

Wheat Market Outlook and Price Report: September 20, 2021

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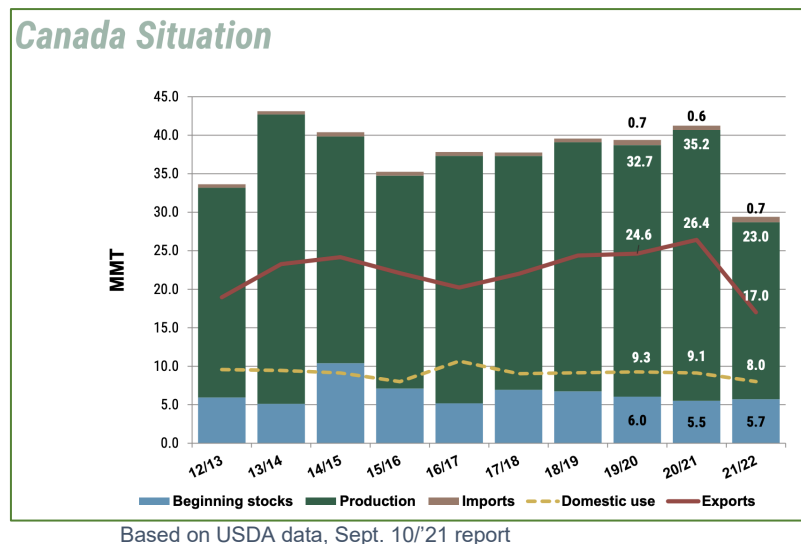
i) Background and Rationale for the Report

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 September 20, 2021

USDA - Canadian All Wheat Situation 2021/22:



- USDA last week estimated **2021/22 Canadian all wheat production** at 23.0 million mt, down 1.0 million mt (-4%) from last month. Wheat production is down 12.2 mmt (35 %) from last year, and 29% below the 5-year average.
- USDA lowered **Canadian wheat export projections for '21/22** from 17.5 million mt in August to 17 million mt in the Sept. report. *In '20/21 Canada exported 27.7 million mt!*
- **'21/22 Canadian wheat ending stocks** are projected at 4.4 million mt, compared to 5.7 million mt in '20/21 and 5.5 million mt in '19/20. *These would be the smallest Canadian wheat the 2008 wheat ending stocks of 4.37 million mt.*

➤ **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:**

Dec. '21 contract **Chicago winter wheat** closed at 706-6, down 4-2 cents on Friday, up 20-4 cents on the week.

Dec. '21 contract **Kansas hard red winter wheat** closed at 712-2, down 7-4 cents in Friday's trade, up 30-6 cents on the week.

Dec. '21 **Minneapolis hard red spring wheat** closed at 900-4, down 6-0 cents on Friday, up 23-2 cents on the week.

- All wheat futures were up last week. This Monday morning, weakness in the macro markets due to global economic concerns has all markets in a risk-off mindset.

CBOT Dec. 2021 Wheat (1 yr.)



KC Dec. '21 Wheat



Mpls. Dec. '21 Wheat



Canadian Wheat:

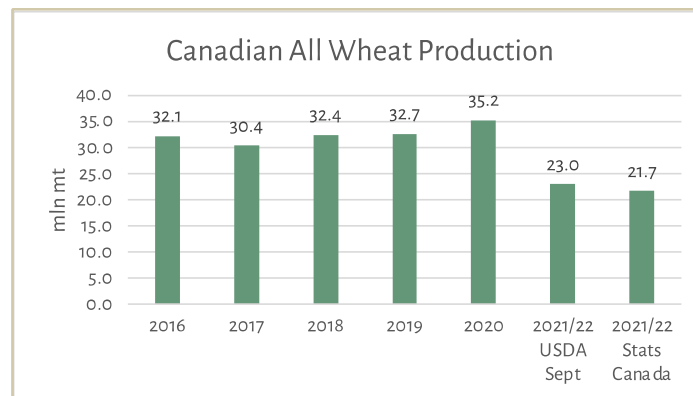
- Stats Canada put Canadian all wheat production down 1.2 million mt from last month at 21.7 million mt, (-38.3% from last year). Production by province:

-SK at 9.0 million mt (-43.6% y/y) with an average yield of 28.1 bpa.

-AB at 6.1 million mt (-44.6% y/y) with an average yield of 33.2 bpa.

-MB at 3.4 million mt (-35.0% y/y) with an average yield of 48.2 bpa.

