

Wheat Market Outlook and Price Report: July 19, 2021

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

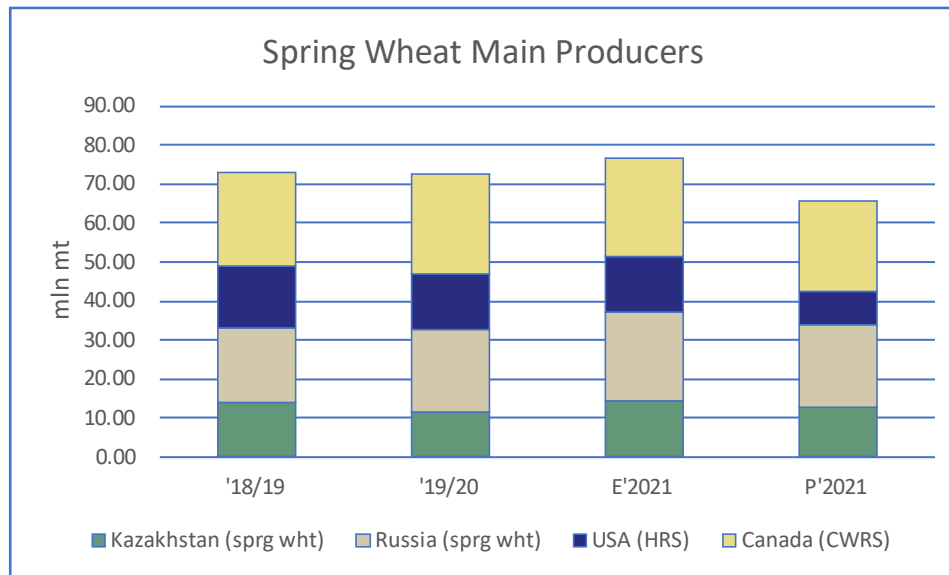
i) Background and Rationale for the Report

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 July 19, 2021

USDA/Mercantile Spring Wheat Production in Main Producing Countries:



- As reported last week, **USDA** lowered **global wheat production** by 2.0 million mt to 792.4 million mt (775.8 million mt last year). Total wheat supply was reduced to 1,082.6 million mt, still 7.6 million mt more than last year.
- While there will be lots of wheat available in the '21/22 season. Quality concerns in parts of Europe, and production shortfalls in North America will cause the **supply of quality wheat** to be small. USDA lowered **global spring wheat production** 0.5 million mt to 64.0 million mt (down 14% y/y) as reduced yields in the spring wheat regions of Central Russia and Kazakhstan offset increases in the EU and UK.
 - This revision in spring wheat does not nearly capture the decrease in yield that will be experienced in Canada and Kazakhstan. The USDA will need to lower spring wheat supply even more in their August report.

➤ **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: US wheat futures** were up sharply last week as dry hot weather continued to stress crops across the US Plains and PNW.
 - Last Friday, Sept. '21 contract Chicago winter wheat closed at 692-4, up 20 cents on Friday, up 77 cents on the week.
 - Sept '21 contract Kansas hard red winter wheat closed at 651-4, up 11 cents in Friday's trade, up 57 cents on the week.
 - Sept. '21 Minneapolis hard red spring wheat closed at 917-2, up 23 cents on Friday, up 103 cents on the week.

CBOT Sept. 2021 Wheat (1 yr.)



KC Sept. '21 Wheat

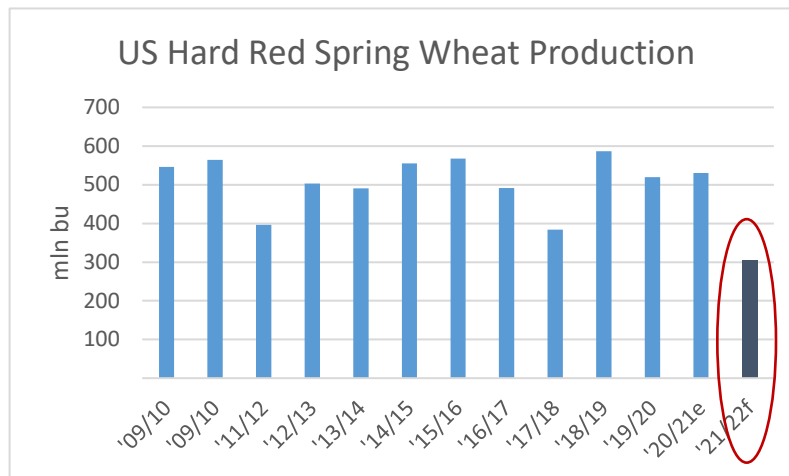


Mpls. Sept. '21 Wheat



Canadian Wheat:

