

Wheat Market Outlook and Price Report: January 11, 2021

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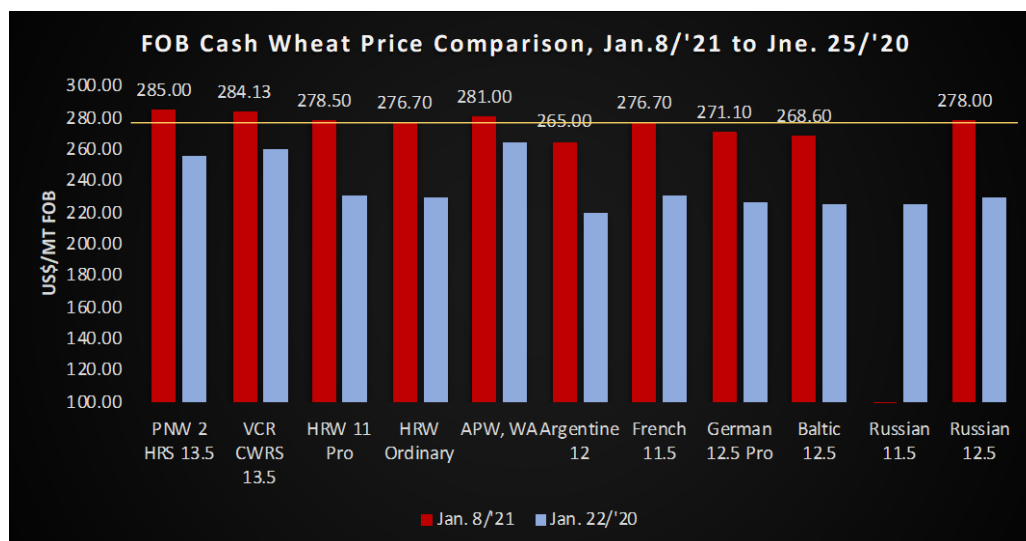
i) Background and Rationale for the Report

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 January 11, 2021

FOB Cash Wheat Prices on Jan. 8, 2021 Compared to Last Year's Prices:



- FOB wheat prices have appreciated across the world by 9% (CWRS) to as much as 20% (French & Argentine wheat).
- Importantly, Russian wheat is no longer the price leader, and French wheat remains expensive.
- Baltic wheat looks increasingly competitive even with the freight spreads, and given the shipments to date, there are only limited volumes remaining which should push prices higher in the coming weeks.
- *North American wheat, and especially US HRW wheat, is much more competitive internationally 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** - Mch. '21 contract Chicago winter wheat closed at 638-6, down 3-4 cents on Friday. Mch. '21 contract Kansas hard red winter wheat closed at 594-6, down 3-6 cents in Friday's trade. Mch. '21 Minneapolis hard red spring wheat closed at 607-6, up 4-4 cents on Friday.
- **Futures market summary:** Since Christmas, CBOT soft red winter futures gained 20 cents to close at \$6.38/bu. KCBT hard red winter futures gained 24 cents to end at \$5.93/bu. MGE hard red spring futures gained 39 cents to close at \$6.07/bu.
- Mpls. wheat spec traders increased their net long 3,815 contracts to 7,748 contracts.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



Mpls. Mch. '21 Wheat



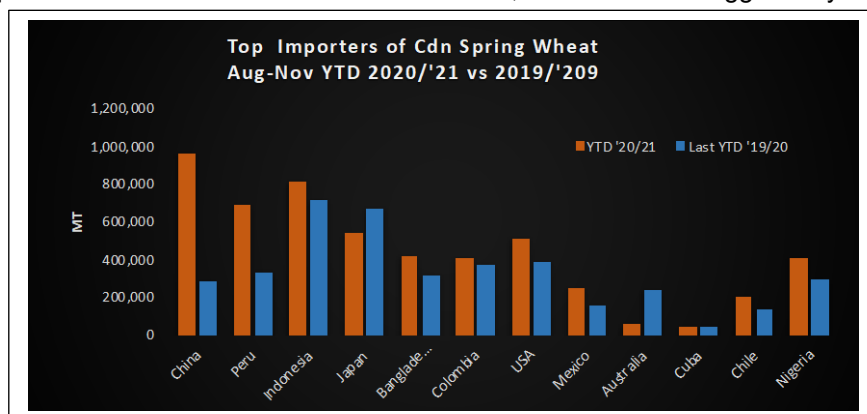
Canadian Wheat:

- Minneapolis wheat spec traders increased their net long 3,815 contracts to 7,748 contracts.
- Canadian wheat exports slowed in week 22 (244,000 mt were loaded), but year-to-date wheat exports remain well ahead of last years with an additional 1.7 million mt (+24%) shipped over last year.
- According to StatsCan last Friday, Canadian November export wheat sales amounted to 1.6 million mt, with China the biggest buyer (213,000 mt), followed by Peru (201,000 mt), the USA (159,000 mt), and Indonesia (155,000 mt).

| (CGC) Grain Handling Summary Wheat (000 mt) | Wk. 22 | | | (Jan. 3/'21) |
|--|----------------|-----------------|----------------|--------------------|
| | Prod. Divrs. | Terminal Rcpts. | Bulk exports | Dom. Disappearance |
| Wk. 22 | 236.9 | 427.9 | 248.0 | 91.4 |
| Week ago | 670.8 | 780.3 | 778.5 | 156.1 |
| YTD | 9,165.2 | 10,361.1 | 8,490.2 | 2,036.4 |
| Last YTD | 8,995.2 | 8,419.1 | 6,820.9 | 1,997.2 |
| YTD less Last YTD | 170.0 | 1,942.0 | 1,669.3 | 39.2 |
| YTD over Last YTD | 102% | 123% | 124% | 102% |

Mercantile based on weekly CGC Handling Data

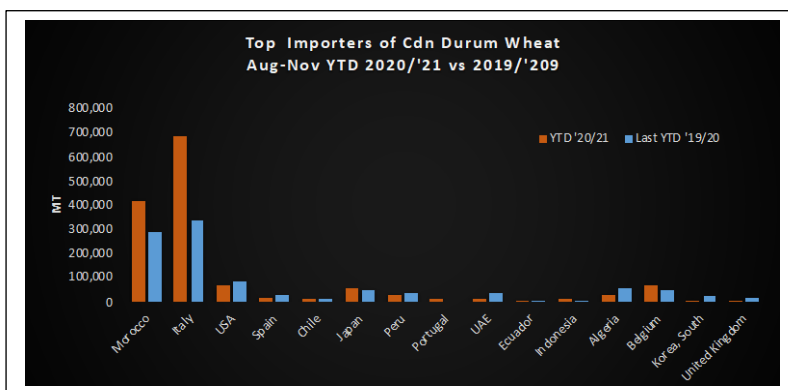
- Much attention this week is focused on the new WASDE report that will be published on January 12th. The pace of EU wheat exports continues to run far above the USDA projection, which if not dramatically slowed, will take EU ending stocks below manageable levels.



- Durum exports also slowed during week 22 to 87,000 mt, for a year-to-date total of 2.5 million mt, compared to 2.2 million mt last year-to-date. This is 15% ahead of last year's pace; not too bad considering we were lagging last year's durum shipments during most of the fall.
- November durum export sales amounted to an excellent 789,000 mt, with Italy by far the biggest buyer of the month (422,000 mt, year-to-date 687,000 mt), followed by Morocco (133,000 mt, year-to-date 420,000 mt).
- Year-to-date **US durum export sales** in 2020/21 are 25% behind last year's pace at 590,000 mt but still are 20% ahead of the 5-year average. Total sales to Italy, the largest market for US durum, are only 6% behind last year's pace at 433,000 mt, which is 63% more than the 5-year average.
- We would target close to \$8.50-8.75/bu, depending on location.

| (CGC) Grain Handling Summary Durum | | | Wk. 22 | (Jan. 3/'21) |
|------------------------------------|----------------|----------------|----------------|--------------------|
| ('000 mt) | Terminal | | Bulk exports | Dom. Disappearance |
| | Prod. Divrs. | Rcpts. | | |
| Wk. 22 | 57.5 | 68.4 | 86.8 | 29.8 |
| Week ago | 187.3 | 295.0 | 238.0 | 11.2 |
| YTD | 2,700.6 | 3,291.2 | 2,466.0 | 231.8 |
| Last YTD | 2,120.9 | 2,880.6 | 2,152.5 | 193.1 |
| YTD less Last YTD | 579.7 | 410.6 | 313.5 | 38.7 |
| YTD over Last YTD | 127% | 114% | 115% | 120% |