-ON at 2.7 million mt (+8.9% y/y).



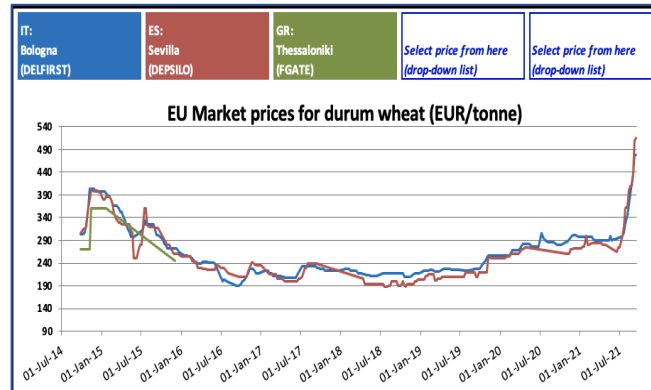
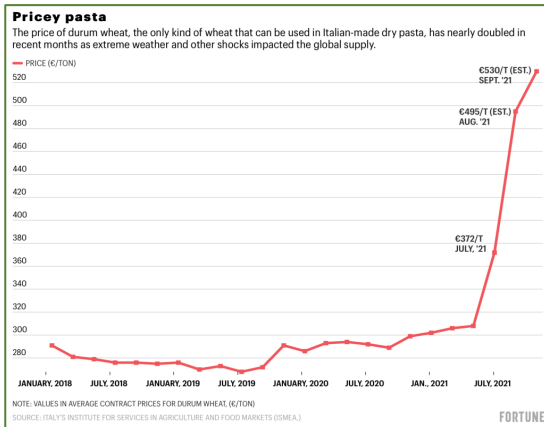
- Specifically, Canadian spring wheat production was decreased by 0.8 million mt from last month to 15.3 million mt, just 59% of last year's tonnage. SK spring wheat yield was put at 30.3 bu/acre compared to SK Ag's 27 bu/acre number.

- *Despite a decline in futures prices the week before last, cash bids have been rising. We expect spring wheat and durum to be tight this year and see no reason for farmers to sell right now.*
- **Shipping week 6** Canadian spring wheat exports were 218.5k mt for a season total of 1.75 million mt, 70% (-767.8k mt) of last year's amount.

(CGC) Grain Handling Summary Wheat	Week 6	(Sept 12/'21)	
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('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Wk. 6	385.6	332.4	218.5	78.2
Week ago	578.3	286.5	143.0	163.2
YTD	2,060.6	2,452.2	1,754.0	628.6
Last YTD	2,328.0	3,505.3	2,521.8	675.9
YTD less Last YTD	-267.4	-1,053.1	-767.8	-47.3
YTD over Last YTD	89%	70%	70%	93%

- **Durum:** Stats Canada put durum wheat production at 3.5 million mt, down 46% from last year. Stats Canada is estimating that yields in SK will be 24.4 bu/acre which is a large difference from SK Ag's 19 bu/acre number. As we said last week, should SK Ag be correct, this would translate into a 3 million mt crop. This number is likely too small, but durum supplies will be tight.
- Domestic cash bids for durum have been fading as domestic (Canadian & US) shorts have covered their earlier sales commitments. And while prices for durum in the EU are still rising/adjusting to the shortfall of durum production in N America, they are still below the levels paid in N America. Current SK bids of \$16/bu work into the Italian market at roughly US\$570/mt CIF. This price for durum in Italy of \$480/mt as reported by the EU Commission, and up to US\$530/mt reported in the market. - *We expect prices in import countries will eventually match those paid in N America last EU & Mexican supplies will not likely be enough to cover all needs. We do not think they are unlikely to exceed our earlier highs.*



