

Wheat Market Outlook and Price Report: June 7, 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 June 7, 2021

AMIS¹ June Global Wheat Supply and Demand Overview:

Wheat	FAO-AMIS			USDA		IGC	
	2019/20	2020/21		2019/20	2020/21	2019/20	2020/21
	est	f'cast		est	f'cast	est	f'cast
		4 Feb	4 Mar		9 Feb		25 Feb
Prod	760.7	766.5	774.0	763.9	773.4	762.0	772.8
Supply	627.1	632.2	639.8	630.3	639.2	628.4	638.5
Utiliz.	1,032.7	1,043.6	1,050.9	1,047.1	1,073.5	1,021.6	1,050.8
Trade	783.8	781.6	788.9	773.7	787.6	769.3	787.6
Stocks	750.9	756.1	754.5	747.0	769.3	743.6	756.3
	624.2	626.2	623.6	621.0	629.3	614.7	622.5
	184.3	184.5	186.6	191.4	193.1	184.1	187.8
	177.5	176.5	177.6	186.0	183.1	177.4	178.1
	276.9	284.3	292.0	300.1	304.2	278.0	294.5
	149.2	145.0	152.7	148.4	149.3	147.9	155.4

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.

- The **global wheat production** forecast for 2021 increased m/m, reflecting better crop prospects in Australia, China, the EU, Morocco, and the Russian Federation offsetting lower expectations than earlier anticipated for Canada and the US.
- **Utilization of wheat** in 2021/22 was raised mostly on expectation of higher feed use, especially in China, driving up total wheat utilization by 2.5 percent above the 2020/21 estimated level.

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.

- **Wheat trade** in 2021/22 (July/June) was scaled up m/m, now pointing to a small increase from 2020/21 supported by higher import expectations in Algeria, China, Iran, and Iraq.
- **Wheat ending stocks** (ending in 2022) are now seen bigger than earlier anticipated with higher forecasts especially for Australia, India, Pakistan and Turkey, outweighing a smaller buildup of stocks in China than initially expected.

AMIS Wheat Crop Condition Summary:

EU: Conditions are generally favourable for winter wheat despite the recent colder-than-usual temperatures.

UK: Winter wheat conditions are favourable.

Ukraine: Conditions are favourable with ample rainfall supporting crop development.

Russian Federation: Winter wheat conditions are mixed with earlier dryness in the southern Caucasus remaining a concern, while the situation in other regions is favourable. Spring wheat sowing is wrapping up under favourable conditions.

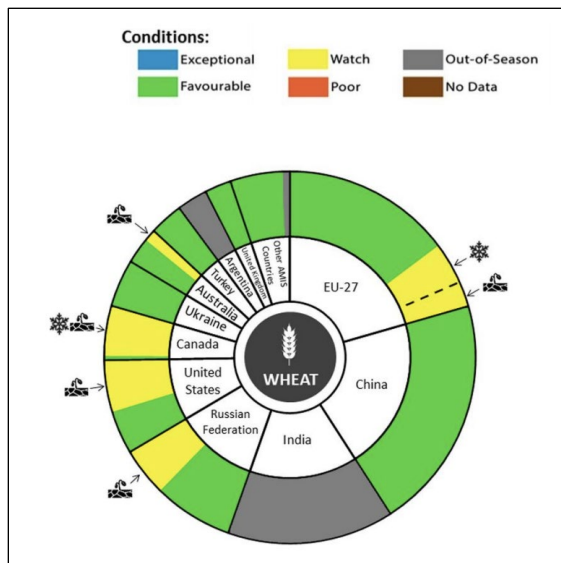
Turkey: Winter wheat conditions are favourable.

China: Harvesting is ongoing for winter wheat under favourable conditions. Spring wheat is under favourable conditions.

US: Winter wheat remains under watch conditions in the far northern and southern extents of the Great Plains due to dryness. Spring wheat is also under watch conditions due to dryness, particularly in the Dakotas.

Canada: Dryness is impacting both winter wheat and spring wheat in the Prairies, particularly in southern Saskatchewan and Manitoba.

Australia: Conditions are favourable in Queensland, New South Wales, and Western Australia. However, parts of Victoria and South Australia have yet to receive opening season rains and will need rain soon to assist crops development.

