

Wheat Market Outlook and Price Report: August 3, 2021

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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 August 3, 2021

International Grains Council (IGC) July Global Wheat Numbers:

	18/19	19/20	20/21 est.	21/22 f'cast	24.06	29.07
million tons						
WHEAT						
Production	732	761	773	789	788	
Trade	168	185	190	191	192	
Consumption	740	745	770	787	787	
Carryover stocks	260	276	279	283	280	
year/year change	-8	16	3		1	
Major exporters ^{b)}	69	64	62	60	57	

b) Argentina, Australia, Canada, EU, Kazakhstan, Russia, Ukraine, USA

- In its monthly update the IGC trimmed its forecast last Thursday for the **2021/22 global wheat crop**, with drought driving downward revisions for the United States and Canada. The inter-governmental body cut its 2021/22 world wheat crop outlook by 1 million mts to 788 million mt with the diminished outlook for North America partially offset by improved prospects in the European Union.
- **Wheat trade** was increased by 1 million mt to 192 million mt.
- **Wheat consumption** stayed the same at 787 million mt.
- **Global ending stocks** dropped by 3 million mt to 280 million mt, still 1 million mt higher than this year's 279 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.

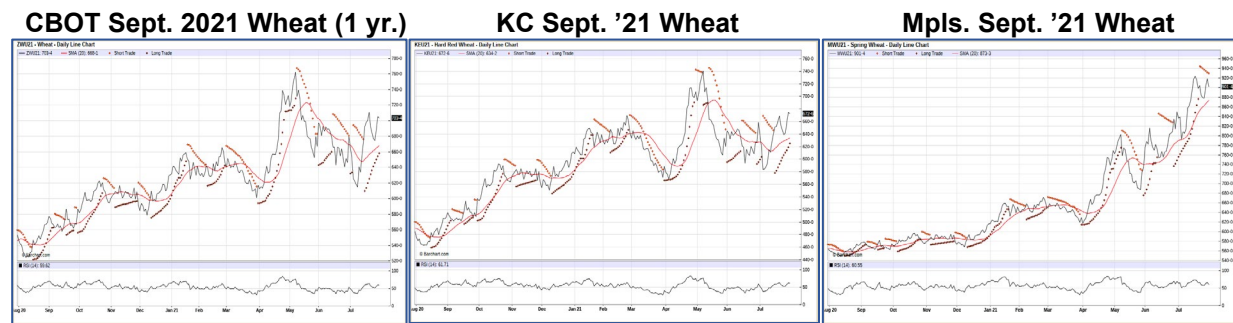
- **Futures:**

Last Friday, Sept. '21 contract Chicago winter wheat closed at 703-6, down 0-6 cents on Friday, up 55-6 cents on the week.

Sept '21 contract Kansas hard red winter wheat closed at 703-6, down 1-2 cents on Friday, up 27-2 cents on the week.

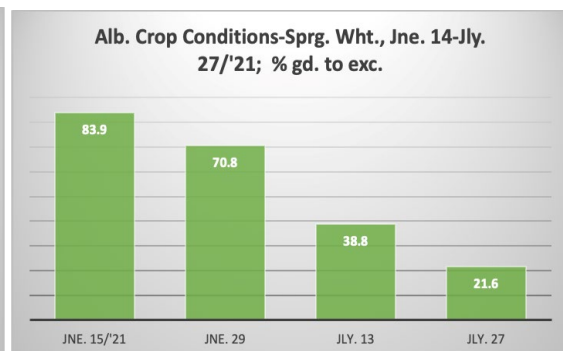
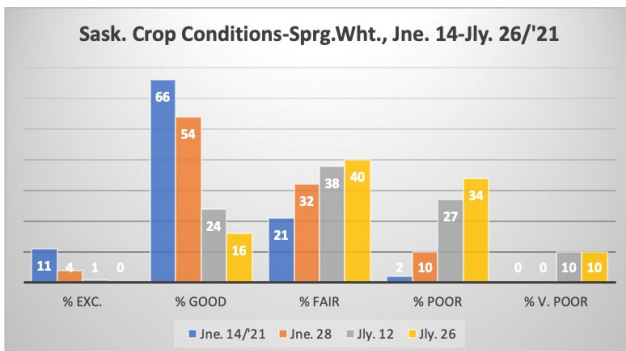
Sept. '21 Minneapolis hard red spring wheat closed at 904-6, down 13-6 cents on Friday, up 21-2 cents on the week.

