

Wheat Market Outlook and Price Report: August 9, 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 9, 2021

USDA-World Wheat Production (July) & Potential Changes to the WASDE Report in August:

USDA-World Wheat Production & Potential Changes in the August WASDE Report						
	2017/18	2018/19	2019/20	2020/21	21/22 (July)	21/22 (pot Δ)
Argentina	18,500	19,500	19,780	17,630	20,500	20,500
Australia	20,941	17,598	14,480	33,000	28,500	30,000
Brazil	4,264	5,428	5,200	6,250	6,900	6,900
Canada	30,377	32,352	32,670	35,183	31,500	25,000
China	134,334	131,430	133,590	134,250	136,000	136,000
Egypt	8,450	8,450	8,770	8,900	9,000	9,000
EU	136,681	123,124	138,741	125,942	138,200	136,200
India	98,510	99,870	103,600	107,860	108,000	108,000
Iran	14,000	14,500	16,800	16,750	15,000	15,000
Kazakhstan	14,802	13,947	11,452	14,256	13,000	11,500
Pakistan	26,674	25,076	24,349	24,946	27,000	27,000
Russia	85,167	71,685	73,610	85,354	85,000	75,000
Turkey	21,000	19,000	17,500	18,250	17,000	17,000
Ukraine	26,981	25,057	29,171	25,420	30,000	30,000
Ukraine	14,444	13,455	15,600	9,658	14,800	14,800
Others	60,126	59,750	65,591	62,475	64,480	64,480
USA	47,380	51,306	52,581	49,691	47,519	41,500
World Total	762,631	731,528	763,485	775,815	792,399	767,880

Source: USDA-WASDE and own numbers for Aug. '21

- There is much speculation as to how USDA will handle the changes in the global wheat production outlook over the past month. We do not know what numbers USDA will report later this week, but we have highlighted the countries that should show changes based our sources and intelligence.
- The US and Canadian all wheat numbers should fall by min. 12.5 million mt.
- Russian yield data to date seems to indicate a wheat crop of around 75 million mt.

- The German DBV cut their crop by 1.8 million mt [see EU].
- Kazakhstan is experiencing drought and heat; we went to 11.5 million mt.
- Argentina has been dry, but we not yet changed their wheat estimate.
- Australia is the one major exporter with good prospects; we are using 30 million mt.
- The above changes combined would add to a global crop of 768 million mt, 3% lower (-24.3 million mt) than the current USDA number.
- *There is no outright shortage of wheat, but hard wheat quality and quantity are definitely a concern in the market.*

➤ **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 719-0, up 6-2 cents on Friday, up 15-4 cents on the week.
Sept '21 contract **Kansas hard red winter wheat** closed at 705-6, up 14-2 cents on Friday, up 32-4 cents on the week.
Sept. '21 **Minneapolis hard red spring wheat** closed at 916-2, up 14-2 cents on Friday, up 11-6 cents on the week.
- Wheat showed some strength as weather concerns remained an issue in North America and Europe.

CBOT Sept. 2021 Wheat (1 yr.)