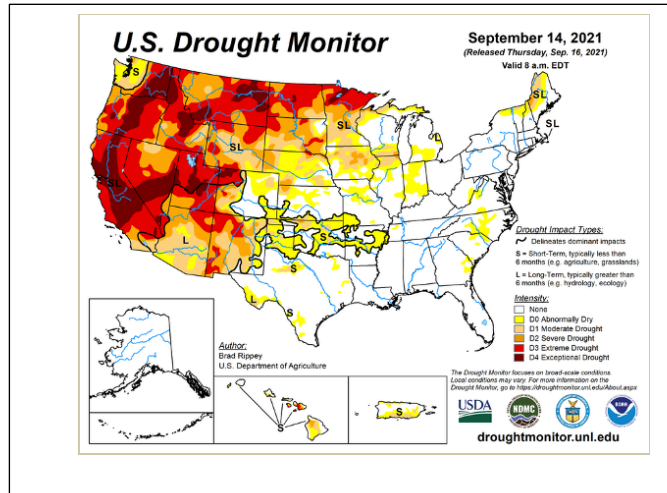
- Shipping week 6 durum exports were 63.3k mt for a season total of 475.6k mt, 28% (105.1k mt) ahead of last year. We expect that once shippers have finalized initial harvest period requirements, exports will slow and stay well below last year's levels.
- Domestic durum bids have backed off in the last couple of weeks, but international bids are rising. We are min. 70% sold and would not expand sales for now.

(CGC) Grain Handling Summary Durum	Week 6	(Sept 12/'21)	
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('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Wk. 6	114.5	71.1	63.3	2.3
Week ago	114.9	24.6	133.9	2.1
YTD	381.7	325.4	475.6	18.0
Last YTD	522.5	546.2	370.5	37.6
YTD less Last YTD	-140.8	-220.8	105.1	-19.6
YTD over Last YTD	73%	60%	128%	48%

US Wheat:

- US weekly sales were a marketing year high at 617.1k mt (22.7 million bu). The majority (328.9k mt) of the sales were to Nigeria. The US needs to export 12.1 million bu per week to hit the USDA's export number.
- The US wheat market is working hard to buy winter wheat acres. There is talk of a 3-5% increase in acres as high insurable prices will swing acres away from corn and soybeans. Soil moisture continues to be low in much of the winter wheat belt.
- Export facilities in the US Gulf are a mixed bag successful repairs and full-on failures. This seems to be causing more global issues than first thought and might drag on for some time.
- US HRS for Oct. '21 is valued at \$413.00/ mt FOB PNW (up \$3/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$345.80/mt (up \$20.70/mt from last week due to difficulties in the Gulf ports).



Australian wheat:

- Australia also had a few showers, but temperatures remain below normal, particularly in the east. The forecast for Australia looks predominantly dry for the rest of September, and although USDA's estimate of 31.5 million mt was seen as understated, the current export estimate of 22-23 million mt does not look to be at risk.
- Australian new crop FOB APW wheat for Dec. was quoted at \$320.00/mt, up \$20/mt from last week.

Argentine wheat:

- The forecast for Argentina shows some much-needed showers for the west and north, but week two looks entirely dry again and soil moisture will again be decreasing.
- FOB values for Oct. 12% protein Argentine wheat ranged from \$285-295/million mt, mostly unchanged from last week. The increase in global wheat prices have allowed Argentine wheat to be competitive with Australian wheat into the Southeast Asian markets.

EU wheat:

- Matif wheat spiked €7/mt to its highest intra-day close in a month. The spike was based on:
 - the negative French wheat quality report
 - according to FAM, only 32% of French wheat samples tested so far have made the 76 kg test weight. France will have very little milling wheat for export outside the EU.
 - the reduction in Canadian supplies,
 - reports that Russian harvested wheat acres could fall further due to higher spring wheat abandonment.
- It seems that French wheat sales to China have been negotiated down to a 75 kg test weight (normally 77 kg). There were also reports of China buying 72 kg French feed wheat. - French feed wheat is the world's cheapest wheat, although it remains well above corn values. If China were to buy volume French feed wheat, this would tighten the S & D significantly.
- FOB prices in the EU: Oct. French 11.5 pro closed at \$307.00/mt, up \$9.90/mt from last week. N/C Oct. German 12.5 pro wheat closed at \$314.50, up 12.20/mt. Oct. Baltic 12.5 pro wheat (N/C) was at \$312.70/mt, up \$12.70/mt.

Black Sea wheat:

- Harvest is now ~90% complete. The latest Russian yield estimates seem to indicate a smaller production in a range of 70-73.5 million mt based on harvested acres of 28 million ha, and a risk of higher abandonment of spring wheat acres.
- Farmers are planting their winter crops in dry soils.
- The Ukraine continues to push wheat out in nearby positions to make room for the corn harvest.
- Russian 12.5 pro wheat for Oct. is offered at ~\$310.00/mt, down \$4.00/mt from last week.