- After softening the previous week, wheat futures made substantial gains last week on adverse weather.



Canadian Wheat:

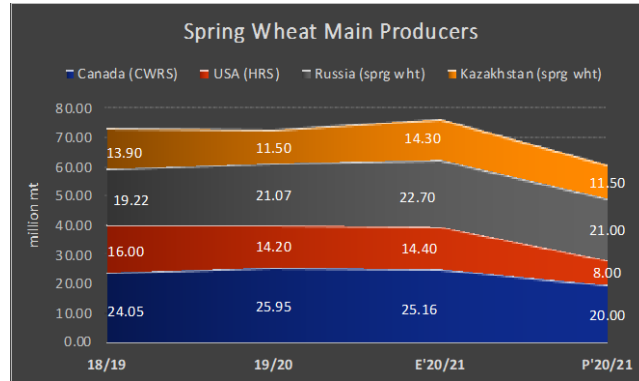
- Last week, SK Ag dropped the Good to Excellent ratings for spring wheat by another 9 points on July 29th to 16% Gd./Exc., while increasing the Poor/ V. Poor rating by a big 17 points to 44%. AB Ag also reduced crop ratings (-17 points) to 22% Gd. /Exc.
- A 20% reduction from the 5-year average yield for Canadian spring wheat would drop yields to 34 bu/acre, while a 30% reduction would bring yields down to 29.8 bu/acre.



- In the US, spring wheat harvest is underway in S Dakota (21% per USDA), Montana (3%), Minnesota (1%) and scouts on the 2021 Wheat Quality Council Hard Spring and Durum Tour saw harvesting in southern North Dakota. With most of the HRS crop headed out (97% per USDA as of July 25) and dry conditions ahead, harvest is expected to progress rapidly. USDA currently

estimates HRS production at 305 mil bu (8.3 Million MT), a 42% decrease from last year. However, crop conditions are variable across the region from full maturity to fields that may be several weeks from harvest. The US spring wheat crop tour reported an expected HRS yield of 29.1 bu/a. At least the consensus from the tour is that HRS crop quality in available supplies should be good.

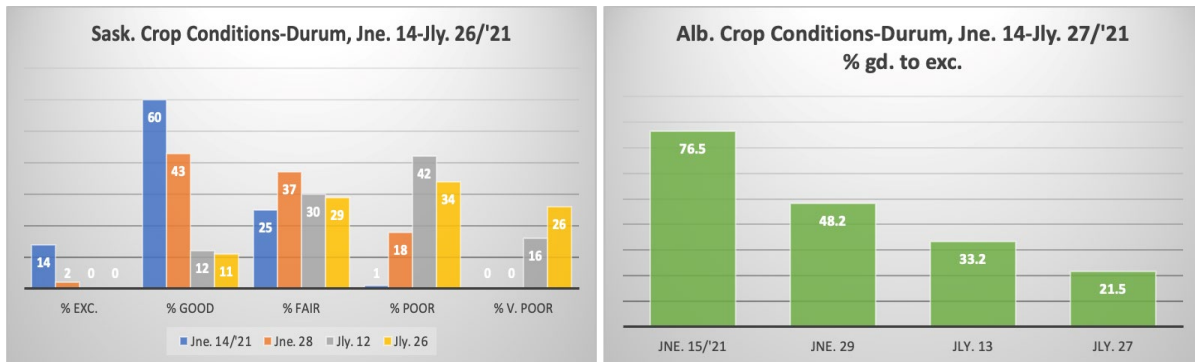
- Imposing the recent crop assessments for spring wheat across the world into our earlier overall estimate for spring wheat, yields a 21% reduction (-16 Million mt) in the '21/22 spring wheat production estimate from last year's number:



- Note these are only rough estimates, and not final numbers. There is no doubt that quality wheat will be tight. But given that global wheat production is still estimated at 788 Million mt (see IGC estimate above), the big question now is how much hard spring wheat the world really needs, especially at a very big premium to other wheat classes.
- *Much will depend on how the USDA addresses the problem in the next WASDE report, but in our view, exporter stocks/use ratios are at record lows and buyers have no choice other than to cover food grain needs. Consumers have very little forward cover. There will be a major scramble for high protein wheat and Canadian prices to growers will go higher.*
- Canadian wheat exports for week 51 were 279k mt for a season total of 19.4 Million mt. This is 10% (1.8 Million mt) more than last year year-to-date.

(CGC) Grain Handling Summary Wheat	Wk. 51	(July 25/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 51	252.5	445.4	279.0	105.4
Week ago	322.2	341.0	262.9	60.3
Year-to-date	21,698.1	22,708.2	19,370.7	4,016.6
Last year-to-date	21,949.7	20,248.9	17,578.5	3,879.4
Year-to-date less Last year-to-date	-251.6	2,459.3	1,792.2	137.2
Year-to-date over Last year-to-date	99%	112%	110%	104%

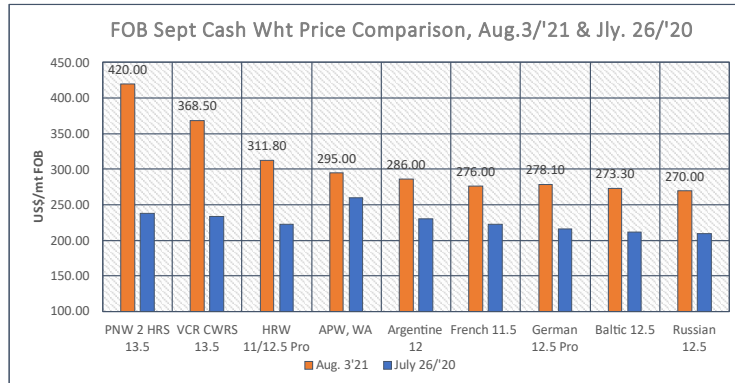
- Durum:** Durum ratings by SK Ag dropped by 1 point to 11% Gd/Exc., with 44% rated Poor/ V. Poor. N Dakota durum is rated 33% gd/Exc. and 37% Poor/ V. Poor. AB Ag also lowered durum ratings by 12 points to 21.5% Gd/ Exc. - We expect durum yields to be down significantly and are currently penciling in a 25% yield reduction.



- Durum exports** for week 51 were small at 60 mt, for a year-to-date total of 6 Million mt, compared to 5.2 Million mt last year-to-date. This is 16% ahead of last year's pace.

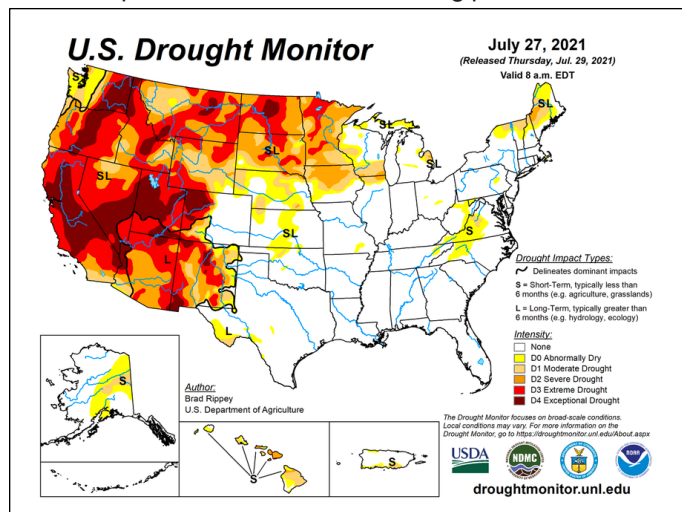
(CGC) Grain Handling Summary Durum	Wk. 51	(July 25/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 51	86.7	133.2	59.5	5.7
Week ago	108.5	107.8	169.1	4.6
Year-to-date	6,103.1	7,203.1	6,002.5	527.1
Last year-to-date	5,155.1	6,274.1	5,157.0	458.7
Year-to-date less Last year-to-date	948.0	929.0	845.5	68.4
Year-to-date over Last year-to-date	118%	115%	116%	115%