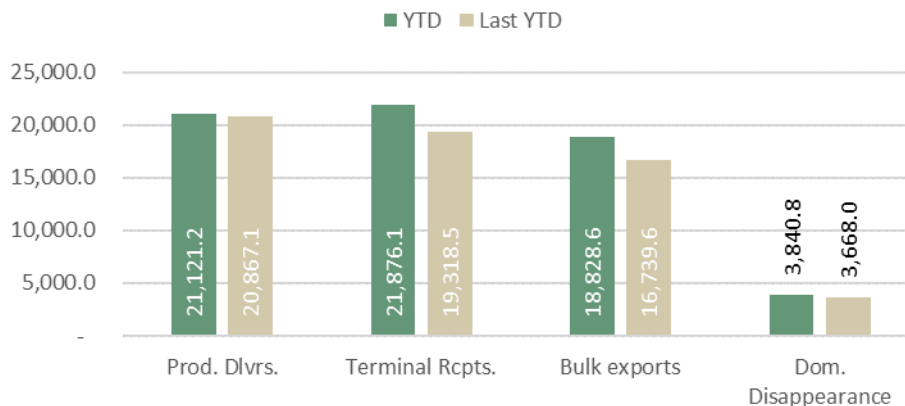
- **Cdn. Spring wheat conditions:** The SK crop is rated as 25% Gd/Ex as of July 12th having lost 33 points over the past two weeks. Thirty-seven percent of the crop is rated as poor to very poor. In AB, 39% of the crop is Gd/Ex, down 32% from two weeks ago.
- **US spring wheat conditions** fell another point to 16% Gd/Ex. Eighty-three percent of the crop has headed.
- Last week, **USDA lowered global spring wheat production** 0.5 million mt to 21 million on reduced yields with hot and dry conditions affecting the spring wheat region of Central Russia. Kazakhstan is lowered by 1.0 million mt to 13.0 million mt on similar unfavorable conditions.
 - **US spring wheat production** was put at 345 million bu, 41% less than last year. Average yields are expected to fall 17.9 bu/ac to 30.7 bu/ac – the lowest yield since 2002. Production is down in all major producing states, but the most significant shortfalls are in MT, ND, and SD where y/y production is expected to fall 49%, 42%, and 51% respectively.
 - USDA put **US HRS production** at 305 million bu (8.3 million mt), down 42% from last year.



- USDA expects **Canadian (all) wheat exports** to fall 18% from record '20/21 exports to 23 million mt in '21/22. Current high prices in Canada reflect the tight carry-in and the lower expected production.
- **Cdn. wheat exports** for week 49 were 166.9k mt. This makes for a season total of 18.83 million mt, 2.09 million mt (12%) more than last year.

| (CGC) Grain Handling Summary Wheat | | Wk. 49 | | (July 11/'21) |
|------------------------------------|--------------|-----------------|----------------|--------------------|
| ('000 mt) | Prod. Dlvs. | Terminal Rcpts. | Bulk exports | Dom. Disappearance |
| Wk. 49 | 374.4 | 208.9 | 166.9 | 84.6 |
| Week ago | 308.2 | 308.4 | 418.5 | 101.5 |
| YTD | 21,121.2 | 21,876.1 | 18,828.6 | 3,840.8 |
| Last YTD | 20,867.1 | 19,318.5 | 16,739.6 | 3,668.0 |
| YTD less Last YTD | 254.1 | 2,557.6 | 2,089.0 | 172.8 |
| YTD over Last YTD | 101% | 113% | 112% | 105% |

