

Wheat Market Outlook and Price Report: February 22, 2021
By Marlene Boersch/ A.P. Temple/ Michael Wilton
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 February 22, 2021

Feb. 18-19 '21 - USDA Grains Outlook Forum 2021:

Table 1. Wheat, Corn, and Soybean Planted Acreage, 2014-2021

	2014	2015	2016	2017	2018	2019	2020	2021 1/
	- Million Acres -							
Wheat	56.8	55.0	50.1	46.1	47.8	45.5	44.3	45.0
Corn	90.6	88.0	94.0	90.2	88.9	89.7	91.0	92.0
Soybeans	83.3	82.7	83.5	90.2	89.2	76.1	83.1	90.0
Total	230.7	225.7	227.6	226.4	225.9	211.3	218.4	227.0

Table 2. Wheat Supply, Demand, and Price, 2018/19-2021/22

	2018/19	2019/20	2020/21 1/	2021/22 2/
Area planted (mil. ac.)	47.8	45.5	44.3	45.0
Area harvested	39.6	37.4	36.7	37.2
Yield (bu./ac.)	47.6	51.7	49.7	49.1
Production (mil. bu.)	1,885	1,932	1,826	1,827
Beginning stocks	1,099	1,080	1,028	836
Imports	135	105	120	130
Supply	3,119	3,117	2,974	2,793
Feed & residual	88	101	125	140
Food & seed	1,013	1,022	1,028	1,030
Total domestic use	1,101	1,123	1,153	1,170
Exports	937	965	985	925
Total use	2,039	2,089	2,138	2,095
Ending stocks	1,080	1,028	836	698
Stocks/use (percent)	53.0	49.2	39.1	33.3
Season-avg. farm price (\$/bu.)	5.16	4.58	5.00	5.50

- The **2021 planted area outlook** includes record combined corn and soybean acres and a **2 percent rise in wheat acres**, as lower spring wheat acres partly offsets higher winter wheat. **Total**

wheat area for 2021/22 is projected at 45.0 million acres, up 651,000 acres from the previous year but still below the 5-year average.

- The **2021/22 outlook for U.S. wheat** is for reduced supplies, slightly lower total use, and declining ending stocks. U.S. wheat production is projected almost unchanged from 2020/21 at 1,827 million bushels as higher area offsets a lower yield.
- **US winter wheat** seeded area is estimated at 32.0 million acres, up 5 percent from 2020/21 and the first increase in winter wheat acreage since 2013/14. *In contrast, **combined spring and durum wheat plantings for 2021/22** are expected to be reduced on higher expected net returns for corn and soybeans in the Northern Plains.*

➤ **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** - Mch. '21 contract Chicago winter wheat closed at 650-6, down 11-6 cents on Friday, *up 14 cents on the week.*
Mch. '21 contract Kansas hard red winter wheat closed at 631-6, down 5 cents in Friday's trade, *and up 15 on the week.*
Mch. '21 Minneapolis hard red spring wheat closed at 626-6, down 3 cents on Friday, *and up 12-6 cents on the week.* May MGE hard red spring (HRS) added 14 cents to end at \$6.40/bu.
- **Futures market summary:** US wheat futures jumped 15-20¢ on the return from the long weekend amidst concern over the impact of severe cold as far south as the Gulf.
- **Funds** added to their longs.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat

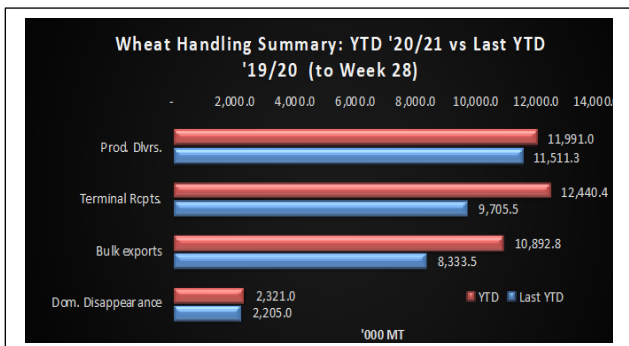


Mpls. Mch. '21 Wheat



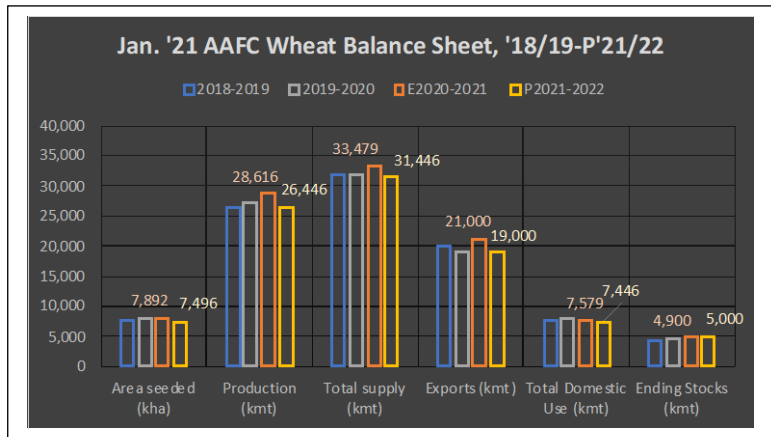
Canadian Wheat:

- *Overall*, Northern Hemisphere weather looks far from ideal, but likely the biggest problem for the world wheat market is facing is how to get Russia back in the market [see below]. Russian '20/21 ending stocks of 15 million mt and a 75 million mt wheat crop would give a '21/22 exportable surplus of 35-40 million mt. However, as things stand, none of that can make it to the market! And that could be explosive for world price wheat!
- **Canadian wheat deliveries and exports** were down last week (wk. 28), but deliveries of all commodities were down, which also is related to the extremely cold temperatures a week ago. Exports reached 287k mt, advancing year-to-date wheat exports to 10.9 million mt, 2.6 million mt higher (+31%) than last year-to-date.
- If exporters maintained the year-to-date pace, the Canada would export 20.4 million mt of wheat, which is less than the 21



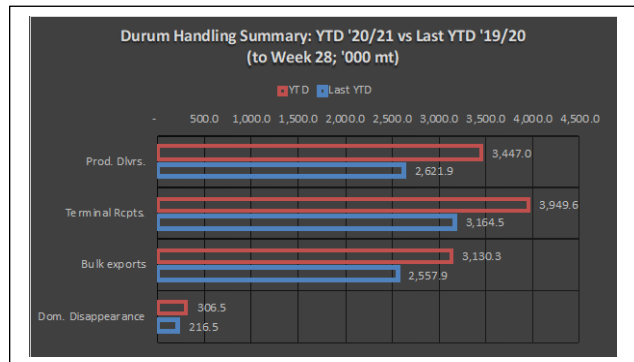
million mt AAFC expects, but still well ahead of last year's 19 million mt. We can only hope that the railcar supply will hold up to allow for 21 million mt exports. The market is there, especially if the problems with Russian wheat stay!

- **AAFC** came out with their **Feb. balance sheets** last week. Notably, they reduced their '20/20 ending stocks for wheat (excl. durum) by 400k mt to 4.9 million mt by increasing domestic usage, primarily usage in feed! In their forecast for the '21/22 crop year, AAFC lowered seeded acreage by 400k ha (1 million acres) from their January forecast to 7.9 million ha (19.5 million ac.). However, they reduced '21/22 wheat exports by 1 million mt from Jan. to 19 million mt, so that '21/22 ending stocks remained at 5 million mt. – "If" we can maintain good rail supply into next year, we should be able to do better on exports next year!



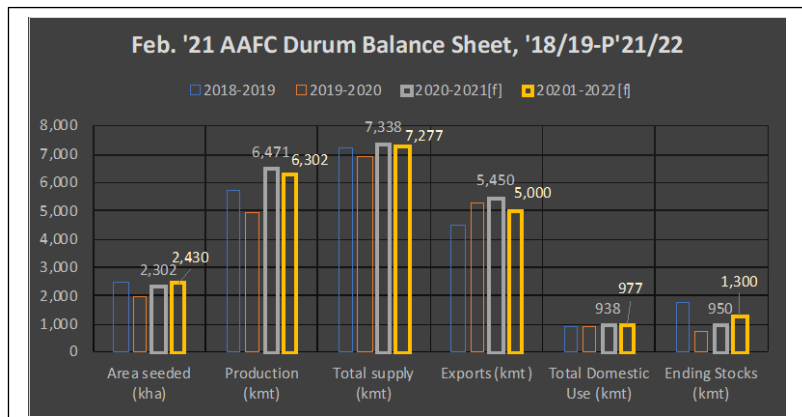
- **We expect world prices to remain supportive and Canadian prices to improve as the "basis" narrows. There is no rush for Canadian farmers to push for sales at the present.**

- **Durum exports** for week 28 at 88k mt stayed at the lower end, for a year-to-date total of 3.1 million mt, compared to 2.6 million mt last year-to-date. The export pace now is 22% ahead of last year's pace.
- We hear that \$9.00-9.25/bu is being paid for #1 CWAD in SK, which is a decent price to sell.
- New crop durum ranges from \$8.50-9.00 delivered.



