

Wheat Market Outlook and Price Report: August 30, 2021

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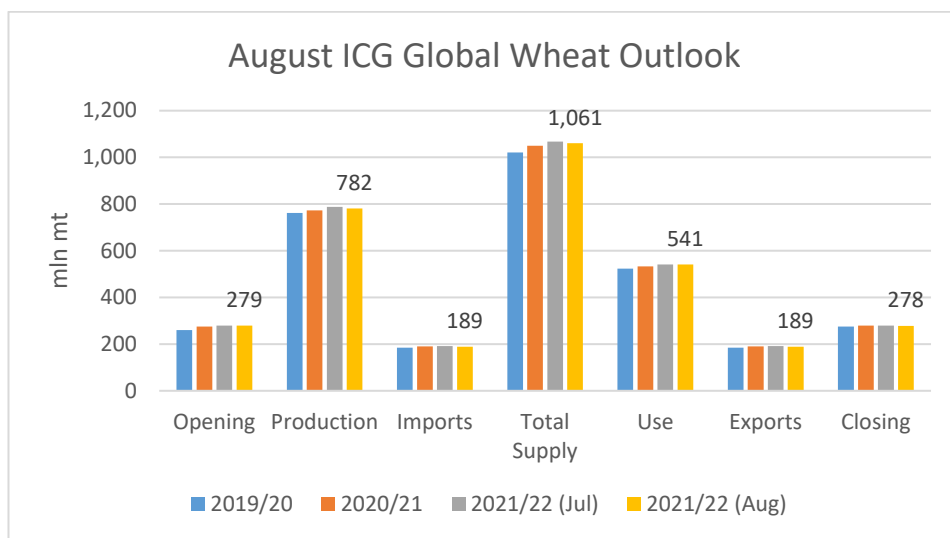
i) Background and Rationale for the Report

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 30, 2021

International Grains Council (ICG) August Global Wheat Production Outlook:



Source: Data based on latest ICG

- **On Thursday, the International Grains Council cut their forecast for the 2021/'22 global wheat crop by 6 million mt to 782 million mt.** The decrease came as cuts to production in Canada, the US, and Russia was greater than increases in Australia and Ukraine.
- Russia's wheat crop is now estimated to be 75 million mt having lost 6.0 million mt over the month due to hot and dry conditions.
- Drought conditions in North America caused ICG to curb their production expectations 4 million mt in Canada (to 24.5 million mt) while the US number was 1.3 million mt lower at 46.2 million mt.
- Partially offsetting these reductions was a 1.2 million mt increase in Aussie production (to 30.1 million mt) and a 2.5 million mt production increase in Ukraine (to 32.0 million mt).
- Overall, total global supply was put at 1,061 million mt, 11.5 million mt more than last year with an ending stock number of 278 million mt, 1 million mt less than last year.

➤ **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:**
 - Sept. '21 contract **Chicago winter wheat** closed at 718-4, down 7 cents on Friday, up 4 cents on the week.
 - Sept '21 contract **Kansas hard red winter wheat** closed at 712-2, down 3 cents in Friday's trade, up 10 cents on the week.
 - Sept. '21 **Minneapolis hard red spring wheat** closed at 936-2, up 8 cents on Friday, up 18 cents on the week.
- Aided by a weak US dollar, US wheat futures posted a recovery from the previous week's sell-off.

CBOT Sept. 2021 Wheat (1 yr.)



