

Wheat Market Outlook and Price Report: May 10, 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 May 10, 2021

AMIS¹ April Global Wheat Supply and Demand Overview:

Wheat	FAO-AMIS		USDA		IGC	
	2020/21 est	2021/22 f'cast 6 May	2019/20 est	2020/21 f'cast 9 Apr	2020/21 est	2021/22 f'cast 29 Apr
Prod.	774.6	778.8	763.9	776.5	774.3	790.4
Supply	640.4	643.3	630.3	642.2	640.0	654.4
Utiliz.	1,051.8	1,063.6	1,047.2	1,076.5	1,052.7	1,079.8
Trade	894.5	797.3	773.9	790.6	788.7	811.9
Stocks	763.3	770.0	747.2	781.0	763.3	781.7
	622.4	634.5	621.2	631.0	622.3	654.4
	188.0	184.5	191.4	196.3	189.3	185.2
	178.0	175.5	186.0	185.8	179.1	177.6
	284.9	293.5	300.0	295.5	289.4	298.1
	154.0	153.9	148.4	150.1	156.2	162.5

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.

- According to AMIS, **global wheat production in 2021** is expected to increase above last year's level to a new record, supported by higher outputs in several countries and a strong rebound in the EU more than offsetting declines in Australia, Canada, and the Russian Federation.

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.

- **Utilization of wheat in 2021/22** is thought to increase significantly, largely driven by growth in food consumption and industrial use, whereas feed use of wheat could fall slightly short of the 2020/21 record level.
- **Wheat trade in 2021/22** (July/June) may be heading for a contraction on reduced import prospects from China, Morocco and Pakistan but shipments from Argentina and the EU are likely to increase.
- **Ending stocks** (ending in 2022) likely to rise for a third consecutive season, reaching a new peak; but the bulk of the increase is expected to be concentrated in China.

AMIS Crop Condition Summary:

EU: Conditions are generally favourable for winter wheat with some spot areas affected by dry and cold conditions.

UK: Conditions are favourable despite a slowing of crop development due to recent cold weather.

Ukraine: Conditions are favourable with some improvement in the south owing to good rainfall over the past few months.

Russian Federation: Winter wheat conditions have improved thanks to recent rainfall. However, some of the crop, particularly in the central district, will need to be resown. Spring wheat sowing is just beginning under favourable conditions.

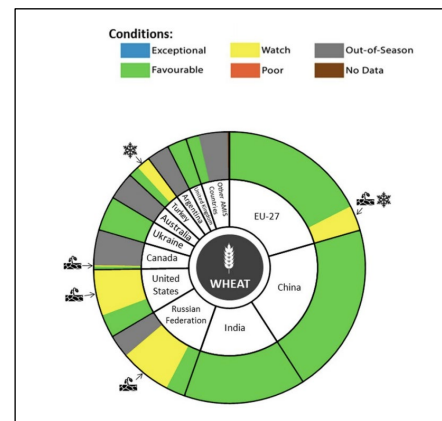
Turkey: Rainfall has mitigated.

China: Conditions are favourable for winter wheat in the critical development stage and as the sowing of spring wheat begins.

India: Harvesting is wrapping up under favourable conditions. There is an increase in total sown area compared to last year.

US: Winter wheat remains under watch conditions in the northern and southern Great Plains due to dryness. Spring wheat sowing is about halfway complete and is also under watch conditions due to dryness.

Canada: Winter wheat conditions are favourable in the main producing province of Ontario, while dryness persists in the Prairie provinces.



➤ **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 761-6, up 8-4 cents on Friday, *up 19-2 cents on the week.*
July '21 contract Kansas hard red winter wheat closed at 736-6, up 10 cents in Friday's trade, *up 38-4 cents on the week.*
July '21 Minneapolis hard red spring wheat closed at 797-4, up 7 cents on Friday, and *up 34-2 cents on the week.*
- **Futures market summary:** Given persistent dry conditions and continued strong global demand for feed wheat, all futures prices increased for the fifth week in a row. US wheat rose 25-30¢ in all 3 markets last week to fresh multi-year highs.
- New crop wheat on the MATIF in Europe rose to contract highs, but German/Baltic Fob premiums were m/l unchanged.

CBOT July 2021 Wheat (1 yr.)