KC Sept. '21 Wheat



Mpls. Sept. '21 Wheat

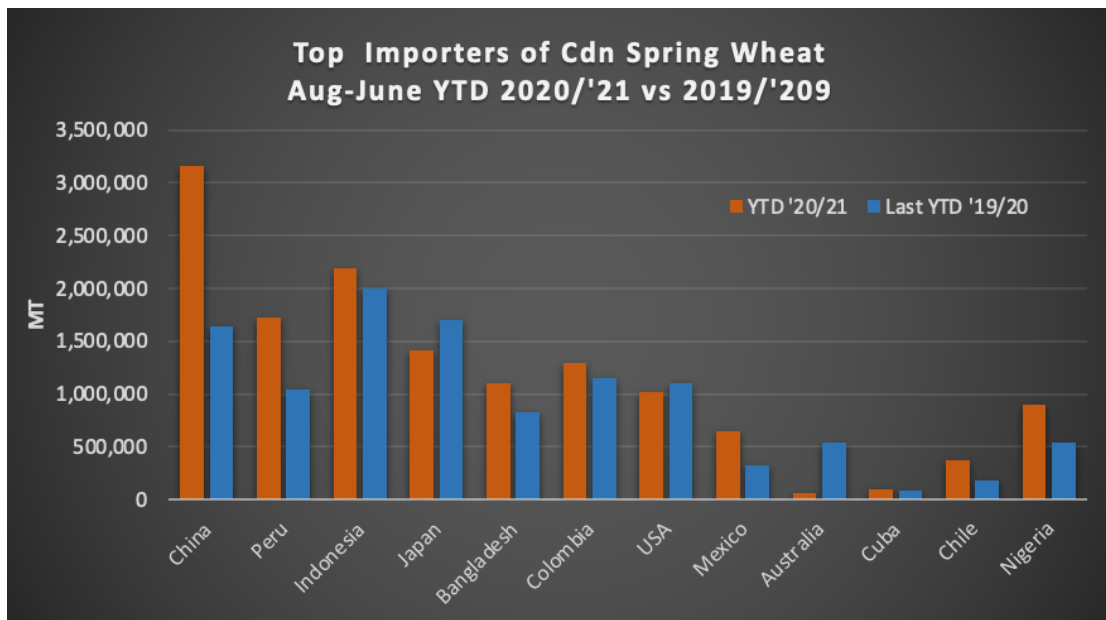


Canadian Wheat:

- There has been no change to the hot and dry forecast for the N Plains, and while there are showers in the Canadian forecast, there now is little hope of any significant improvement to the crop.
- Most all-wheat production estimates for Canada have been lowered to 20 to 25 million mt, while estimates of the Russian wheat crop have dropped to around 75 million mt based on incoming yield reports. If this is correct, then Canada and Russia combined are heading for a production shortfall of ~20 million mt compared to the USDA numbers shown so far. *Adding quality problems in the French crop, this begs the question how much milling wheat will be available to the international market.*
- **We suggest making no new sales until after the new WASDE report has been analyzed.**
- Canadian exports: At 258,000 mt, Canadian wheat exports were relatively modest last week (week 52), advancing the 2020/21 wheat exports to 19.6 million mt, 1.6 million mt higher (+9%) than last crop year.

(CGC) Grain Handling Summary Wheat		Week 52	(July 31/'21)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 52	209.8	413.3	258.1	156.8
Week ago	252.5	445.4	279.0	105.4
YTD	21,907.7	23,122.5	19,628.8	4,173.3
Last YTD	22,426.3	20,635.6	18,057.4	4,013.1
YTD less Last YTD	-518.6	2,486.9	1,571.4	160.2
YTD over Last YTD	98%	112%	109%	104%

- STC published June exports by destination last week. 1.8 million mt of wheat (excluding durum) were exported during June, with 290,000 mt going to Indonesia, 246,000 mt to China, and 180 mt to Peru. Year-to-date (Aug. 20 to June '21), Canada exported 19.3 million mt of wheat, 12% more than last year-to-date.