Mercantile based on weekly CGC Handling Data



US Wheat:

- US wheat export sales of 275,000 mt last week were at the low end of expectations, but the season total 766 million bu remains 10% ahead of last year against the USDA's projected 2% increase.
- Total **US HRS export sales** of 5.78 million mt are 9% ahead of this time last year and are 4% ahead of the 5-year average. Sales to the Philippines and Japan, the top two markets for HRS, are up 5% and 6%, respectively, on competitive prices and increased focus on food stability following the COVID-19 outbreak. Export sales to China, now the third largest market for HRS, are up more than 700% on the year at 518,000 mt following the Phase One trade agreement.
- As noted above, North American wheat, and especially US HRW wheat, is much more competitive internationally this year compared to last year.
- USDA/ WASDE report on Tuesday: We do not expect major changes in the USDA report on wheat, but the ending stocks could be smaller overall. However, with the EU needing to slow its exports to preserve domestic supplies, the risk on wheat remains to the upside.

Australian wheat:

- Australian farmers seem to have stopped selling with the harvest now behind them.
- Australian new crop FOB APW wheat values for March closed at \$281/mt, up \$13/mt from the previous week. *There were no offers for Jan. or Feb. '21.*
 - **Argentine wheat:**
- BAGE raised the wheat crop by 200,000 mt to 17 million mt (compared to USDA at 18 million mt), with harvest 98% complete.
- Argentine ports are starting to work through the backlog of vessels with the inspectors' strike now over.
- 'Nominal values' for FOB 11.5% pro Argentine wheat is up to \$264/mt for Jan. delivery.

EU wheat:

- EU futures rose to fresh contract highs, again reflecting the shortage of corn supplies and offers. The pace of EU wheat exports continues to run far above the USDA projection, which if not dramatically slowed, will take EU ending stocks below manageable levels.
- With no offers in the cash markets, French wheat remains expensive, while Baltic wheat looks increasingly competitive even with the freight spreads. But given the volume of shipments to date, there are only limited volumes remaining, which should push prices higher in the coming weeks.
- *Jan. FOB prices were higher in the EU:* French 11.5 pro closed at \$278.00/mt, up \$3.26/mt from last week. German 12.5 pro was up marginally by \$0.22/mt to \$271.10/mt. After last week's steep increase, Baltic 12.5 pro increased by \$0.17/mt on the week to \$268.60/mt.

Black Sea wheat:

- In Europe, a wave of cold is coming next week, with the east hit the hardest and some extreme temperature readings in Russia. Snow cover is generally good, but there is no snow south of Rostov in a region where crops are reportedly poorly established.
- We see no reason for Russia/FSU to reduce their wheat prices. The Russian/FSU year to date export volume has been very good, and prices and domestic demand is also good. Growers are better capitalized and also have concerns about the winter crops condition due to poor weather. We don't see these origins exerting any bearish influences on the markets.
- The export tax has not (yet) lowered domestic prices as is the desire of President Putin, despite ongoing obstacles presented by customs and the (artificial) shortage of rail cars. There is the risk that additional measures will be put in place, which would probably give an upward bias for US dollar prices.
- Until there is a defined price for Russian wheat, cash markets will continue to move higher.
- FOB values for Jan. increased by \$12/mt from last week to finish the week at \$278/mt for Russian 12.5 pro.

➤ Significant purchases/ trades:

- There were no major cash trades reported during the week; most markets were very slow due to the Christmas and New Year Holidays.
- Jordan returns to the market on Jan 13th for 120,000 mt of wheat for Jul-Aug delivery.
- US export sales of 275,000 mt were at the low end of expectations, but the season total 766 million bu remains 10% ahead of last year compared to the USDA projected 2% increase.

➤ Wheat Market Outlook:

Significant events:

- So far, the Russian export tax measures have not lowered domestic prices, and there are not too many alternative solutions that will achieve this aim without having a sharply upward bias for US dollar-based values.
- The Argentine inspectors' strike ended, and BAGE somewhat surprisingly raised the Argentine wheat crop by 200,000 mt to 17 million mt.
- We do not expect major changes in the USDA report on wheat, but the ending stocks could be smaller overall.