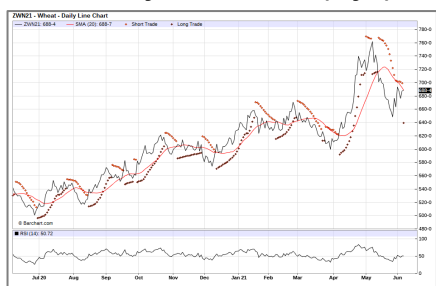


➤ Global wheat production and trade:

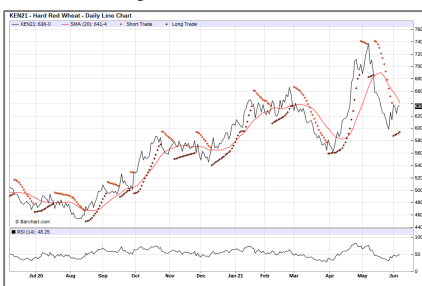
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:** July '21 contract Chicago winter wheat closed at 687-6, up 11-4 cents on Friday, up 24-2 cents on the week.
- July '21 contract Kansas hard red winter wheat closed at 636-4, up 12-2 cents in Friday's trade, and up 24-2 on the week.
- July '21 Minneapolis hard red spring wheat closed at 812-6, up 35-2 cents on Friday, and up 85.2 cents on the week.

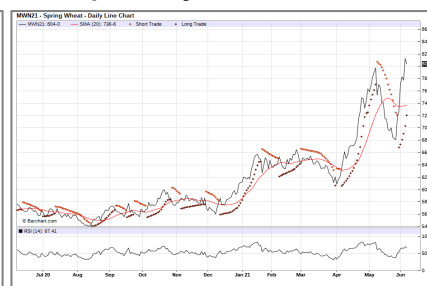
CBOT July 2021 Wheat (1 yr.)



KC July '21 Wheat



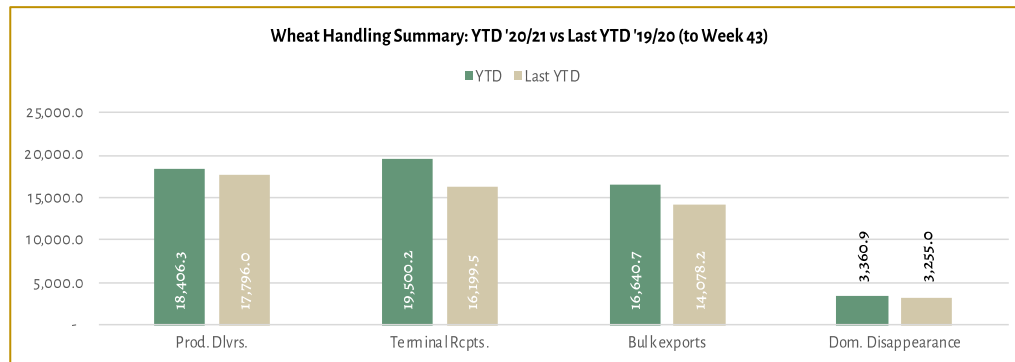
Mpls. July '21 Wheat



Canadian Wheat:

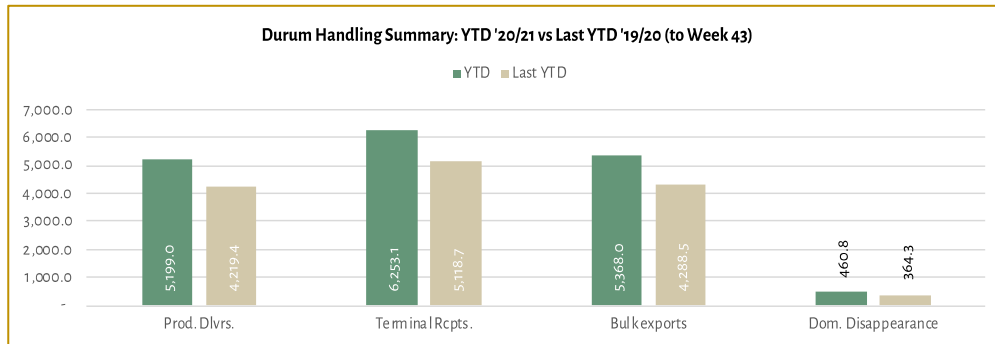
- The US HRW and SRW wheat crops are pretty much a done deal in terms of quantity (although not on quality), but the HRS and Canadian crops remain in difficulty and daily weather forecast changes will maintain volatility as concern for supplies of high protein spring wheat around the world continue to grow. The PNW white wheat crop is also being termed "a mess".
- In Saskatchewan, the Saskatchewan Ministry of Agriculture assessed the spring wheat condition as of May 31 at 67% Gd/Exc., with 30% in fair condition and 3% in poor condition. We will have to see if the heat last week has been detrimental.
- At 188,000 mt, **Canadian wheat exports** were small last week (week 43), advancing year-to-date wheat exports to 16.6 million mt, 2.6 million mt higher (+18%) than last year-to-date.

