

Wheat Market Outlook and Price Report: January 4, 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 January 4, 2021

AMIS¹ December Wheat Supply and Demand Overview:

Wheat	FAO-AMIS			USDA		IGC	
	2019/20	2020/21		2019/20	2020/21	2019/20	2020/21
	est	5 Nov	3 Dec	est	f'cast 11 Nov	est	f'cast 26 Nov
Prod	762.0	762.7	761.7	764.9	772.4	763.4	765.0
Supply	628.4	628.7	627.7	631.4	636.4	629.8	630.0
Utiliz.	1,033.7	1,038.5	1,038.3	1,049.1	1,073.1	1,025.1	1,043.9
Trade	784.8	776.8	776.6	775.7	785.5	772.9	780.0
Stocks	749.5	758.0	757.6	748.3	752.7	746.2	751.8
	624.0	628.1	627.7	622.3	621.7	617.4	619.8
	184.6	184.5	184.5	191.3	190.5	184.3	186.0
	179.4	177.5	177.5	186.0	182.5	177.5	178.1
	276.6	281.0	282.9	300.8	320.5	278.9	292.1
	148.9	146.3	143.8	149.1	156.8	148.7	152.3

Data shown in the second rows refer to world aggregates without China; world trade data refer to exports and world trade without China excludes exports to China.

- FAO/ AMIS trimmed their **wheat production forecast for 2020** from November to December as downgraded prospects in Argentina and Brazil, as well as a reduced estimate for Kazakhstan, outweighed an upward revision for the Russian Federation.
- **Wheat utilization in 2020/21** was seen to be increasing by 1.1 percent from 2019/20 driven by food use, while feed demand is seen constrained by reduced price competitiveness.
- **Wheat trade in 2020/21** (July/June) remains close to the 2019/20 record and was unchanged m/m with larger sales from the Russian Federation offsetting lower shipments from Argentina.
- **Wheat ending stocks** (ending in 2021) were *increased* by 1.9 million tonnes mostly on an upward correction to the previous estimate of opening stocks in the EU, as well as further adjustments to China's inventories.

¹ AMIS: Agricultural Market Information System. Input comes from the ten organizations that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Group, WFP, WTO, GLAM.

➤ **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** is currently trading at 637, some 29c/bu higher than in our last report on Dec. 21.
Mch. '21 contract **Kansas hard red winter wheat** is trading at 598, also about 29c/bu up from before Christmas.
Mch.'21 **Minneapolis hard red spring wheat** is trading at 596, about 28c/bu higher than previously.
- **Futures market summary:** The wheat complex was mixed to close the final trading session of 2020 with all front months but March Mpls settling above \$6/bu.
US wheat closed the week higher on firm world cash markets and ongoing dryness in the W Plains.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



Mpls. Mch. '21 Wheat



Canadian Wheat:

- Canadian wheat exports continued well over the holidays with another 779,000 mt loaded during weeks 20 & 21. Wheat exports are 1.4 million mt (+21%) ahead of last years.
- However, international cash markets are so far illiquid and ill-defined as the Orthodox Christmas and ongoing holidays in Europe will keep the Black Sea market quiet until next week.
- We do expect Algeria to be back in the cash market soon; they bought just 300,000 mt of wheat last week at a new high of US\$292/mt. Egypt (GASC) might return as well to the market following the 15¢ reversal of US wheat futures from the highs. However, cash markets will continue to struggle until there is some definition of Russian values following the introduction of the Russian export tax. In addition, consumers are looking at the wheat market with significant concern heading into 2021 with both the US and Russian winter crops at risk.
- *As we said earlier, Canadian wheat is competitively priced to go to the EU, which should help with the continued movement of Canadian wheat into 2021. Wheat prices have improved, but we would wait to see the next USDA report on Jan. 12th next week before making major moves.*

(CGC) Grain Handling Summary Wheat		Wk.20 & 21		(Dec. 27/'20)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk.20 & 21	670.8	780.3	778.5	156.1
Week ago	470.9	441.6	409.5	120.5
YTD	8,926.0	9,891.4	8,242.3	1,924.0
Last YTD	8,995.2	8,419.1	6,820.9	1,997.2
YTD less Last YTD	-69.2	1,472.3	1,421.4	-73.2
YTD over Last YTD	99%	117%	121%	96%

Mercantile based on weekly CGC Handling Data

- Durum exports were respectable during weeks 20 & 21 with 238,000 mt loaded for a year-to-date total of 2.4 million mt, compared to 2.2 million mt last year-to-date. Not too bad considering we were lagging last year's durum shipments during most of the fall.
- The recent sale of 100,000 mt of durum wheat to Tunisia works back to ~C\$9.10/bu FOB farm SK. We see that bids have dropped to \$8.15-8.30/bu (depending on position) for durum in Moose Jaw. That's too cheap compared to sales in the international market and we would target close to \$8.50-9.00/bu, depending on location.