➤ **Outlook:**

Russian wheat values are very important to the market, and we see no reason for the Russia to reduce their wheat prices. (Year to date export volumes, prices and domestic demand have been good, Russian growers are better capitalized, and there are concerns about the winter wheat crops.)

In our view, wheat is undervalued and currently works in most origins for both food and feed usage. EU futures rose to fresh contract highs, again reflecting the shortage of corn supplies and offers.

We do not expect major changes in the USDA report on wheat, but the ending stocks could be smaller overall. However, with the EU needing to slow its exports to preserve domestic supplies, the risk on wheat remains to the upside.

iii) Primary Elevator Price Tables and Grade Spreads

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

| | | | | | Date: | 11-01-2021 |
|--------------------|--------|----------|--------------------|---------------|--------------|------------|
| NW Sask | Spot | | NW Sask | Deferred | | |
| | (bu.) | (mt) | | Apr.'21 (bu.) | Apr.'21 (mt) | |
| 1 CWRS 13.5 | \$7.20 | \$264.56 | 1 CWRS 13.5 | 7.30 | \$268.23 | |
| 1 CWAD 13.0 | \$8.15 | \$299.46 | 1 CWAD 13.0 | 8.23 | \$302.40 | |
| 1 CPSR 11.5 | \$6.60 | \$242.51 | 1 CPSR 11.5 | 6.75 | \$248.02 | |
| SW Sask | | | SW Sask | | | |
| 1 CWRS 13.5 | \$7.06 | \$259.41 | 1 CWRS 13.5 | 7.16 | \$263.09 | |
| 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 | \$6.97 | \$256.11 | 1 CWRS 13.5 | 7.03 | \$258.31 | |
| 1 CWAD 13.0 | \$8.17 | \$300.20 | 1 CWAD 13.0 | 8.38 | \$307.91 | |
| 1 CPSR 11.5 | \$6.40 | \$235.16 | 1 CPSR 11.5 | 6.55 | \$240.67 | |
| SE Sask | | | SE Sask | | | |
| 1 CWRS 13.5 | \$6.89 | \$253.17 | 1 CWRS 13.5 | 6.99 | \$256.84 | |
| 1 CWAD 13.0 | \$8.20 | \$301.30 | 1 CWAD 13.0 | 8.35 | \$306.81 | |
| 1 CPSR 11.5 | \$6.40 | \$235.16 | 1 CPSR 11.5 | 6.55 | \$240.67 | |

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* 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

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 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 | | | 11-01-2021 | |
|--------------------------------------|--|-----------------------|--------------------|--|
| 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 | \$343.98 | \$383.40 | | |
| HRS | \$336.94 | | | |
| HRW 11.5 | \$348.67 | | | |
| SWW 12.0 | \$335.06 | | | |
| 1 CWRS 13.5 ³ | \$343.98 | | \$259.05 | \$84.93 |
| 2 CWRS 13.0 ³ | \$336.94 | | \$248.39 | \$88.55 |
| 3 CWRS ³ | \$348.67 | | \$239.20 | \$109.47 |
| CPS ³ | \$328.49 | | \$235.53 | \$92.96 |
| 1 CWAD ⁴ | | \$376.83 | \$293.95 | \$82.87 |
| Competing wheat: | | | | |
| | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$278.00 | January | | |
| French 11.5 (Rouen) | \$276.70 | January | | |
| ASW 10.5 (W Coast) | \$281.00 | March | | |
| Argentine 12.0 | \$265.00 | 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 | | | | 11-01-2021 |
|---------------------------------------|---------|---------|-------------|------------|
| Canadian Funds | Grade | | | |
| PNW value/Vancouver | 2CWRS | 3CWRS | Winter wht. | CPS |
| Dec/Jan delivery | \$8.99 | \$9.31 | \$7.00 | \$7.00 |
| Parity Track Rosetown | \$7.49 | \$7.81 | \$7.44 | \$7.44 |
| Track Bid Rosetown Area | \$6.76 | \$6.51 | \$6.41 | \$6.41 |
| Gross Margin at Elevator (\$/bu)* | \$0.73 | \$1.30 | \$1.03 | \$1.03 |
| Gross Margin at Elevator (\$/mt)* | \$26.99 | \$47.91 | \$37.98 | \$37.98 |

* to cover elevation, elevator market risk, margin