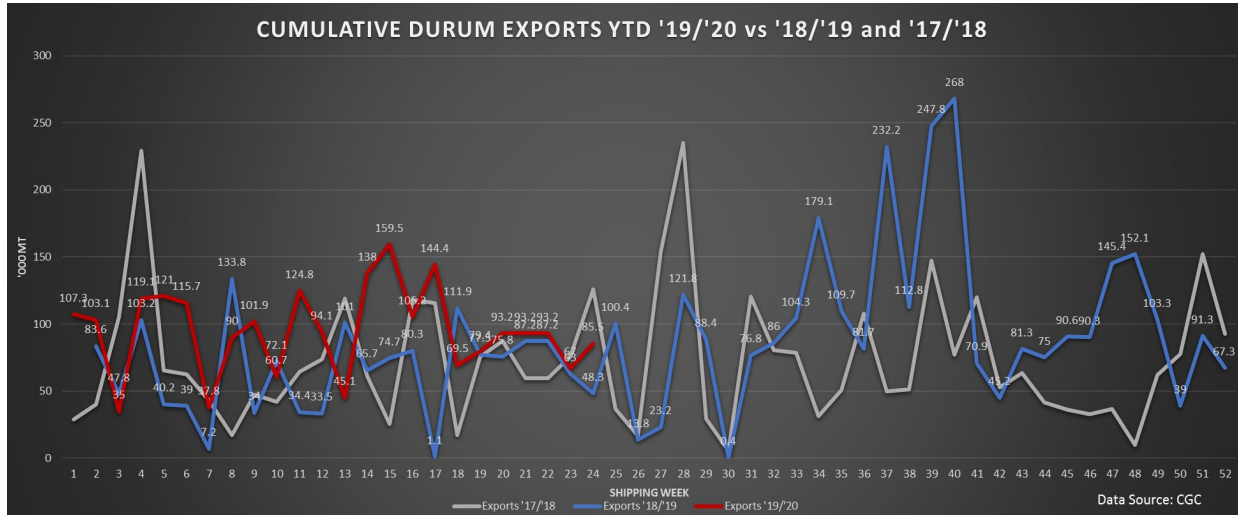
Canadian Wheat:

- Canadian producers delivered 495.60k mt of wheat during week 25 ending Jan 26th. Total deliveries are now at 10.2 million mt, down 6% (752,600mt) from last year.



- Exports throughout week 25 recovered slightly from the week before to 241.5k mt -still well below the 415.8k mt worth of weekly exports (green line) needed to reach the AAFC's recently cut 18.6 million mt expectation. *YTD exports are now 7.37 million mt, 17% less (-1.5 million mt) then last year*. Considering durum exports, total Canadian wheat exports are still down 8% (837,000 mt) y/y.

- Average prairie bids followed the futures lower despite some support from the weaker dollar. While uncertainty around the coronavirus will weigh on the market, MN wheat is still cheap vs Chicago and is not expensive vs KS which should cause it to fare better. *The seasonal tendency is for cash prices to firm into Mar-Apr, but with futures breaking support levels, basis will have to make this happen.*