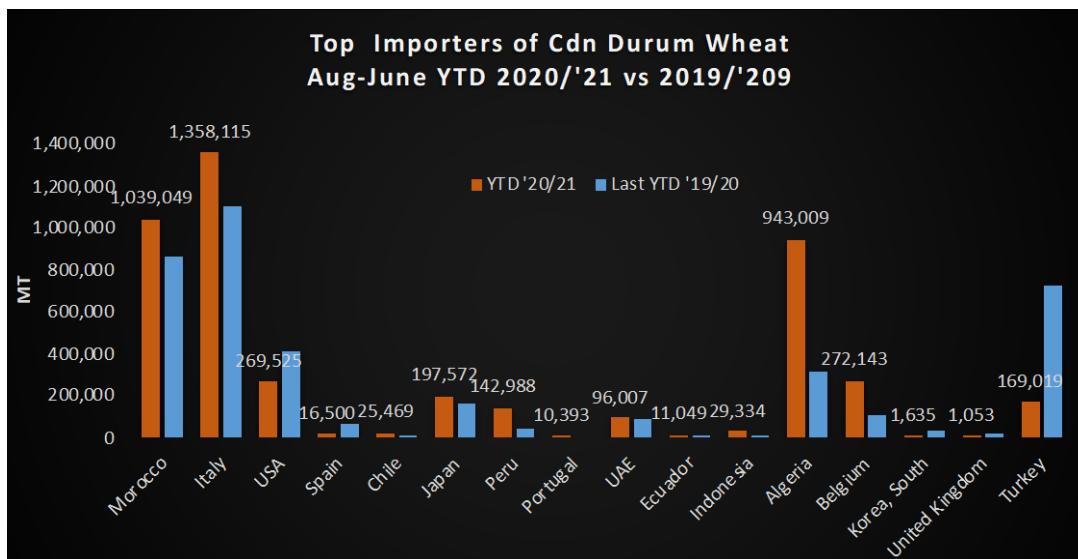


- Durum:** Durum production in Canada and in the US has clearly been impacted by the dryness and heat on the Prairies.

- The most recent Saskatchewan Ag report has Saskatchewan durum at 16% Gd/Exc., while Alberta Ag had durum at 22% Gd/ Exc. N Dakota is rating durum at 37% Gd/ Exc.
- **Durum exports** for week 52 were came in at 81,000 mt, for a year-to-date total of 6.1 million mt, compared to 5.3 million mt last crop year. This is 15% ahead of last year's exports.

(CGC) Grain Handling Summary for Durum		Week 52	(July 31/'21)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 52	60.8	81.4	59.2	3.2
Week ago	86.7	133.2	59.5	5.7
YTD	6,163.7	7,284.5	6,061.7	530.4
Last YTD	5,253.8	6,353.5	5,269.9	469.5
YTD less Last YTD	909.9	931.0	791.8	60.9
YTD over Last YTD	117%	115%	115%	113%

- The STC June durum exports by destination showed that 232,000 mt of durum was exported during June, with 91,000 mt going to Italy, 37,000 mt to the US, and 29,000 mt to Japan. Year-to-date (Aug. 20 to June '21), Canada exported 5.4 million mt of durum, 15% more than last crop year.
- The biggest gains in this year's durum sales over last years were to Algeria, Italy and to Morocco. We did lose significant export volume to Turkey and to Spain.
- **Demand rationing will be necessary as the potential sizes of the Canadian and US crops gets smaller. Ceres now has a bid as high as \$16/bu for #3 CWAD, which is a strong value reflecting the anticipated shortage of durum in the US. Others should follow.**



US Wheat:

- The **US** forecast has showers in the Lakes states and Southern IA, otherwise it remains dry everywhere. Temperatures will remain above/much above normal for the next two weeks, with severe heat in the Dakotas in week two of the forecast. Soil moisture continues to decline in the Plains and W Midwest.
- HRS ratings at just 10% Gd/xc. remain very close to record lows.
- The USDA numbers on the N US crop crops look too high.
- US HRS for Sept. '21 is valued at \$405.00/ mt FOB PNW (down \$15/mt on the week), FOB Gulf HRW 11/12.5 pro is valued at \$311.80/mt (down \$3.40/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 \$295.00/mt, up \$5/mt from last week.

Argentine wheat:

- Production prospects in S America are also not improving. In Argentina, rain will be needed soon and there is very little in the forecast. In Brazil, dryness and frosts are impacting production forecasts and are raising import requirements.
- FOB values for Sept. 12% protein Argentine wheat ranged from \$283-288/million mt, down \$3/mt from last week.

EU wheat:

- Matif wheat made 13-week highs with still 35% of the French crop in the fields and much of it still getting rained on.
- Germany's DBV (farmers' association) cut their wheat crop by 1.8 million tonnes to 21 million tonnes because of the very wet July.
- The quality problems in France are going to make it very difficult to load the sales made to China and to Algeria for shipment September onwards.
- FOB
- FOB prices in the EU: Sept. French 11.5 pro closed at \$275.90/mt, down \$0.10/mt from last week. N/C Sept. German 12.5 pro wheat closed at \$275.30, down \$2.80/mt. Sept. Baltic 12.5 pro wheat (N/C) was at \$270.50/mt, down \$2.80/mt.