KC July '21 Wheat

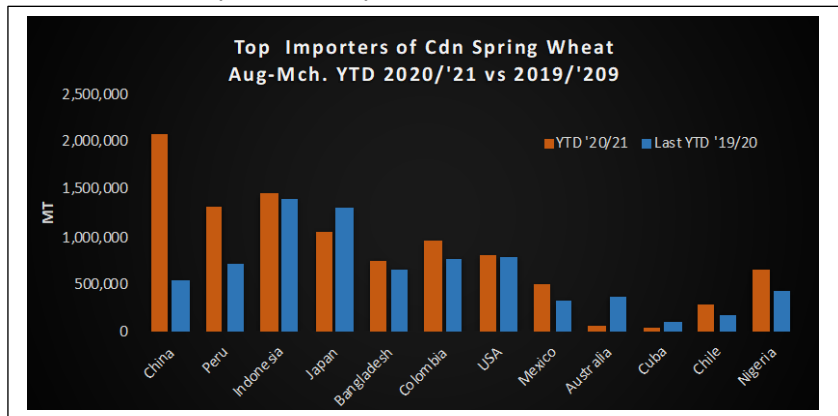
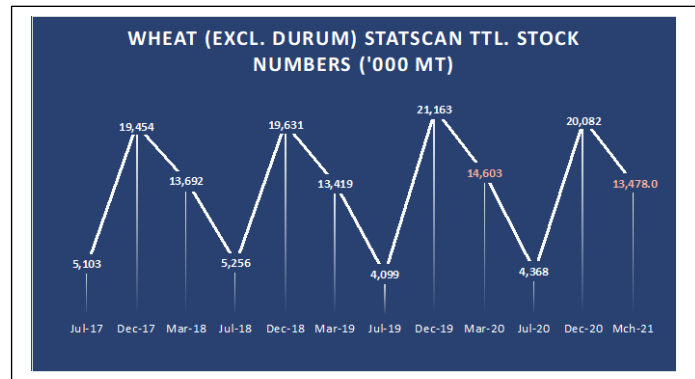


Mpls. July '21 Wheat

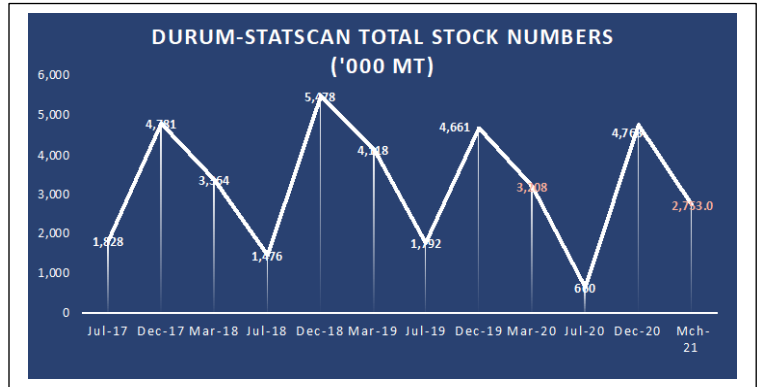


Canadian Wheat:

- Saskatchewan spring wheat was 8% seeded as of May 3rd, and Alberta spring wheat was 18% seeded as of May 4th. Moisture conditions in Saskatchewan are 44% short and 14% very short. In Alberta, 36% of the soils show a 'fair' surface moisture rating and 10% are rated poor.
- The **StatsCan March 31st stocks report** came out Friday. Wheat stocks excluding durum were shown at 13.5 million mt compared to 15.5 million mt last March '20. All wheat incl. durum was at 16.2 million mt (18.8 million mt last year). Trade guesses for all wheat were in a wide range of 15.2-19.6 million mt, with the average at 16.7 million mt (18.8 million mt last year). – *Amazing what increased exports accomplish!*
- StatsCan also published the **March exports** by destination earlier last week. Wheat (excl. durum) exports at 1.9 million mt for March were excellent, for a year-to-date total of 13.8 million mt, 3.2 million mt more than last year! The biggest buyer has been China (2.1 million mt), followed by Indonesia (1.5 million mt), Peru (1.3 million mt), and Japan (1.1 million mt).
- **Canadian wheat exports** for week 39 amounted to an excellent 532,000 mt for the week, and 15.1 million mt year-to-date (+27% over last years). Again, if exports can stay above 460,000 mt per week, we will reach the '20/21 AAF export target for wheat (excl. durum) of 21.1 million mt.
- Milling wheat bids in Saskatchewan have strengthened with #1 CWRS 13.5 at above \$9.00/bu for May delivery and \$9.20 for June. Values for fall delivery are at ~\$8.50/bu for S/O.
- *We suggest making no additional sales prior to the USDA WASDE report on May 12th.*
- Durum seeding in Saskatchewan reached 15% as of May 3rd, and in Alberta 58% as of May 4th. Moisture conditions in the south are generally dry.