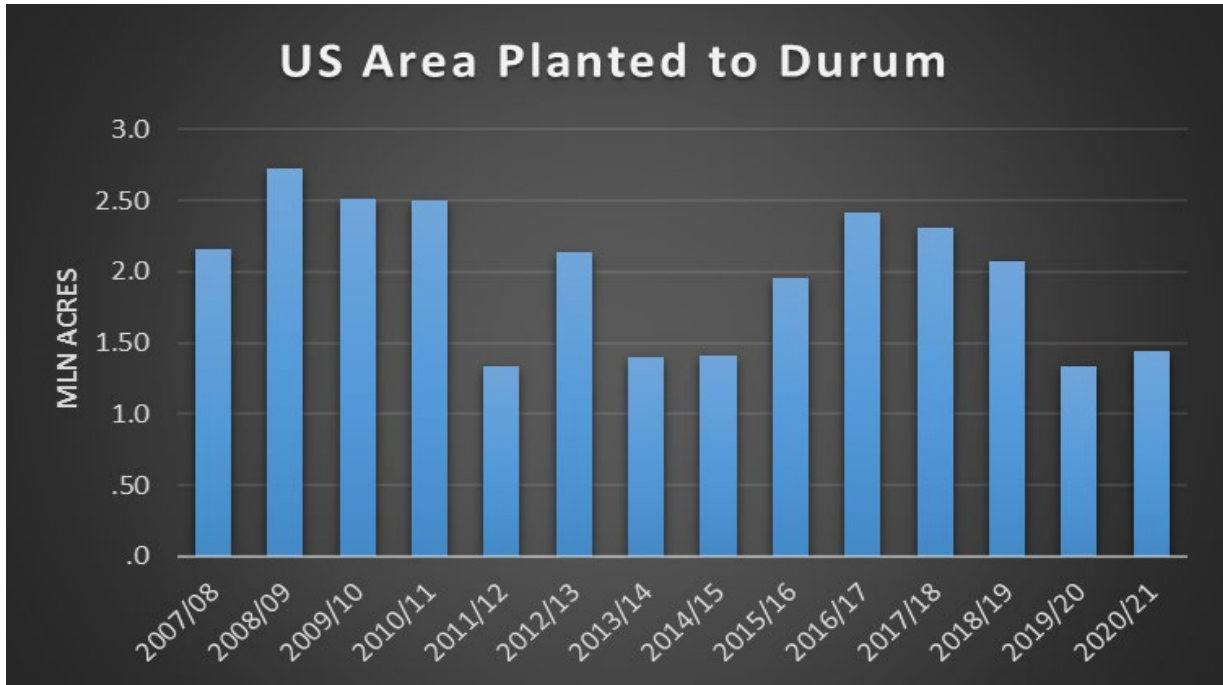


- Canadian producers delivered 75,100 mt of durum into the system during week 25 for a YTD total of 2.3 million mt, up 30% (536.700 mt) from last year.
- Exports throughout the week were just 49.5k mt for a season total of 2.35 million mt, 39% (664,000 mt) more than last year. Durum exports seasonally start to pick up in late January and peak in early May.
- *Global durum demand will continue to remain strong until the EU harvest begins in Mid-2020. Offers in Vancouver are starting to recover again as prices climb in many of the key EU markets. Prices will continue to improve as the old crop situation becomes tighter and current estimates for new crop planting are not enough to replenish depleted supplies.*

US wheat:

- US wheat futures continued to fall throughout the week on a combination of the coronavirus and the lack of Chinese demand for US wheat.
- Commercial wheat sales for the week of 646,000 mt were at the high end of trade's expectations but did not show any Chinese interest. HRW wheat accounted for 45.2% of the total, while HRS sales held a 33% share. YTD exports represent 59.2% of the Jan USDA projection for the crop year.

- Although the freight disadvantage will prevent the US from trading into countries like Egypt, on a FOB basis US ordinary wheat is cheaper than Russian wheat and in-line with Baltic and German origin at \$222.3/mt.



- IEG Vantage released their estimate of the 2020 US durum area at 1.445 million acres, up 8% from last year's historic low of 1.339 million acres. This is still well below the 5-year average of 2 million acres. With 2019/20 ending stocks already very tight, *this is not a large enough increase to replenish the depleted supplies and prices will have to either buy more acres, or imports from Canada will have to be significantly higher.*

Australian wheat:

- The USDA Attaché put the Aussie 2019/20 wheat crop down 600,000 mt from the USDA's official estimate to 15 million mt -the smallest in over a decade (40% less than the 5-year average), but in-line with our estimate for the crop. Exports we seen 200,000 mt lower to 8 million mt with the remainder of the decrease in production coming out of ending stocks which are estimated at 3.814 million mt (23% less than last year).
- It is estimated that Australia will import the full 550,000 mt of milling wheat from Canada that is being allowed by the Aussie Gov't (last year's imports were 360k mt). Since June 2019, Australia has imported a Panamax (~62,000 mt) of Canadian wheat per month.
- While the poor Aussie crop is the result of a multi-year drought and the lowest soil moisture levels on record. As much as 1-4" of rain has fallen over much of the drought-stricken area, replenishing soil moisture, and the 10-day forecast has more to come. While vegetation and the soil will be replenished, more rain will be needed before streams, rivers and other water sources are back to average levels.
- Aussie FOB was unchanged from last week at \$265/mt – still the most expensive wheat in the world.