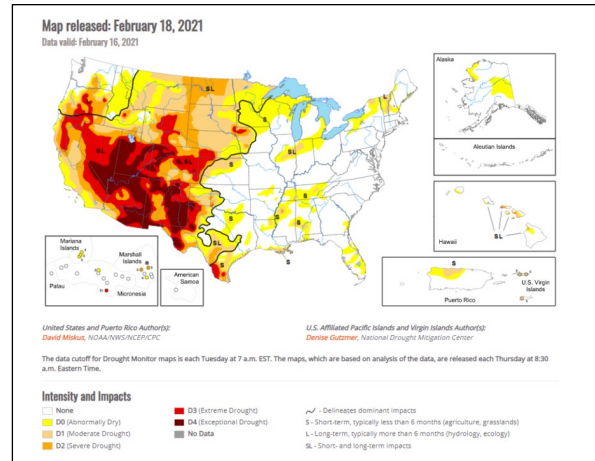
- **AAFC Feb. balance sheets for durum:** AAFC made few changes to their January estimates for durum. Ending stocks for '20/21 remained at 950k mt, which is 213k mt (+29%) higher than in '19/20.

For the '21/22 crop year, AAFC forecast a 6% increase in seeded acres to 2.4 million ha (6 million ac.), but a 3% reduction on production due to lower yields. Supply is roughly unchanged due to the higher carry-in. AAFC expects '21/22 exports to fall by 8% to 5 million mt and expect ending stocks to increase again to 1.3 million mt (+37%). – Given US durum acres are set to fall, we should be able to do better on exports!



○ **US Wheat:**

- The much-discussed **winter storms** in the US brought much-needed precipitation to western Nebraska and eastern Colorado, reducing extreme drought in those regions. However, historic freezing temperatures and continued dryness elsewhere in the High and Southern Plains could challenge winter wheat emergence from dormancy.
The USDA's chief meteorologist talked of the TX and OK crops being "lost", which fuelled the early week gains in US wheat futures.
- **Weekly commercial US export sales** at 399k mt for delivery in '20/21 were down 33% from last week's 591k mt, but in line with trade expectations of 250-650k mt. Year-to-date sales of 23.4 million mt are 5% ahead of last year's pace. USDA expects total U.S. wheat exports to reach 26.8 million mt in 20'20/21, 2% ahead of last year.
- The **'21/22 USDA outlook** for U.S. wheat [see tables on page 1] is for reduced supplies, slightly lower total use, and declining ending stocks. U.S. winter wheat seeded area is estimated at 32.0 million acres, up 5 % from '20/21. *In contrast, combined spring and durum wheat plantings for 2021/22 are expected to be reduced on higher expected net returns for corn and soybeans in the Northern Plains.* Total wheat area for 2021/22 is projected at 45.0 million acres, up 651,000 acres from the previous year, but still below the 5-year average.
- North American prices are competitive.
- US HRS for March '21 is valued at \$287/mt FOB PNW (up \$2.00/mt), PNW White wheat is valued at \$294/mt Fob PNW (up \$1.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$287.26/mt (up 9.46/mt from last week).



○ **Australian wheat:**

- Australian futures will make their highest weekly close in four.
- ABARES raised the Aussie crop 2 Mmt to a record 33.3 Mmt (USDA 30 Mmt) which is still seen as 2 Mmt too low by some.
- Australian wheat likely covered this week's feed wheat business to Korea.
- Australian new crop FOB APW wheat values for May (first available position) closed at \$290/mt, unchanged from the previous week. *There were no offers for Jan., Feb., March, or April '21.*

○ **Argentine wheat:**

- Argentine Fob prices were reported as unchanged to lower, which seemed strange given the rallies in all other world markets, particularly as Argentine wheat was already the world's cheapest wheat.
- 'Nominal values' for Fob 12% pro Argentine wheat are at \$262-269/mt for March delivery, down ~\$2/mt.