(CCC) Grain Handling Summary Wheat		Wk. 43			(May 30/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 43	490.5	433.8	187.5	63.6	
Weekago	269.2	410.0	438.4	69.7	
YTD	18,406.3	19,500.2	16,640.7	3,360.9	
Last YTD	17,796.0	16,199.5	14,078.2	3,255.0	
YTD less Last YTD	610.3	3,300.7	2,562.5	105.9	
YTD over Last YTD	103%	120%	118%	103%	



- Traders will continue to watch:
 - **EU** wheat ending stocks, feeding of wheat vs. corn, and EU exportable supplies.
 - **Russian & Kazakh** spring wheat outlook, and the handling of the export tax.
 - Conditions for **North American** spring wheat, and world demand.
- In Saskatchewan, #1 CWRS 13.5 prices improved again and should fetch \$9.50/bu (+) delivered Saskatchewan elevator for July/August.
- **Durum exports** for week 43 were decent at 143,000 mt, for a year-to-date total of 5.4 million mt, compared to 4.3 million mt last year-to-date. This is now 25% ahead of last year's pace.

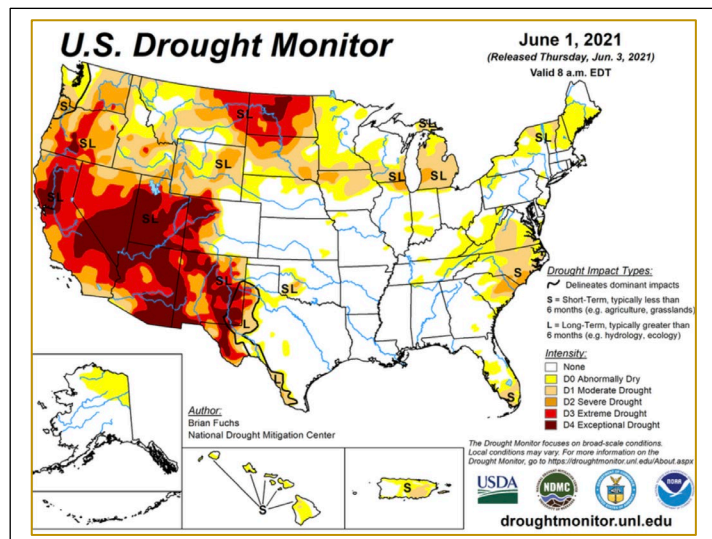
(CCC) Grain Handling Summary Durum		Wk. 43			(May 30/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 43	57.3	61.1	143.6	20.2	
Weekago	50.4	136.5	122.2	2.4	
YTD	5,199.0	6,253.1	5,368.0	460.8	
Last YTD	4,219.4	5,118.7	4,288.5	364.3	
YTD less Last YTD	979.6	1,134.4	1,079.5	96.5	
YTD over Last YTD	123%	122%	125%	126%	



- In Saskatchewan, the Saskatchewan Ministry Agriculture assessed the durum wheat condition as of May 31 at 73% Gd/Exc., with 24% in fair condition and 3% in poor condition. We will have to see if the heat last week has been detrimental.
- There was a big durum tender in the market for 200,000 mt to **Algeria** last week. the country bought at least 200,000 mt of durum for July delivery at US\$380-385/mt. This compares to roughly \$9.40/bu at the elevator! - *We would not sell below \$9.00-9.25/bu now.*