- Demand rationing will be necessary as the potential sizes of the Canadian and US crops get smaller and smaller. Ceres was paying \$15/bu for #3 CWAD last week, which is a strong value reflecting the anticipated shortage of durum in the US. - Others should follow.
- FOB wheat price comparison:



US Wheat:

- Weekly US export sales report at 515k mt posted a 9% increase in wheat sales. China was the largest buyer of U.S. wheat this past week as they transferred sales from unknown destinations.
- The US HRW harvest is rapidly moving toward the finish in South Dakota Nebraska, Wyoming and Montana. HRW in the PNW is also at least 50% complete. Abandonment or baling poor HRW fields for livestock feed is happening in very dry areas, but no official estimate is available. The current USDA estimate of 2021/22 HRW production is 805 mil bu (21.9 MMT), a 22% increase over last year.
- US spring wheat crop tour: The day two average yield for the WQC spring wheat tour came in lower than day one at 24.6 bu./acre, and durum yields are estimated at 23.6 bushels for fields visited yesterday. The tour makes no appraisal of potential abandonment, but this is expected to be significantly above average due both to the extreme loss of yield and the lack of hay/forage across the country.
- US HRS for Aug. '21 is valued at \$420.00/ mt FOB PNW (up \$25/mt on the week), FOB Gulf HRW 11/12.5 pro is valued at \$311.80/mt (up \$13/mt from last week).



Australian wheat:

- Australia remains the one region which so far has seen very favourable conditions. Most private crop estimates now above 30 Million mt for wheat, but the scope for increasing Australian exports has become limited due to logistics (last year Australian wheat exports amounted to 24 Million mt from a 33 Million mt crop, and ending stocks rose 2 Million mt).
- Australian new crop FOB APW wheat for Oct. was quoted at \$290.00/mt, unchanged from last week.

Argentine wheat:

- The Buenos Aires Grain Exchange (BAGE) reported that Argentina's wheat crop may have been damaged by a cold front last week, but the report added it was not changing the 19.0 Million mt

harvest forecast. In neighboring Brazil, Conab, reported that freezing temperatures would hit wheat crops in southern and southeastern states this week.

- Argentina remains very dry, and August is a key month for water requirements.
- FOB values for Sept. 12% protein Argentine wheat ranged from \$2850-2905/Million mt, up \$5/mt from last week.

EU wheat:

- Matif wheat rose €5/mt to near 3-month highs last week.
- Rain/showers persist over much of France, and there is growing concern over the volume of the French crop that will be of milling quality.
- We note that France did not participate in the Egyptian (GASC) tender offers.
- FOB prices in the EU: Sept. French 11.5 pro closed at \$276.00/mt, up \$21.00/mt from last week. N/C Sept. German 12.5 pro wheat closed at \$278.10, up \$21/mt. Sept. Baltic 12.5 pro wheat (N/C) was at \$273.30/mt, up \$23/mt.

Black Sea wheat:

- Black Sea futures rose \$8/mt to \$276.50 for Sept.'21.
- Since late last week several private estimates of the Russian wheat crop have been cut sharply to a 76-78 Million mt range.
- The yield data through the weekend plus Rosstat's lower winter acreage, point to a best case of 79 Million mt (USDA 85 Million mt!), but some say a crop of 72 Million mt is not out of the question.
- Russian 12.5 pro wheat for Sept. is quoted at ~\$270.00/mt, up \$18/mt from last week.