KC Sept. '21 Wheat



Mpls. Sept. '21 Wheat



Canadian Wheat:

- **Stats Canada Update:** This morning Stats Canada released their July production estimates. The July estimates are primarily based off remote sensing data but were largely in line with trade expectations. All wheat production was seen 35% lower than last year at 22.9 million mt. Area harvested was seen 8.5% lower at 22.7 million acres while average yield was decreased 29% from last year to 37.2 bpa. The decrease in production was primarily in spring wheat, which was put at 16.1 million mt, down 38% from last year. Durum production was pegged at 4.0 million mt, down 39% from last year.
 - All wheat production by province:
 - Saskatchewan: 9.1 million mt, down 39% from last year (avg. yield of 30.4 bpa)
 - Alberta: 6.1 million mt, down 45% from last year (avg. yield of 33 bpa)
 - Manitoba: 4.0 million mt, down 24% from last year (avg. yield of 56 bpa)
 - Ontario: 2.7 million mt, up 9% from last year
- Stat's Canada's wheat number is roughly 1 million mt larger than Ag Canada's estimate released last Thursday. Ag Canada put their Canadian wheat (excluding durum) production at 20.2 million mt. *USDA's number for Canadian wheat production is too high at 24 million mt.*
- Widespread rain across North America has slowed harvest. Spring wheat harvest is 25% complete in SK, up 12% from the week previous. AB is 15% done with an average yield of 30.2 bpa. US spring wheat harvest is 77% complete, up 39% from last week: Minnesota 98%, Montana 69%, North Dakota 73%, South Dakota 95%. Average US protein levels are 15.3% compared to 14.4% last year.
- In low supply situations domestic feed use generally falls while milling use stays relatively unchanged. This will remain the case, however the feed market has been aggressively buying wheat with prices that could take wheat from the milling market. This may last until the first shipments of US corn begin to arrive.

- Canadian wheat exports for week 3 were 187.3k mt for a season total of 979.5k mt. This is 77% (-287k mt) of last year's to date amount.

(CGC) Grain Handling Summary Wheat		Week 3		(Aug. 22/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 3	390.7	362.0	187.3	92.3
Week ago	231.0	377.8	376.2	69.7
YTD	767.8	1,285.4	979.5	276.4
Last YTD	1,049.8	1,988.1	1,266.2	361.7
YTD less Last YTD	-282.0	-702.7	-286.7	-85.3
YTD over Last YTD	73%	65%	77%	76%

- Durum:** Harvest in SK is 33% complete, up 11% from the week previous. In the US, Montana is 70% done and North Dakota is at 57% complete. Yields remain dismal. The rain last week will not be good on quality, however strong demand should limit the impact of this.
- This morning Stat's Canada report put Canadian durum wheat production at 4.0 million mt, down 39% from last year. This is in line with trade's number and slightly higher than AAFC's 3.8 million mt estimate.
- The sharp rally we have seen in Canadian prices have caught us back up with US values. The strong movement suggests offshore interest in North American durum.
- Canadian durum exports for week 3 were 28.7k mt for a season total of 258.5k mt, 12% (27.5k mt) more than last year.
- These are the highest durum prices and the biggest premiums over spring wheat that we have ever witnessed. We would be loath to miss unprecedentedly high values, and as long as the durum is already in hand, we would be min. 60% sold at these levels.*

(CGC) Grain Handling Summary Durum		Week 3		(Aug. 22/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 3	38.9	59.8	28.7	6.5
Week ago	33.3	50.4	77.6	2.9
YTD	93.4	188.0	258.5	11.4
Last YTD	145.4	260.4	231.0	15.3
YTD less Last YTD	-52.0	-72.4	27.5	-3.9
YTD over Last YTD	64%	72%	112%	75%

US Wheat:

- As harvest raps up in the US, attention is increasingly turning to the size of the US corn crop and the demand for US wheat.
- Basis levels in the Gulf and PNW were higher as barge rates rise and corn and soybeans compete for elevation capacity.
- US HRS for Sept. '21 is valued at \$410.00/ mt FOB PNW (up \$2/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$332.00/mt (up \$14.00/mt from last week).

Australian wheat:

- The outlook for the Aussie crop remains strong. ICG added 1.2 million mt to their Australia wheat production number which now stands at 30.1 million mt.
- The strong Aussie wheat crop will make up for some of the North American shortfall, but the export amount will be limited by the ability of the logistics system to adjust to the two times larger crop.
- Australian new crop FOB APW wheat for Dec. was quoted at \$310.00/mt, unchanged from last week.