Black Sea wheat:

- With 50% of the harvest complete, yield data from Russia seems to indicate a wheat crop of around 75 million mt compared to the July USDA number of 85 million mt.
- The trade waits to see how the WASDE reports on this issue on Thursday. The numbers could be very interesting and will shape the market.
- The Kazakh crop is under stress dur heat and drought.
- Russian wheat export prices moved up \$.35/bushel last week with talk about their lower crop.
- The Russian export tax remains a huge obstacle to putting forward business on the books.
- *Black Sea prices continue to creep higher, quality spreads are widening, and bid-offer spreads remain very wide.*
- Russian 12.5 pro wheat for Sept. is quoted at ~\$270.00/mt, unchanged from last week.

➤ **Significant purchases/ trades:**

- The **Turkish TMO** bought 245,000 mt 11.5 & 12.5 pro wheat at \$297.40-308.90/mt.
- **Algeria** bought 300-360,000 mt at a reported \$320-323/mt.
- **Jordan** passed on their tender.
- Net US sales of 308,000 mt for '21/'22 were down 40% from the previous week and 28% from the prior 4-week average. Traders had expected sales between 250 and 700k mt of wheat last week.

➤ **Wheat Market Outlook:**

Significant events:

- *There are still a lot of questions about various wheat **production numbers** (Canada, N USA, Russia, Kazakhstan) as well as about quality (France, EU), and traders are watching for the next USDA-WASDE reports on Thursday.*
- **Durum** production has been severely impacted by the dryness and heat on the Prairies in Canada and in the US.
- Production prospects in **S America** are also not improving.
- The quality problems in **France** are going to make it very difficult to load the sales made to China and to Algeria for shipment September onwards.
- **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:**

We are left with a lot of questions about production against some questions about demand as prices rise and the Delta variant of Covid raises its head. - We note that last year demand escaped unscathed, though prices were not as high.

The trade is waiting to see how the WASDE reports on these issues on Thursday. The numbers could be very interesting and will shape the market. We suggest making no new sales until after the new WASDE report has been analyzed.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 09-08-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$10.19	\$374.42	1 CWRS 13.5	\$10.43	\$383.24
1 CWAD 13.0	\$14.50	\$532.79	1 CWAD 13.0	\$14.59	\$536.09
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$10.05	\$369.28	1 CWRS 13.5	\$10.31	\$378.83
1 CWAD 13.0	\$14.54	\$534.26	1 CWAD 13.0	\$14.62	\$537.20
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
NE Sask			NE Sask		
1 CWRS 13.5	\$9.94	\$365.24	1 CWRS 13.5	\$10.17	\$373.69
1 CWAD 13.0	\$14.62	\$537.20	1 CWAD 13.0	\$14.75	n/a
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$9.94	\$365.24	1 CWRS 13.5	\$10.14	\$372.58
1 CWAD 13.0	\$14.42	\$529.85	1 CWAD 13.0	\$14.61	\$536.83
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* 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/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

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.”

- HRW in the Pacific North West (PNW) \approx 3 CWRS in Vancouver
 - SW (lowest price wheat) \approx CPS red (mostly fed domestically)
 - HAD (Lakes) \approx 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				09-08-2021
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	\$483.61	\$653.12		
HRS	\$476.68			
HRW 11.5	\$396.31			
SWW 12.0	\$449.89			
1 CWRS 13.5 ³	\$483.61		\$361.93	\$121.68
2 CWRS 13.0 ³	\$476.68		\$349.80	\$126.88
3 CWRS ³	\$396.31		\$346.50	\$49.81
CPS ³	\$443.42		\$310.49	\$132.94
1 CWAD ⁴		\$646.66	\$536.46	\$110.20
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$270.00	September		
French 11.5 (Rouen)	\$275.90	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					09-08-2021
Canadian Funds	Grade				
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS	
Dec/Jan delivery	\$12.80	\$10.61	\$9.60	\$9.60	
Parity Track Rosetown	\$11.30	\$9.11	\$10.57	\$10.57	
Track Bid Rosetown Area	\$9.52	\$9.43	\$8.45	\$8.45	
Gross Margin at Elevator (\$/bu)*	\$1.78	-\$0.32	\$2.12	\$2.12	
Gross Margin at Elevator (\$/mt)*	\$65.42	-\$11.64	\$77.95	\$77.95	

* to cover elevation, elevator market risk, margin