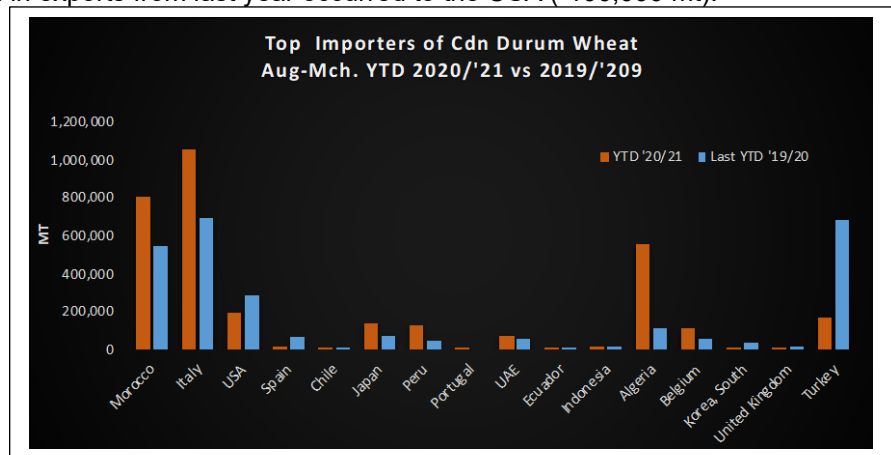


- The **StatsCan March 31st stocks report** on Friday showed durum stocks at 2.75 million mt compared to 3.3 million mt last March '20. 73% of the stocks are said to be on farm. Again, the reduction in stocks is the effect of having decent export volumes this crop year.



- **StatsCan exports by destination** for were listed at 687,000 mt for March, for a year-to-date total of 4 million mt, compared to 3.1 million mt last year. Italy has once again been our most important buyer at 1.1 million mt, followed by Morocco (803,000 mt) and Algeria (551,000 mt). A major reduction in exports from last year occurred to the USA (-100,000 mt).

- **Canadian durum exports** for week 39 amounted to 288,000 mt, for a year-to-date total of 4.9 million mt, 27% higher than last year-to-date.



- Annualizing year-to-date exports to the end of the crop year would give us 6.5 million mt, while AAFC is using only 5.6 million mt of exports for this year.

If 6 million mt of exports can be achieved, this would lower '20/21 ending stocks to ~460,000 mt.

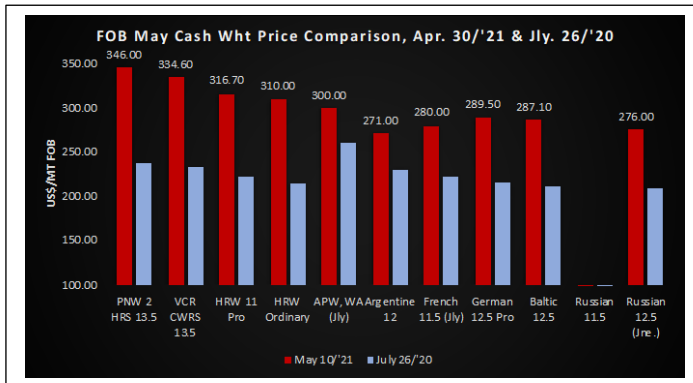
- Old crop durum in SK is fetching up to \$10/bu off the farm, phenomenal! We would be sold old crop at current values. New crop durum is still bid at \$8.25-\$8.50/bu FOB farm Saskatchewan; there is no rush to sell here.