(CGC) Grain Handling Summary Durum	Wk.20 & 21		(Dec. 27/'20)
'000 mt)	Prod. Dlvs.	Terminal Rcpts.	Dom.
			Bulk exports
Wk.20 & 21	187.3	295.0	238.0
Week ago	154.7	270.4	188.3
YTD	2,643.2	3,196.0	2,379.3
Last YTD	2,120.9	2,880.6	2,152.5
YTD less Last YTD	522.3	315.4	226.8
YTD over Last YTD	125%	111%	111%

Mercantile based on weekly CGC Handling Data

US Wheat:

- US wheat closed the week higher on firm world cash markets and ongoing dryness in the W Plains.
- US wheat export sales of the week ending 12/24 were on the high end of expectations with 521,000 mt reported. The total commitments for wheat exports are 77% of the projected '20/21 total, 2% behind normal.
- US HRS for January '21 is valued at \$285c/mt FOB PNW (*up \$5/mt from last week*), PNW White wheat is valued at \$270/mt FOB PNW (*down \$5/mt from last week*), FOB Gulf HRW is valued at \$279.72/mt (*up \$13.59/mt*).

Australian wheat:

- Australian wheat futures ended the year with a 6-week high weekly close. FOB levels are ill-defined.
- Australian new crop FOB APW wheat values for March closed at \$268/mt, unchanged from the previous week. *There were no offers for Jan. or Feb. '21.*

Argentine wheat:

- Following the ban on additional Jan-Feb Argentine corn exports by the government. yesterday, Argentine FOB values for wheat were largely inexistant. The ban will presumably have an impact on all domestic grain prices (interior wheat fell by \$5/mt yesterday), and there is some concern the government. may make a similar move on wheat.
- BAGE put the harvest progress at 92% complete (equal to last year), and kept their crop unchanged at 16.8 million mt.
- 'Nominal values' for FOB 12% pro Argentine wheat was more or less unchanged at \$252-260/mt for Jan. delivery.

EU wheat:

- Matif wheat futures rose to contract highs at the end of last week, although the gains were less than might have been expected given the scale of the US rally (€5-6) and the expensive sale Algeria.
- With Russian wheat replacement around \$280/mt FOB basis a \$30/mt tax, EU prices should go higher.
- The EU must slow its export pace due to their feed grain shortage.
- *Jan. FOB prices were higher in most of the EU, down in the Baltic:* French 11.5 pro closed at \$274.74/mt, up \$5.47/mt from last week. German 12.5 pro was up \$5.78/mt to \$270.88/mt. Baltic 12.5 pro increased by \$11.43/mt on the week to \$268.43/mt.

Black Sea wheat:

- The Balkans, Ukraine and Russia are up to 10°C above normal. The Black Sea still has little additional snow in the forecast, and temperatures are expected to drop sharply starting late next week.
- CME Black Sea futures made new highs on both old and new crop, but there was no cash market.
- Russian officials continue to hinder grain movement to keep shipments prior to the export tax at a minimum. As a result, the trade is lowering its forecast for Russian exports. In addition, the EU must slow its export pace due to their feed grain shortage.
- Until there is a defined price for Russian wheat, cash markets will continue to move higher.
- FOB values for Jan. nominally increased by \$9/mt from before Christmas to finish the week at \$266/mt for Russian 12.5 pro.

➤ **Significant purchases/ trades:**

- **Algeria** bought an estimated 300,000 mt of wheat this week. CIF prices were at around \$291-293/mt, which works to around \$270-272/mt FOB France parity, and \$252 for Argentine up-river. – It has been a long time since Algeria had to pay over \$290/mt for wheat.
- **US wheat export sales** of the week ending 12/24 were on the high end of expectations with 521,000 mt reported. The total commitments for wheat exports are 77% of the projected '20/21 total, 2% behind normal.
- The Brussels update on **EU shipments** again confirmed the EU wheat export pace is just too fast for the S&D balance. Current season exports are running just 15% below last year, against the USDA's projected 32% decline and Brussels' 35% drop.