US Wheat:

- US wheat futures were in the black on Friday with some double-digit gains. Minneapolis spring wheat futures were the strongest due to high temps in the Dakotas which is magnifying drought stress this weekend.
- Much of the wheat-growing area stretching from North Dakota, Nebraska, Kansas, and eastern Colorado, received well over average precipitation amounts. However, drought conditions expanded in northeastern Nebraska and southeastern South Dakota. Areas in the west remained dry, with abnormally dry conditions growing in Washington.
- *US spring wheat ratings were reported by USDA at just 43% GD/EX (compared to 80% last year), the lowest level since 1988.*
- Net weekly US sales reductions of 33,000 mt for 2020/2021 were down noticeably from the previous week and from the prior 4-week average, and below expectations of 200,000-500,000 mt.
- Weekly US wheat export sales at 381,000 mt were within expectations of 300,000-500,000 mt). Increases were primarily for Japan (696,000 mt) and Mexico (146,000 mt).
- US HRS for July '21 is valued at \$341.00/mt FOB PNW (up \$23/mt from last week), PNW White wheat is valued at \$320/mt FOBPNW (up \$15/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$277.20/mt (down \$0.70/mt from last week).



Australian wheat:

- Australian new crop futures remain higher on the week.
- Indonesia passed on their tender, and we saw no prices, although reports again suggested Black Sea wheat was cheaper than Australian wheat.

- Australian new crop FOB APW wheat for July was quoted at \$295.00/mt, up \$10/mt from the previous week.

Argentine wheat:

- Seeding in Argentina remains very slow at 17% complete against 30% last year. There is talk of acreage reductions if soil moisture does not improve. However, BAGE kept both their acreage and crop estimates unchanged at 6.5 million Ha and 19 mln mt, respectively. The USDA estimate is at 20.5 million mt.
- Fob values for June 12% protein Argentine wheat ranged from \$270-275/mt, unchanged from last week.

EU wheat:

- Matif in Europe closed well off the mid-session highs as futures followed the US reversal which was a result of the wetter forecast.
- There was no change in the European forecasts, but crops remain behind in development.
- The EU remains the world's cheapest origin, and except for the Balkans. - European farmers are simply not selling.
- Fob prices in the EU: July French 11.5 pro closed at \$268.70/mt (new crop), up \$6.30/mt from last week. *June German 12.5 pro was unchanged at to \$289.20/mt (up \$0.20/mt). Baltic 12.5 pro was unchanged on the week at \$288.70/mt (up \$5.20/mt).*

Black Sea wheat:

- Black Sea FOB markets remain illiquid, and prices remain nominal. Like in the EU, Russian farmers are not sellers and with the harvest just weeks away, the lack of supply to the market remains exceptionally low.
- At \$260/mt, Russian milling wheat is just \$5/mt over barley and \$35/mt below corn.
- The Russian Ag Ministry kept the wheat crop estimate at 81 million mt (vs. USDA at 85 million mt), with most private estimates ranging from 78 to 81 million mt.
- Russian 12.5 pro wheat for July is at \$264/mt (Marmara port), up \$4/mt from last week. Black Sea new crop wheat (July) is available at \$261/mt (up \$1/mt from last week).

➤ **Significant purchases/ trades:**

Given the holidays in the USA and the EU, there were few notable trades.

- **Indonesia** passed at its 240,000 mt Aug-Dec feed wheat tender.
- There are no results yet on the GTC (**Iran**) tender.
- Markets were slow due to the Holidays and the expectation of the June WASDE report.
- There was a big durum tender in the market for 200,000 mt to **Algeria** last week. the country bought at least 200,000 mt of durum for July delivery at US\$380-385/mt.

➤ **Wheat Market Outlook:**

Significant events:

- **US wheat futures** rallied 25-85¢ last week due to ongoing heat and dryness across the Northern Plains and Canada.
- **US spring wheat ratings** came in at just 43% GD/EX (compared to 80% last year). This is the lowest level since 1988.
- Given there also is **increasing concern for Russian and Kazakh spring wheat crops**, the threat to world high protein supplies is becoming more tangible.
- In **Argentina, seeding remains slow** at 17% complete compared to 30% last year. There is talk of acreage reductions if soil moisture does not improve.
- **Marketing the Russian crop** remains very difficult due to the existing export tax.