➤ **Significant purchases/ trades:**

- **Pakistan** bought 220,000 tonnes of Sept wheat at \$304/00/mt.
- **Egypt** is asid to have purchased 60k mt of Romanian wheat for shipments Sept. 24-Oct. 4/'21. No North American wheat was involved.
- There are no results yet on **Algeria's** tender, but we suspect they didn't get many offers, and what they did get was probably expensive.
- **Turkey's** TMO is in on Wednesday for 395k mt for 16-30 Sept.
- Ethiopia bought nothing at its 400k mt July tender.
- **US export sales** were 515,000 tonnes for a season total of 298 myn bushels, down 15% on last year against the USDA's 12% decline.
- *Consumers have very little forward cover. There will be a major scramble for high protein wheat and Canadian prices to growers will go higher.*

➤ **Wheat Market Outlook:**

Significant events:

- The **ICG** dropped '21/22 wheat production by only a modest 1 Million mt in their July estimate.
- Spring wheat ratings in **Canada** and the **US** keep dropping and so do yield prospects.
- USDA currently estimates HRS production at 305 mil bu (8.3 Million MT), a 42% decrease from last year.
- For **durum**, demand rationing will be necessary as the potential sizes of the Canadian and US crops get smaller and smaller.
- **Argentina** remains very dry and BAGE reported that Argentina's wheat crop may have been damaged by a cold front last week, but it did not change the 19.0 Million mt harvest forecast.

- Rain/showers persist over much of **France**, and there is growing concern over the volume of the French crop that will be of milling quality.
- Since late last week several private estimates of the **Russian** wheat crop have been cut sharply to a 76-78 Million mt range.
- **Australia** remains the one region which so far has seen very favourable conditions, but the scope for increasing Australian exports has become limited due to logistics.

➤ **Outlook:**

Much will depend on how the USDA addresses the various crop problems in the next WASDE report, but in our view, exporter stocks/use ratios are at record lows and buyers have no choice other than to cover food grain needs. Consumers have very little forward cover.

There will be a major scramble for high protein wheat and Canadian prices to growers will go higher.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 03-08-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$10.20	\$374.79	1 CWRS 13.5	\$10.32	\$379.20
1 CWAD 13.0	\$12.43	\$456.73	1 CWAD 13.0	\$12.46	\$457.83
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$10.04	\$368.91	1 CWRS 13.5	\$10.04	\$368.91
1 CWAD 13.0	\$12.64	\$464.44	1 CWAD 13.0	\$12.64	\$464.44
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
NE Sask			NE Sask		
1 CWRS 13.5	\$9.92	\$364.50	1 CWRS 13.5	\$10.04	\$368.91
1 CWAD 13.0	\$12.89	\$473.63	1 CWAD 13.0	\$12.87	n/a
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$9.95	\$365.60	1 CWRS 13.5	\$10.07	\$370.01
1 CWAD 13.0	\$12.77	\$469.22	1 CWAD 13.0	\$12.94	\$475.47
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	

Data source: PDQ, Aug. 3/21

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn./mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.15)	(5.51)
1 CWRS 12.5	(0.30)	(11.02)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.5	(0.10)	(3.67)
2 CWAD 12.5	(0.30)	(11.02)

Data source: PDQ, Aug. 3/21

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/Million mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/Million 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*

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.

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/Million 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.

“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				03-08-2021
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	\$474.99	\$652.71		
HRS	\$468.07			
HRW 11.5	\$388.21			
SWW 12.0	\$433.45			
1 CWRS 13.5 ³	\$474.99		\$354.58	\$120.42
2 CWRS 13.0 ³	\$468.07		\$341.72	\$126.35
3 CWRS ³	\$388.21		\$338.78	\$49.43
CPS ³	\$426.99		\$310.12	\$116.87
1 CWAD ⁴		\$646.25	\$469.59	\$176.66
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$270.00	September		
French 11.5 (Rouen)	\$276.00	September		
ASW 10.5 (W Coast)	\$290.00	October		
Argentine 12.0	\$285.00	September		

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				03-08-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$12.56	\$10.39	\$9.25	\$9.25
Parity Track Rosetown	\$11.07	\$8.89	\$10.12	\$10.12
Track Bid Rosetown Area	\$9.30	\$9.22	\$8.44	\$8.44
Gross Margin at Elevator (\$/bu)*	\$1.77	-\$0.33	\$1.68	\$1.68
Gross Margin at Elevator (\$/mt)*	\$64.90	-\$12.01	\$61.88	\$61.88

* to cover elevation, elevator market risk, margin