○ **EU wheat:**

- Matif wheat futures soared €8.50/mt to a contract high close, taking the March-May inverse to €11/mt.
- EU shipments continued at a pace which will bring record tight end stocks, but European traders seem to be realizing that the EU needs to slow exports to preserve stocks. Exports for the rest of the season must drop by 45% compared to last year to meet the USDA projection for EU wheat exports but doubts about Russian exports for the rest of '20/21 make this hugely difficult.
- **March Fob prices in the EU:** French 11.5 pro closed at \$292.83/mt, up \$9.48/mt from last week. German 12.5 pro was up by \$8.71/mt to \$289.64/mt. Baltic 12.5 pro increased by \$8.71/mt on the week to \$289.64/mt.

- **Black Sea wheat:**
- The €25/mt **Russian export tax** kicked in last week and will increase to a €50/mt tax in just 6 days. There are *no new crop Russian wheat being offered in the market*, but Ukraine and the Balkans are quoting harvest positions at around \$240/mt. Assuming that Russian wheat would have to be at a similar value to compete, the export tax would reduce the farm value of wheat to Russian farmers by US\$30/mt, for a domestic delivered value of around Rb13,000 in the south and below Rb12,000 in the Black Earth region. The tax spread offsets a very large chunk of the market inverse. Given that the Russian farmer still has valid concerns about his new crop wheat crop, the incentive to sell his old crop wheat simply is not there. - Over the past few years, Russia has exported 10-12 million mt of wheat in the July-Sep quarter, and importers would be well advised to take some alternative cover. Unfortunately, many of them are reportedly still short on old crop with the problem exacerbated by the soaring freight market.
- Russian '20/21 ending stocks of 15 million mt and a 75 million mt wheat crop would give a '21/22 exportable surplus of 35-40 million mt. However, as things stand, none of that can make it to the market! And that could be explosive for world price wheat!
- Like the US, much of the Black Sea saw some severe cold this week which will not encourage the farmer to rush into forward sales.
- The **Ukraine's stats bureau** unexpectedly raised their winter wheat acreage by 10% from the previous estimate to 6.71 million ha, which is now 5% above last year.
- The Fob offer for March Russian 12.5 pro wheat closed at \$285.00/mt (nominal value!), up \$7.07/mt.

➤ **Significant purchases/ trades:**

Cash trade last week for wheat was very limited as the Russian cash prices remain undetermined due to the export tax and inclement winter weather. North American prices are competitive.

- **Jordan** bought 120k tonnes of wheat that closes this morning, with results coming later today.
- **The Philippines** bought 145k tonnes of wheat in tenders, including 75k tonnes of feed wheat for April-June delivery, and 70k tonnes of milling wheat for June delivery.
- **Algeria** bought 30-60k tonnes of optional-origin milling wheat in an international tender at \$320-321/tonne C&F, likely sourced from France for March-April shipment.
- **Tunisia** is tendering for 100k mt of wheat for M/A shipment, plus 92kt durum.
- **Pakistan** will return March 2nd for 300k mt of wheat.
- **Net US wheat export sales** at 399k mt for delivery in '20/21 were down 33% from last week's 591k mt, but in line with trade expectations of 250-650k mt.

➤ **Wheat Market Outlook:**

Significant events:

- In their **Feb. wheat balance sheet**, **AAFC** reduced their **'20/21 ending stocks for wheat** (excl. durum) by 400k mt to 4.9 million mt by increasing domestic usage, primarily usage in feed.
- **For the '21/22 crop year**, **AAFC** lowered seeded acreage by 400k ha (1 million acres) from their January forecast to 7.9 million ha (19.5 million ac.). However, they reduced '21/22 wheat exports by 1 million mt from Jan. to 19 million mt, so that '21/22 ending stocks remained at 5 million mt. – "If" we can maintain good rail supply into next year, we should be able to do better on exports next year!
- The **'21/22 USDA outlook** for U.S. wheat is for reduced supplies, slightly lower total use, and declining ending stocks. U.S. winter wheat seeded area is estimated at 32.0 million acres, up 5 % from '20/21. *In contrast, combined spring and durum wheat plantings for 2021/22 are expected to be reduced on higher expected net returns for corn and soybeans in the Northern Plains.* Total wheat area for 2021/22 is projected at 45.0 million acres, up 651,000 acres from the previous year, but still below the 5-year average.