- On the demand side, **import demand** is being revised heavily upwards. Affected are Iran, Turkey, Algeria.
- The trade is anxious to see what adjustments are being made to 2021/22 supply and demand projections in the **June USDA report** this week.

➤ **Outlook:**

Looking forward, we expect that:

- **EU** stocks will be further reduced by a late harvest, much of the 2021 EU crop increase will be lost to higher feeding, and EU exportable supplies will be far smaller than the USDA is suggesting.
- **Russian** farmers want to see their crop before they sell with spring wheat still a concern in Russia and in Kazakhstan, and the export tax will continue to seriously curtail Russian marketing.
- There are serious concerns for **North American** spring wheat, and world demand is being understated. In addition, on the demand side, there have been reports of heavy crop losses in the Middle East, and consequent higher import demand estimates that will heavily exceed the USDA's numbers.

The world wheat market is increasingly developing its own independent bullish fundamentals, which will be exacerbated if the Russian export tax continues to prevent Russia from marketing its grain in the normal manner.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 07-06-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '21 (bu.)	Oct. '21 (mt)
1 CWRS 13.5	\$9.19	\$337.68	1 CWRS 13.5	\$8.87	\$325.92
1 CWAD 13.0	\$8.31	\$305.34	1 CWAD 13.0	\$7.88	\$289.54
1 CPSR 11.5	\$8.17	\$300.20	1 CPSR 11.5	\$7.48	\$274.85
SW Sask			SW Sask		
1 CWRS 13.5	\$8.99	\$330.33	1 CWRS 13.5	\$8.76	\$321.88
1 CWAD 13.0	\$8.43	\$309.75	1 CWAD 13.0	\$8.01	\$294.32
1 CPSR 11.5	\$8.07	\$296.52	1 CPSR 11.5	\$7.49	\$275.21
NE Sask			NE Sask		
1 CWRS 13.5	\$8.97	\$329.59	1 CWRS 13.5	\$8.64	\$317.47
1 CWAD 13.0	\$8.60	\$316.00	1 CWAD 13.0	\$8.15	\$299.46
1 CPSR 11.5	\$8.16	\$299.83	1 CPSR 11.5	\$7.28	\$267.50
SE Sask			SE Sask		
1 CWRS 13.5	\$8.90	\$327.02	1 CWRS 13.5	\$8.63	\$317.10
1 CWAD 13.0	\$8.56	\$314.53	1 CWAD 13.0	\$8.18	\$300.57
1 CPSR 11.5	\$8.08	\$296.89	1 CPSR 11.5	\$7.30	\$268.23

Table 2: Grade Spreads, in Canadian Dollars per Bu and per 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)

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 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/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);

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.”

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				07-06-2021
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	\$405.56	\$416.20		
HRS	\$398.91			
HRW 11.5	\$343.06			
SWW 12.0	\$374.09			
1 CWRS 13.5³	\$405.56		\$329.59	\$75.96
2 CWRS 13.0³	\$398.91		\$316.73	\$82.18
3 CWRS³	\$343.06		\$313.06	\$30.00
CPS³	\$367.88		\$285.13	\$82.75
1 CWAD⁴		\$409.99	\$290.28	\$119.71
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$264.00	June		
French 11.5 (Rouen)	\$268.70	July		
ASW 10.5 (W Coast)	\$295.00	July		
Argentine 12.0	\$280.00	June		

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				07-06-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$10.69	\$9.17	\$8.30	\$8.30
Parity Track Rosetown	\$9.19	\$7.67	\$8.52	\$8.52
Track Bid Rosetown Area	\$8.62	\$8.52	\$7.76	\$7.76
Gross Margin at Elevator (\$/bu)*	\$0.57	-\$0.85	\$0.76	\$0.76
Gross Margin at Elevator (\$/mt)*	\$20.99	-\$31.19	\$27.76	\$27.76

* to cover elevation, elevator market risk, margin