Canadian Grain Exports (CGC numbers)	Wk. 39				
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains
Crop Year To date	8,851	19,957	2,265	821	41,418.7
Year Ago	7,526	15,698	1,984	762	31,556.6
Change this Cr. Yr. in MT	1,325	4,259	282	59	9,862
Change this Cr. Yr. in Percent	118%	127%	114%	108%	131%

US Wheat:

- SRW conditions are generally favorable. USDA reported U.S. winter wheat conditions improved last week. Winter wheat reported as good or excellent was 49%, 2% ahead of last week's rating as much needed rain occurred across the HRW producing region. USDA reported that the southern plains HRW crop was well over 60% headed as of May 2nd. U.S. spring wheat is 49% planted, well ahead of the 32% five-year average. Spring wheat emergence is 14%, 4 points ahead of the five-year average.
- Last week's U.S. wheat sales of 96,000 mt were down 57% from last week's 224,000 mt, but in line with trade expectations. Year-to-date sales for delivery in '20/21 total 25.5 million mt, 3% lower than last year. USDA expects total '20/21 U.S. wheat exports to reach 26.8 million mt, 2% higher than last year.

- Basically, weather concerns for both the US Plains and Canada persist (KC made a contract high close and Minneapolis. made contract highs for 5th straight session). There are reports of ND farmers switching out of wheat into corn, plus wheat needs to limit its use in the feed channels this summer and thus must keep pace with corn. So, for now, the market is not worried about the big premiums for US wheat on the export market compared with competing origins in the EU and Black Sea.
- The focus on next week's USDA report will be much more on corn and soybeans than wheat, but our interpretation of the wheat market has not changed: CBOT corn cannot break as long as Brazil remains in trouble, and that keeps a floor under US wheat.
- US HRS for June '21 is valued at \$346.00/mt FOB PNW (up \$19.00/mt from last week), PNW White wheat is valued at \$315/mt FOB PNW (up \$9.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$316.70/mt (up \$10.40/mt from last week).



Australian wheat:

- Australian wheat markets remain quiet with farmers concentrating on fieldwork, traders concentrating on logistics, and Asian importers still struggling with the size of the price hike.
- Australian new crop FOB APW wheat for June was quoted at \$300/mt, unchanged from the previous week.

Argentine wheat:

- Argentine FOB values continue to follow world markets higher, but domestic markets were mixed with nearby unchanged and new crop up \$3/mt.
- It is too early for any plantings data and the current frosts will not be long lived.
- FOB values for June 12% protein Argentine wheat ranged from \$267-275/mt, up ~\$2-5/mt from last week.

EU wheat:

- MATIF new crop in Europe rose to contract highs, but German/Baltic FOB premiums were m/l unchanged.
- Wheat premiums in Germany and the Baltic have remained unchanged during the recent rally, and that has served to largely eliminate the uneconomic discounts against Black Sea wheat.
- FOB prices in the EU: July French 11.5 pro closed at \$280.00/mt (new crop), up \$12.30/mt from last week. June German 12.5 pro was unchanged at to \$278.80/mt (up \$1.60/mt). Baltic 12.5 pro was unchanged on the week at \$276.30/mt (up \$1.50/mt).

Black Sea wheat:

- Black Sea cash values were again nominal and ill-defined with offers of August 12.5 pro wheat ranging from \$269 to \$278/mt, depending on the origin.
- Consumer/importer demand remains thin, partly due to Ramadan but also because they are struggling to come to terms with the massive price hike we have seen over the past short while.
- Russian 12.5 pro wheat for June remains at \$267/mt. Black Sea new crop wheat (July) is available at \$270/mt.

➤ **Significant purchases/ trades:**

There was not much to report here:

- Taiwan bought 89,000 mt of U.S. milling wheat in a range of different types for July-August shipment from the PNW.
- The Philippines bought around 60,000 mt of wheat a tender, likely from Australia, at \$315-320/mt for June-July.
- It seems that Thailand's 455,000 mt June-Dec wheat tender was a hoax aimed simply at finding where everyone's prices were.
- US export sales were negative 96,000t leaving the season total at 937 million bu against the USDA's 985 million bu with just one month of the season remaining.