Argentine wheat:

- New crop farmer sales rose 250k mt to 15.35 million mt. Exporters own 13.8 million mt of this against 12 million mt of licences. Exporter ownership is now above the USDA's 13 million mt export estimate indicating that the crop is essentially sold out.
- The above scenario makes it hard to peg down a price. We have Argentine FOB at \$226/mt, but they are largely done until next season.

EU wheat:

- French wheat is now the cheapest in the world on a Fob basis, selling 3 cargos to Egypt last week. The 500,000 mt worth of vessels stuck in French ports waiting to be loaded took an additional 2 euros off the GASC price.
- Egypt must be confident that the French situation will sort itself out by the March delivery window. There are reports that Tunisia asked one supplier to not ship French wheat (although this didn't make much sense as it is the port strikes/loading capabilities that will determine what gets shipped).
- French 11.5 pro FOB was \$5.90/mt lower than last week at \$216.43/mt. German and Baltic 12.5 pro values also fell \$3.10 week/week to \$223.34/mt and \$222.45/mt respectively.

Black Sea wheat:

- Having missed another GASC tender, the question is whether Russian wheat prices will be pressured down by a slowing export program. The AgMin confirmed their 36 million mt final export estimate. To meet this, they must ship ~14 million mt of wheat during Feb-Jun vs the 8 million mt that was shipped during that timeframe last year. As French wheat at GASC was \$4.66/mt cheaper than the best Russian offer and with GASC just needing to cover April and May before new crop comes around, Russian wheat prices must fall to gain additional demand (HRW is even cheaper than Russian wheat on a FOB basis).
- This is the first year that warm temps have kept Russia from having a winter and it is yet to be seen if this will be for the positive or negative to winter crop growth.
- Although suboptimal fall planting conditions have most analysts expecting that the 2020 Russian crop will be smaller y/y, IKAN is estimating that it is going to be 8% larger than last year's 73.5 million mt crop.

➤ Significant purchases/ trades:

- **Egypt** (GASC) bought 180,000 mt of French wheat at 246.10/mt C&F; this sale was \$3-4/mt cheaper than the previous tender.
- **Jordan** tenders Feb 4th for 120,000 mt of wheat for Aug-Sep.
- **Syria** will retender Feb 17 for 200,000 mt of Russian wheat.
- **US** export sales last week were at the upper end of expectations at 646,000 mt. Sales were down 7% from the previous week, but up 49% from the prior 4-week average. *YTD US export sales are up 17% over last years, well ahead of USDA annual projections.*
- **EU soft wheat shipments advanced to 16 million mt, up 69% on last year, although French vessel data suggests the total is closer to 17 million mt, up almost 80%.**
- Meanwhile **Canadian** wheat exports shipments are 17% lower (-1.5 million mt) than last years. Even combined Canadian wheat and durum shipments lag last years by 837,000 mt.

➤ Wheat Market Outlook:

Significant events:

- **The lack of Chinese demand and broad technical selling due to coronavirus fears pressured all US futures prices week-over-week.** US wheat futures fell 15-20¢ making their lowest weekly close in six weeks.
- **Acc. to US Ag Secretary Purdue, the coronavirus has cast further doubt on China's ability to buy \$36.5 billion worth of U.S. ag goods in 2020.** The Chinese Govt has warned of a possible drop in growth to 5% as a result of the coronavirus; this would be of significant importance to world economic growth.
- **Chinese markets are scheduled to re-open today** which could produce some significant volatility while their traders play catch-up on this week's losses.

- On **Jan. 29, President Trump signed the U.S.-Mexico-Canada Agreement (USMCA)** into law. “Wheat farmers and Mexico’s wheat buyers are very glad to see the cloud of uncertainty lifted from our trade relationship,” said USW Chairman Doug Goyings. “Replacing NAFTA without harm to the wheat trade relationship was a priority for all of us – mission accomplished.” USMCA retains tariff-free access to imported U.S. wheat for flour milling customers in Mexico. In addition, the USMCA will also allow U.S.-grown varieties registered in Canada to receive reciprocal grading treatment.
- **Russia’s Ministry of Agriculture** pegs the country’s total 2020 grain output at 125 MMT, 3% higher than 2019, if realized. According to Hydrometcentre, a Russian weather forecaster, only 4% of the country’s total winter grains are in poor condition despite unusually dry and warm conditions, compared to 8% this time last year.
- **Weather Around the World:**
 - It will be a generally dry week in the **US** with any precipitation essentially confined to the south-east. Temperatures remain slightly above normal but with a sharp drop expected in week 2 of the forecast. There is a generally much wetter forecast for **S America**, particularly covering the southern half of Argentina, with only Parana and RGDS in S Brazil still missing out. Significant precipitation will continue across **Europe** this week, particularly in the **Balkans** and **S Russia** where it will fall as snow late week. This will be welcome as current above normal temps will progressively cool to sharply sub-zero readings in week 2 in E Ukraine and S Russia.