Argentine wheat:

- Soil moisture levels in Argentina continue to decline as the crops move into their critical period. The on-going drought continues to cause logistical issues in the Parana River where water levels are extremely low.
- BAGE (Buenos Aires Grain Exchange) has still not issued a production estimate, and the ICG did not touch their estimate for the Argentinian crop, which is currently at 20.3 million mt, up 2.7 million mt from last year.
- FOB values for Sept. 12% protein Argentine wheat ranged from \$285-290/million mt, unchanged from last week. The increase in global wheat prices have allowed Argentine wheat to be competitive with Aussie wheat into the Southeast Asian markets.

EU wheat:

- Germany's Ag Ministry put the country's '21/22 wheat crop at 21.4 million mt, down 4% from last year because of poor weather conditions.
- Private forecasters estimate the '21/22 French wheat crop will be 34.93 million mt (up 19% from last year), compared to the French Ag Ministry's 36.7 million mt estimate from earlier this month. Harvest is 91% complete.
- The poor-quality of the French wheat crop will cause flour prices in France to rise as mills must spend more energy getting the needed quality of grain.
- FOB prices in the EU were unchanged from last week: Sept. French 11.5 pro closed at \$335.2/mt. N/C Sept. German 12.5 pro wheat closed at \$305.80. Sept. Baltic 12.5 pro wheat (N/C) was at \$301.10/mt.

Black Sea wheat:

- As of Friday, Russia has harvested 63.6 million mt of wheat at a very poor average yield of 3.07 tonnes per hectare. Average yields continue to fall. With harvest 70% done, it looks like production will be 72-75 million mt range. USDA's current estimate is 72.5 million mt. The poor yield has resulted in historically strong protein levels for the country.
- While Russia generally exports most of its wheat in the first half of the marketing year, the export tax and competition with Romania and Ukraine will slow Russian sales. This will cause exports to drag on to the end of 2021. Russian exports are currently 21% less than last year.
- Flour exports from Kazakhstan to Afghanistan will be severely impacted by the decline in the Afghan currency and the Central Bank's freeze on Afghanistan's assets. Afghanistan imports more than 60% (roughly the equivalent of 2.2 million mt of wheat) of all Kazakhstan flour exports.
- Russian 12.5 pro wheat for Sept. is quoted at ~\$298.00/mt, unchanged from last week.

➤ **Significant purchases/ trades:**

There were several wheat tenders last week, but we are still waiting on the results.

- **Pakistan** tendered for 400,000 tonnes of wheat.
- **Jordan** is seeking 120,000 tonnes of wheat.
- **Taiwan** issued an international tender for 49,000 tonnes of U.S. milling wheat for Oct-Nov delivery
- **The Philippines** is seeking 168,000 tonnes of feed wheat for Sept-Oct, from the European Union, Black Sea, or Australia
- **Tunisia** issued an international tender for 100,000 tonnes of optional-origin milling wheat for Sept-Oct delivery.
- **Weekly US Export Sales** were disappointing with net sales of 116,000 mt, a marketing year low. Trade was expecting 200-600k mt worth of sales. Total US sales and exports are 9.1 million mt 23% lower than last year.

➤ **Wheat Market Outlook:**

Significant events:

- **Belarus has imposed a ban on grain exports for six months**, including exports to Eurasian Economic Union members. Although there was no official reason given, trade sources speculated it may be intended to stop the re-export of Russian grains without taxes outside the EEU bloc. Belarus has harvested 6.2 million mt of grain this year, a 16% drop compared to last year.
- **ANMF, a French flour miller group**, said this week that a reduction in the average quality of France's soft wheat crop would lead to an increase in flour prices. The group added that the total volume of flour produced would not change. Rain damage has added to the cost of French soft wheat as test weights and falling numbers have both been much lower than average. The September contract on the Paris Euronext Exchange showed front-month prices at their highest since March 2008.
- **Russian wheat exports are off to a slower start this year**, down 21%. Russia usually sells most of its wheat in the first half of the marketing season, which began July 1. However, farmers are holding on to their grain following a smaller-than-expected crop. The export tax, which changes weekly, has also slowed export sales.
- **The Grain Union of Kazakhstan said flour exports to Afghanistan would be "badly hurt"** due to a freeze of the Central Bank of Afghanistan's assets, a steep fall in the currency rate, and the disabling of SWIFT payments. Afghanistan buys more than 60% of the flour exported from Kazakhstan, amounting to about 2.2 MMT of wheat annually.

➤ **Outlook:**

Wheat will lead the market on a slew of upcoming tenders. The size and quality of the crop remains in question and consumers have limited cover. Stocks in exporting countries are low, and yields have not been improving as harvest continues.

The milling wheat market is firm with bids around \$10.60/bu. - We expect the wheat market to remain strong and there is no rush for Canadian farmers to sell right now other than Durum. Durum is very high priced, which may a good opportunity to provide cash flow.

iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov '21 (bu.)	Nov '21 (mt.)
1 CWRS 13.5	\$10.75	\$395.00	1 CWRS 13.5	\$10.78	\$396.10
1 CWAD 13.0	\$19.28	\$708.42	1 CWAD 13.0	\$19.69	\$723.49
1 CPSR 11.5	\$9.28	\$340.98	1 CPSR 11.5	\$9.43	\$346.50
SW Sask			SW Sask		
1 CWRS 13.5	\$10.66	\$391.69	1 CWRS 13.5	\$10.70	\$393.16
1 CWAD 13.0	\$19.34	\$710.63	1 CWAD 13.0	\$19.73	\$724.96
1 CPSR 11.5	\$9.21	\$338.41	1 CPSR 11.5	\$9.36	\$343.92
NE Sask			NE Sask		
1 CWRS 13.5	\$10.53	\$386.91	1 CWRS 13.5	\$10.49	\$385.44
1 CWAD 13.0	\$19.57	\$719.08	1 CWAD 13.0	\$19.78	\$726.80
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SE Sask			SE Sask		
1 CWRS 13.5	\$10.50	\$385.81	1 CWRS 13.5	\$10.50	\$385.81
1 CWAD 13.0	\$19.52	\$717.24	1 CWAD 13.0	\$19.78	\$726.80
1 CPSR 11.5	\$9.30	\$341.72	1 CPSR 11.5	\$19.78	\$726.80

Data source: PDQ, Aug. 30/21

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. 30/21

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* 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)

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.”

- 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 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			August 30, 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	\$496.41	\$488.99		
HRS	\$488.02			
HRW 11.5	\$406.49			
SWW 12.0	\$504.75			
1 CWRS 13.5 ³	\$496.41		\$387.28	\$109.13
2 CWRS 13.0 ³	\$488.02		\$383.61	\$104.41
3 CWRS ³	\$406.49		\$374.42	\$32.07
CPS ³	\$498.26		\$333.64	\$164.63
1 CWAD ⁴		\$743.92	\$587.90	\$156.01
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$298.00		September	
French 11.5 (Rouen)	\$335.20		September	
APW 10.5 (W Coast)	\$310.00		December	
Argentine 12.5	\$290.00		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					August 30, 2020
Canadian Funds	Grade				
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS	
May/June delivery	\$13.10	\$10.89	\$13.56	\$13.56	
Parity Track Rosetown	\$11.61	\$9.39	\$12.06	\$12.06	
Track Bid Rosetown Area	\$10.44	\$10.19	\$9.08	\$9.08	
Gross Margin at Elevator (\$/bu)*	\$1.17	-\$0.80	\$2.98	\$2.98	
Gross Margin at Elevator (\$/mt)*	\$42.93	-\$29.41	\$109.64	\$109.64	

* to cover elevation, elevator market risk, margin