**Wheat Handling Summary:
YTD '20/21 vs Last YTD '19/20 (to Week 49)**

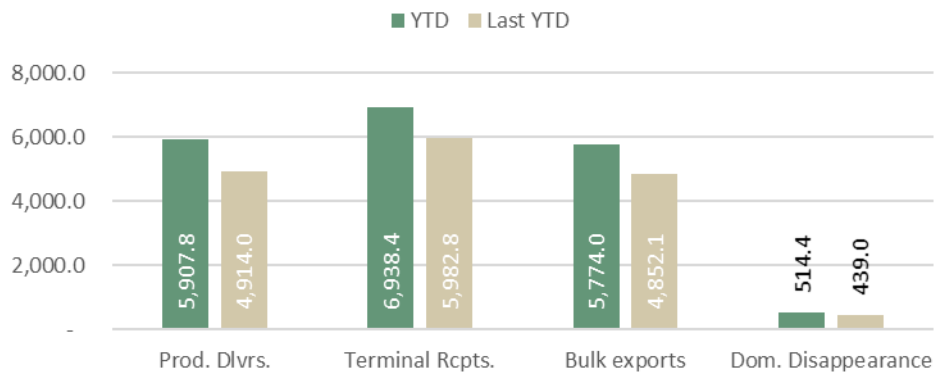


- *The world is not short of wheat overall, but the supply of quality wheat will be low. This problem is growing as the USDA spring wheat numbers do not fully address the issues in Canada, Russia, or Kazakhstan. They will need to make further revisions in upcoming reports. We continue to be optimistic about spring wheat prices.*
- **Durum: Durum conditions** in SK fell 33 points from two weeks ago. Now, just 12% of the crop is in “good” condition. In AB, the crop lost 15 points over the past two weeks and is now 33% Gd/Ex.
- **US durum conditions** worsened last week as ratings in ND and MT fell to 45% Gd/Ex (-2% wk/wk) and 30% Gd/Ex (-10% wk/wk) respectively. The ND crop is 69% headed while the MT crop is 48% headed.
- USDA put **US durum production** down to 37.2 million bu (1.0 million mt), down 46% from last year. Most of the decline in production is from ND and MT where yields are expected to fall from 39 bu/ac last year to 22 bu/ac this year. Average yields are expected to fall 15.6 bu/ac from last year to 25.8 bu/ac..
- **Cdn. Durum exports** for week 49 were 154.5k mt for a season total of 5.77 million mt, 19% (921k mt) more than last year. Durum exports will be down next year from low supply.

- *Small US stocks, low US acreage, and a struggling US crop will increase US durum imports. Meanwhile, the Canadian crop also is under extreme pressure. The combination of these have created very strong elevator bids.*

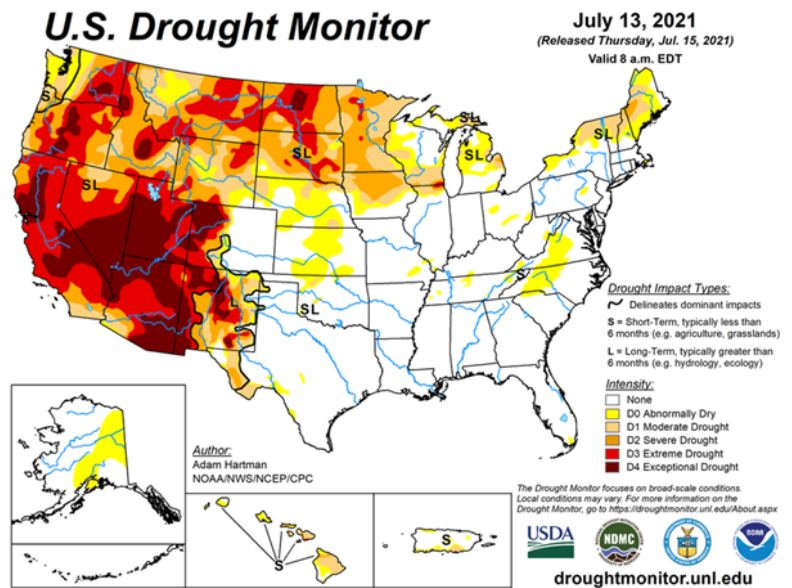
| (CGC) Grain Handling Summary Durum | | Wk. 49 | | (July 11/'21) |
|------------------------------------|--------------|-----------------|--------------|--------------------|
| ('000 mt) | Prod. Dlvs. | Terminal Rcpts. | Bulk exports | Dom. Disappearance |
| Wk. 49 | 120.9 | 110.8 | 154.5 | 9.9 |
| Week ago | 87.8 | 146.5 | 26.5 | 2.0 |
| YTD | 5,907.8 | 6,938.4 | 5,774.0 | 514.4 |
| Last YTD | 4,914.0 | 5,982.8 | 4,852.1 | 439.0 |
| YTD less Last YTD | 993.8 | 955.6 | 921.9 | 75.4 |
| YTD over Last YTD | 120% | 116% | 119% | 117% |