➤ **Outlook:**

As China remains absent from the demand side, time is running out to make significant sales before users start switching to the cheaper new crop supply. - Egypt (GASC) only has April and May left to cover, while Jordan has already started to buy new crop wheat from the EU.

Russian old crop values will need to fall for them to meet their export target and without China buying, US values will follow the direction of the EU and Black Sea cash markets.

It will be interesting what the USDA uses for Chinese demand in their next update (on Feb 11th). The “buy according to market conditions” clause has traders sceptical.

Sell old crop at \$7.00 per bushel or better for 2CWRS in SK. As there is strong selling at these levels, the upside past \$7.00 is limited. We hope you followed our earlier advice to sell current crop and hedge some new crop acres.

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)		Apr. '20 (bu.)	Apr. '20 (mt.)
1 CWRS 13.5	\$6.27	\$230.38	1 CWRS 13.5	\$6.45	\$237.00
1 CWAD 13.0	\$7.20	\$264.56	1 CWAD 13.0	\$7.27	\$267.13
1 CPSR 11.5	\$5.47	\$200.99	1 CPSR 11.5	\$5.65	\$207.60
SW Sask			SW Sask		
1 CWRS 13.5	\$6.15	\$225.98	1 CWRS 13.5	\$6.33	\$232.59
1 CWAD 13.0	\$7.19	\$264.19	1 CWAD 13.0	\$7.27	\$267.13
1 CPSR 11.5	\$5.40	\$198.42	1 CPSR 11.5	\$5.37	\$197.32
NE Sask			NE Sask		
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	\$6.24	\$229.28
1 CWAD 13.0	\$7.52	\$276.31	1 CWAD 13.0	\$7.60	\$279.25
1 CPSR 11.5	\$5.28	\$194.01	1 CPSR 11.5	\$5.42	\$199.15
SE Sask			SE Sask		
1 CWRS 13.5	\$6.09	\$223.77	1 CWRS 13.5	\$6.26	\$230.02
1 CWAD 13.0	\$7.55	\$277.42	1 CWAD 13.0	\$7.64	\$280.72
1 CPSR 11.5	\$5.26	\$193.27	1 CPSR 11.5	\$5.36	\$196.95

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				February 3, 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	\$349.16	#VALUE!		
HRS	\$343.15			
HRW 11.5	\$303.64			
SWW 12.0	\$309.45			
1 CWRS 13.5 ³	\$349.16		\$232.22	\$116.94
2 CWRS 13.0 ³	\$343.15		\$202.83	\$140.32
3 CWRS ³	\$303.64		\$160.57	\$143.07
CPS ³	\$302.67		\$197.32	\$105.35
1 CWAD ⁴		#VALUE!	\$284.77	#VALUE!
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$227.00			
French 11.5 (Rouen)	\$216.43			
APW 10.5 (W Coast)	\$265.00			
Argentina 12.5	\$225-\$235			
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				

*Note: The Great Lakes are closed, thus there are no bids posted were #VALUE is shown. *

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					January 27, 2020
Canadian Funds		Grade			
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$9.42	\$9.26	\$8.21	\$8.37	\$8.37
Parity Track Rosetown	\$7.93	\$7.76	\$6.71	\$6.87	\$6.87
Track Bid Rosetown Area	\$6.37	\$5.57	\$4.42	\$5.53	\$5.53
Gross Margin at Elevator (\$/bu)*	\$1.56	\$2.19	\$2.29	\$1.34	\$1.34
Gross Margin at Elevator (\$/mt)*	\$57.21	\$80.59	\$84.31	\$49.33	\$49.33

* to cover elevation, elevator market risk, margin