➤ **Wheat Market Outlook:**

Significant events:

- Continued reports of dryness on the Canadian prairies and the tri-state area needs to be followed very closely. – The rains today (Monday) caused the markets to fall.
 - *There was a big rain system that stretched in a diagonal line from Alberta to Kentucky and in a width from Manitoba to Kansas. Rain was very badly needed in: AB, SK, MT, ND, SD, the rain did help in MN, IA, NE, KS, OK. It was not really needed, but welcomed in: IL, IN, OH.*
 - *AB, E MT, SW ND, and NC SD all got some rain, which left the bulk of SK and the E half of ND dry (and cold now).*
 - *The coming 7-day window has little chance for ND and SD, again, and more coverage for NE and the Corn Belt and down into KS..*
- The markets are looking towards the USDA/ WASDE reports on Wednesday. The real fireworks will likely be in corn and beans, but wheat will almost certainly see some significant spillover impact.
- Consumer/importer demand remains thin, partly due to Ramadan but also because they are struggling to come to terms with the massive price hike we have seen over the past short while.
- The USDA attaché in India cut their 2021/22 wheat production estimate from 107 to 105 MMT, down from 107.86 MMT in the 2020/21 season.

➤ **Outlook:**

We expect the USDA report will be viewed by the trade as much more about corn and beans than wheat, but both will affect the wheat outlook. In our view, CBOT corn cannot break while Brazilian corn is questionable. This keeps a floor under US corn/wheat futures while we see nothing to pressure European wheat prices, particularly when FOB wheat prices are lower than feed corn.

Our recommendation remains the same no new sales until we see the new WASDE report.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 10-05-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '21 (bu.)	Sept. '21 (mt)
1 CWRS 13.5	\$9.24	\$339.51	1 CWRS 13.5	\$8.79	\$322.98
1 CWAD 13.0	\$8.25	\$303.14	1 CWAD 13.0	\$7.79	\$286.24
1 CPSR 11.5	\$8.81	\$323.71	1 CPSR 11.5	\$8.11	\$297.99
SW Sask			SW Sask		
1 CWRS 13.5	\$9.05	\$332.53	1 CWRS 13.5	\$8.67	\$318.57
1 CWAD 13.0	\$8.27	\$303.87	1 CWAD 13.0	\$7.90	\$290.28
1 CPSR 11.5	\$8.71	\$320.04	1 CPSR 11.5	\$8.08	\$296.89
NE Sask			NE Sask		
1 CWRS 13.5	\$8.94	\$328.49	1 CWRS 13.5	\$8.54	\$313.79
1 CWAD 13.0	\$8.54	\$313.79	1 CWAD 13.0	\$7.84	\$288.07
1 CPSR 11.5	\$8.64	\$317.47	1 CPSR 11.5	\$7.94	\$291.75
SE Sask			SE Sask		
1 CWRS 13.5	\$8.88	\$326.29	1 CWRS 13.5	\$8.55	\$314.16
1 CWAD 13.0	\$8.44	\$310.12	1 CWAD 13.0	\$7.84	\$288.07
1 CPSR 11.5	\$8.45	\$310.49	1 CPSR 11.5	\$7.80	\$286.60

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 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

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.”

- 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				10-05-2021
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	\$384.46	\$363.13		
HRS	\$377.35			
HRW 11.5	\$368.91			
SWW 12.0	\$379.57			
1 CWRS 13.5³	\$384.46		\$314.90	\$69.57
2 CWRS 13.0³	\$377.35		\$302.04	\$75.32
3 CWRS³	\$368.91		\$298.73	\$70.18
CPS³	\$373.35		\$292.85	\$80.50
1 CWAD⁴		\$356.91	\$303.14	\$53.77
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$267.00	June		
French 11.5 (Rouen)	\$280.00	July		
ASW 10.5 (W Coast)	\$296.00	July		
Argentine 12.0	\$271.00	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				10-05-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$10.10	\$9.87	\$8.40	\$8.40
Parity Track Rosetown	\$8.60	\$8.37	\$8.66	\$8.66
Track Bid Rosetown Area	\$8.22	\$8.13	\$7.97	\$7.97
Gross Margin at Elevator (\$/bu)*	\$0.38	\$0.24	\$0.69	\$0.69
Gross Margin at Elevator (\$/mt)*	\$14.11	\$8.97	\$25.52	\$25.52
* to cover elevation, elevator market risk, margin				