**Durum Handling Summary:
YTD '20/21 vs Last YTD '19/20 (to Week 49)**



US Wheat:

- **US wheat futures** were up sharply last week as dry hot weather continued to stress crops across the US Plains and PNW.
- As of July 12th, 59% of the **US winter wheat crop** had been harvested. Rain and humid conditions continue to slow progress. Quality has been strong, but protein levels are slightly below last year at 11.4%.
- Last week's **USDA report, '21/22 US wheat** showed reduced supplies, lower domestic use and exports, and decreased ending stocks. The US all wheat yield is 45.8 bushels per acre, down 4.9 bushels from last month. The production forecasts for durum and other spring wheat indicated a significant decline compared to last year for these two classes due to the severe drought conditions affecting the Northern Plains. Partially offsetting this decrease is higher winter wheat production.
- US spring wheat on the PNW is getting ever closer to \$400 against German/Baltic 13.5/14 pro at around \$265-275. We don't know yet how much damage was caused in Europe by this week's floods. *Still, nothing from a North American perspective suggests it is time for a lower market.*



Australian wheat:

- USDA put Aussie '21/22 wheat production at 28.5 mln mt, up 1.5 million or 6% from last month, but down 4.5 million mt or 14% from last year's record. Yield is forecast at 2.18 tons per hectare (t/ha), up 6% from last month, but down 14% from last year.
- The tightening supply situation for Canada and the United States contrasts with the more ample supply situation for Australia, a close competitor in Asian markets. Australia exports are forecast up 13% to 22.0 million mt.
- *Quality issues in the EU and Russia along with a small North American will make Asian mills heavily dependent on the Australian crop.*
- Australian new crop FOB APW wheat for Aug. was quoted at \$283.00/mt, down \$3.00/mt from last week.

Argentine wheat:

- According to Rosario Grains, Argentine wheat production in '21/22 is expected to be 20.5 million mt. This is the same as USDA's number. Last year the country produced 17.6 million mt. Wheat planting is 90% complete.
- FOB values for August 12% protein Argentine wheat ranged from \$275-285/million mt, unchanged from last week.

EU wheat:

- USDA estimated EU wheat production at 138.2 million mt, up 0.7 million from last month, 12.3 million mt more than last year. Yield is estimated at 5.78 tons per hectare, up slightly from last month, 6 percent more than last year.
- Stratégie Grains put their EU soft wheat production estimate at 133 million mt, 14.1 million mt more than last year.
- The French AgMin, is forecasting at y/y 27.1% increase in the French soft wheat crop at 37.1 million mt. Exports are expected to rise 40% from last year to 10.5 million mt.
- *Quality concerns are ongoing in Western Europe due to persistent rain and flooding.*

- FOB prices in the EU: Aug. French 11.5 pro closed at \$253.50/mt (new crop), up \$10.70/mt from last week. N/C Aug. German 12.5 pro wheat closed at \$253.40, up \$10.90/mt. August Baltic 12.5 pro wheat (N/C) was at \$247.50/mt, up \$11.70/mt.