- The €25/mt **Russian export tax** kicked in last week and will increase to a €50/mt tax in just 6 days. There are *no new crop Russian wheat being offered in the market*, but Ukraine and the Balkans are quoting harvest positions at around \$240/mt. Assuming that Russian wheat would have to be at a similar value to compete, the export tax would reduce the farm value of wheat to Russian farmers by US\$30/mt, for a domestic delivered value of around Rb13,000 in the south and below Rb12,000 in the Black Earth region. The tax spread offsets a very large chunk of the market inverse. Given that the Russian farmer still has valid concerns about his new crop wheat crop, the incentive to sell his old crop wheat simply is not there. - Over the past few years, Russia has exported 10-12 million mt of wheat in the July-Sep quarter, and importers would be well advised to take some alternative cover. Unfortunately, many of them are reportedly still short on old crop with the problem exacerbated by the soaring freight market.
- **Russian '20/21 wheat ending stocks** of 15 million mt and a 75 million mt wheat crop would give a '21/22 exportable surplus of 35-40 million mt. However, as things stand, none of that can make it to the market! And that could be explosive for world price wheat!
- **Cash trade last week for wheat was very limited as the Russian cash prices remain undetermined due to the export tax and inclement winter weather. North American prices are competitive.**
- The **Baltic Panamax Index** trimmed some of this week's huge freight gains (30%) yesterday, but remains very firm at 10-year highs.

➤ **Outlook:**

Cash trade last week for wheat was very limited as Russian cash prices for wheat remain undetermined due to the export tax and inclement winter weather. North American prices are competitive. Funds added to their longs.

Canadian prices should get firmer as the tight crop and bigger railcars availability narrow the "basis". There is no rush for Canadian farmers to push for sales at the present.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 22-02-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '21 (bu.)	May '21 (mt)
1 CWRS 13.5	\$7.68	\$282.19	1 CWRS 13.5	7.86	\$288.81
1 CWAD 13.0	\$8.32	\$305.71	1 CWAD 13.0	8.38	\$307.91
1 CPSR 11.5	\$7.14	\$262.35	1 CPSR 11.5	7.36	\$270.44
SW Sask			SW Sask		
1 CWRS 13.5	\$7.46	\$274.11	1 CWRS 13.5	7.69	\$282.56
1 CWAD 13.0	\$8.16	\$299.83	1 CWAD 13.0	8.39	\$308.28
1 CPSR 11.5	\$7.10	\$260.88	1 CPSR 11.5	7.34	\$269.70
NE Sask			NE Sask		
1 CWRS 13.5	\$7.42	\$272.64	1 CWRS 13.5	7.59	\$278.89
1 CWAD 13.0	\$8.32	\$305.71	1 CWAD 13.0	8.46	\$310.85
1 CPSR 11.5	\$6.87	\$252.43	1 CPSR 11.5	7.06	\$259.41
SE Sask			SE Sask		
1 CWRS 13.5	\$7.33	\$269.33	1 CWRS 13.5	7.51	\$275.95
1 CWAD 13.0	\$8.27	\$303.87	1 CWAD 13.0	8.40	\$308.65
1 CPSR 11.5	\$6.88	\$252.80	1 CPSR 11.5	7.08	\$260.15

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	0.10	3.77
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.05)	-1.84
1 CWRS 12.5	(0.30)	-11.02
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.10	3.67
2 CWAD 13.0	(0.20)	-7.35
2 CWAD 12.5	(0.30)	-11.02

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

“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.”

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/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.

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				22-02-2021
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	\$351.38	\$378.23		
HRS	\$344.43			
HRW 11.5	\$363.88			
SWW 12.0	\$353.69			
1 CWRS 13.5 ³	\$351.38		\$276.31	\$75.06
2 CWRS 13.0 ³	\$344.43		\$261.98	\$82.45
3 CWRS ³	\$363.88		\$256.47	\$107.40
CPS ³	\$347.21		\$253.90	\$93.31
1 CWAD ⁴		\$371.75	\$301.67	\$70.08
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$285.00	March		
French 11.5 (Rouen)	\$292.83	March		
ASW 10.5 (W Coast)	\$286.00	May		
Argentine 12.0	\$267.00	March		

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				22-02-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.20	\$9.73	\$7.50	\$7.50
Parity Track Rosetown	\$7.70	\$8.23	\$7.95	\$7.95
Track Bid Rosetown Area	\$7.13	\$6.98	\$6.91	\$6.91
Gross Margin at Elevator (\$/bu)*	\$0.57	\$1.25	\$1.04	\$1.04
Gross Margin at Elevator (\$/mt)*	\$20.98	\$45.94	\$38.32	\$38.32

* to cover elevation, elevator market risk, margin