➤ **Significant purchases/ trades:**

- Cash offers are higher and we wait to see more tender results.
 - **China** reportedly bought French feed wheat,
 - **Jordan** passed on their wheat tender,
 - **Bangladesh** tendered for 50,000 mt of milling wheat,
 - **Korea** was in for 65,000 tonnes of feed wheat, Pakistan is on Monday for 500,000 tonnes milling wheat.
 - We expect an increase in tenders as consumers endeavor to increase coverage.
 - **US export sales** of 617,000 tonnes were at the high range of estimates.

➤ **Wheat Market Outlook:**

Significant events:

- **Stats Canada** put Canadian all wheat production down 1.2 million mt from last month at 21.7 million mt, (-38.3% from last year).
- Specifically, **Canadian spring wheat production** was decreased by 0.8 million mt from last month to 15.3 million mt, just 59% of last year's tonnage.
- Stats Canada put **durum wheat production** at 3.5 million mt, down 46% from last year.
- **Prices for durum** in the EU are still below the levels paid in N America but are still rising/ adjusting to the shortfall of durum production in N America.
- The US wheat market is working hard to buy **winter wheat acres**. There is talk of a 3-5% increase in acres as high insurable prices will swing acres away from corn and soybeans.
- Only 32% of **French wheat samples** tested so far have made the 76 kg test weight. France will have very little milling wheat for export outside the EU.
- It seems that **French wheat sales to China** have been negotiated down to a 75 kg test weight (normally 77 kg).
- The latest **Russian yield estimates** could indicate a smaller production in a range of 70-73.5 million mt.
- The **Ukraine** continues to push wheat out in nearby positions to make room for the corn harvest.

➤ **Outlook:**

We see higher prices develop as wheat supplies continue to contract. The USDA is overstated in their estimates of wheat supply and, in particular, of milling quality wheat where consumer coverage is limited.

We see no reason to sell more Canadian grain at this time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 20-09-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$10.69	\$392.79	1 CWRS 13.5	\$10.48	\$385.00
1 CWAD 13.0	\$16.88	\$620.24	1 CWAD 13.0	\$16.73	\$614.73
1 CPSR 11.5	\$9.66	\$354.95	1 CPSR 11.5	\$9.66	\$354.95
SW Sask			SW Sask		
1 CWRS 13.5	\$10.59	\$389.12	1 CWRS 13.5	\$10.67	\$392.06
1 CWAD 13.0	\$16.71	\$613.99	1 CWAD 13.0	\$16.78	\$616.56
1 CPSR 11.5	\$5.94	\$218.26	1 CPSR 11.5	\$9.54	
NE Sask			NE Sask		
1 CWRS 13.5	\$10.43	\$383.24	1 CWRS 13.5	\$10.53	\$386.91
1 CWAD 13.0	\$16.90	\$620.97	1 CWAD 13.0	\$17.02	\$625.38
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.37	\$381.04	1 CWRS 13.5	\$10.46	\$384.34
1 CWAD 13.0	\$16.76	\$615.83	1 CWAD 13.0	\$16.93	\$622.08
1 CPSR 11.5	\$9.49	\$348.70	1 CPSR 11.5	\$9.46	\$347.60

Data source: PDQ, Sept. 13/21

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

Data source: PDQ, Sept. 13/21

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

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.”

- 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 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				20-09-2021
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	\$491.49	\$762.92		
HRS	\$484.42			
HRW 11.5	\$411.38			
SWW 12.0	\$517.88			
1 CWRS 13.5³	\$491.49		\$391.32	\$100.17
2 CWRS 13.0³	\$484.42		\$383.97	\$100.45
3 CWRS³	\$411.38		\$363.77	\$47.62
CPS³	\$511.28		\$350.54	\$160.74
1 CWAD⁴		\$756.32	\$588.27	\$168.05
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$310.00	October		
French 11.5 (Rouen)	\$307.00	October		
ASW 10.5 (W Coast)	\$300.00	December		
Argentine 12.0	\$290.00	October		

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				20-09-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$13.00	\$11.02	\$10.85	\$10.85
Parity Track Rosetown	\$11.51	\$9.52	\$12.42	\$12.42
Track Bid Rosetown Area	\$10.45	\$9.90	\$9.54	\$9.54
Gross Margin at Elevator (\$/bu)*	\$1.06	-\$0.38	\$2.88	\$2.88
Gross Margin at Elevator (\$/mt)*	\$38.87	-\$13.97	\$105.76	\$105.76

* to cover elevation, elevator market risk, margin