➤ **Wheat Market Outlook:**

Significant events:

- The Argentine ban on corn exports will reduce tax revenues, but also further lift world corn prices - which in turn will add further support under wheat.
- Crop conditions in S America on corn and beans are an increasing concern, and CBOT beans still have a huge rationing job to do, all of which will also help keep wheat firm.
- Algeria paid a new high of ~US\$292/mt to import wheat.
- Consumers are looking at the wheat market with considerable concern heading into 2021 with both the US and Russian winter crops at risk.

➤ **Outlook:**

- a) Note the unintended consequences of government interference: The Russian export tax did not bring down either domestic or world wheat prices, and the Argentine ban on corn exports will reduce tax revenues, but also further lift world corn prices - which in turn will support wheat.
- b) Crop conditions in S America on corn and beans are an increasing concern, and CBOT soybeans still have a huge rationing job to do, all of which will also help to keep wheat firm.
- c) We also think that wheat may be in an independent bull phase while there is no evidence that the worldwide surge in the coronavirus is impacting demand negatively.

As we said earlier, Canadian wheat is very competitively priced to go to the EU, which should help with the continued movement of Canadian wheat into 2021. Wheat prices have improved, but we would wait to see the next USDA report on Jan. 12th next week before making major decisions. The January report is one of the biggest and most anticipated reports since the USDA is prone to make adjustments at that time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 04-01-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Apr.'21 (bu.)	Apr.'21 (mt)
1 CWRS 13.5	\$7.14	\$262.35	1 CWRS 13.5	7.23	\$265.66
1 CWAD 13.0	\$8.15	\$299.46	1 CWAD 13.0	8.24	\$302.77
1 CPSR 11.5	\$6.61	\$242.88	1 CPSR 11.5	6.76	\$248.39
SW Sask			SW Sask		
1 CWRS 13.5	\$6.99	\$256.84	1 CWRS 13.5	7.08	\$260.15
1 CWAD 13.0	\$8.19	\$300.93	1 CWAD 13.0	8.16	\$299.83
1 CPSR 11.5	\$6.54	\$240.31	1 CPSR 11.5	6.70	\$246.18
NE Sask			NE Sask		
1 CWRS 13.5	\$6.90	\$253.53	1 CWRS 13.5	6.96	\$255.74
1 CWAD 13.0	\$8.17	\$300.20	1 CWAD 13.0	8.39	\$308.28
1 CPSR 11.5	\$6.40	\$235.16	1 CPSR 11.5	6.54	\$240.31
SE Sask			SE Sask		
1 CWRS 13.5	\$6.81	\$250.23	1 CWRS 13.5	6.91	\$253.90
1 CWAD 13.0	\$8.21	\$301.67	1 CWAD 13.0	8.35	\$306.81
1 CPSR 11.5	\$6.37	\$234.06	1 CPSR 11.5	6.51	\$239.20

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 Basis² (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/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.

² 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.”

- 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				04-01-2021
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	\$341.63	\$383.40		
HRS	\$334.59			
HRW 11.5	\$351.02			
SWW 12.0	\$320.98			
1 CWRS 13.5 ³	\$341.63		\$256.84	\$84.79
2 CWRS 13.0 ³	\$334.59		\$242.14	\$92.45
3 CWRS ³	\$351.02		\$232.96	\$118.06
CPS ³	\$314.41		\$238.47	\$75.94
1 CWAD ⁴		\$376.83	\$312.32	\$64.50
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$266.00	January		
French 11.5 (Rouen)	\$274.74	January		
ASW 10.5 (W Coast)	\$265.00	March		
Argentine 12.0	\$256.00	January		

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				04-01-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$8.93	\$9.37	\$6.70	\$6.70
Parity Track Rosetown	\$7.43	\$7.88	\$7.06	\$7.06
Track Bid Rosetown Area	\$6.59	\$6.34	\$6.49	\$6.49
Gross Margin at Elevator (\$/bu)*	\$0.84	\$1.54	\$0.57	\$0.57
Gross Margin at Elevator (\$/mt)*	\$30.89	\$56.50	\$20.96	\$20.96

* to cover elevation, elevator market risk, margin