Black Sea wheat:

- USDA has '21/22 Russian wheat production at 85.0 million mt, down 1 percent from last month and down slightly from last year's record.
 - 64.0 million mt of this is winter wheat and 21.0 million mt is spring wheat.
- USDA put '21/20 Ukrainian wheat production at 30.0 million metric tons, up 18 percent from last year, up 2 percent from last month. Yield is forecast at a record 4.18 tons per hectare, up 13 percent from last year.
- USDA's yield estimate for the Russian crop continues to be under question as harvest progresses across S Russia with disappointing yields.
- Russian 12.5 pro wheat for Aug. is quoted at ~\$240.00/mt, up \$3/mt from last week.

➤ Significant purchases/ trades:

Trade reports were thin last week. However, we expect Middle East markets to pick up their buying pace for European wheat as North American wheat gets more expensive.

- **China** surprised the market with a 134,000 mt purchase of SRW wheat.
- **US weekly commercial sales** were 424,700 mt for a season total of 7.1 million mt, 15% lower than last year, and in-line with USDA's projected 12% decline.

➤ Wheat Market Outlook:

Significant events:

- **Spring wheat and durum crops** across the Northern Plains and Canadian Prairies continue to face extreme heat with little/no rain. There continues to be an absence of rain in the forecast as well. Crop ratings indicate continuing deterioration of the crops.
- The **tightening supply situation for Canada and the United States** contrasts with the more ample supply situation for Australia, a close competitor in Asian markets. Australia exports are forecast up 13 percent to 22.0 million as a large crop is expected for the second year since emerging from a multi-year drought.
- **North Africa wheat consumption** is forecast to reach a record 47.8 million tons in 2021/22 as population growth continues to push food, seed, and industrial (FSI) use higher. Expanding **Egyptian imports** will be supplied by Russia and Ukraine. While France will take the majority of **Algerian demand**, poor quality and growing trade between France and China could allow Germany, Poland and Canada to capture some of the expanding Algerian demand.
- The **Chinese Stats Bureau** says the country harvested 2% more wheat y/y at 134 million mt. Rain may have impacted quality.
- Black Sea feed wheat is currently buyable at \$230/mt, \$15/mt less than Ukrainian new crop corn.
- **US spring wheat** on the PNW is getting ever closer to \$400 compared to German/Baltic 13.5/14 pro at around \$265-275/mt.
- We don't know yet how much damage was caused in **Europe** by this week's **floods**.

➤ Outlook:

In some areas of Canada, conditions are becoming close to critical. Yields in the USA are likely already below the last USDA forecasts of 179.5 for corn and 50.8 for soybeans and going lower if the dryness/heat continues. There is some harvest pressure selling from Europe, but not too much to pressure North



American values while growers are not sellers. Shorts of futures against cash purchases will start to get worried by defaults, particularly in South America. We may see some profit taking, but for the short term we see higher futures.

Nothing from a North American perspective suggests it is time for a lower market. We were surprised by China buying US wheat last week.

iii) Primary Elevator Price Tables and Grade Spreads

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

| NW Sask | Spot | | NW Sask | Deferred | |
|-------------|---------|----------|-------------|---------------|---------------|
| | (bu.) | (mt) | | Nov '21 (bu.) | Nov '21 (mt.) |
| 1 CWRS 13.5 | \$10.56 | \$388.02 | 1 CWRS 13.5 | \$10.21 | \$375.16 |
| 1 CWAD 13.0 | \$9.42 | \$346.13 | 1 CWAD 13.0 | \$9.18 | \$337.31 |
| 1 CPSR 11.5 | \$9.13 | \$335.47 | 1 CPSR 11.5 | \$8.50 | \$312.32 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$10.42 | \$382.87 | 1 CWRS 13.5 | \$10.09 | \$370.75 |
| 1 CWAD 13.0 | \$9.55 | \$350.91 | 1 CWAD 13.0 | \$9.27 | \$340.62 |
| 1 CPSR 11.5 | \$9.13 | \$335.47 | 1 CPSR 11.5 | \$8.53 | \$313.43 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$10.33 | \$379.57 | 1 CWRS 13.5 | \$9.94 | \$365.24 |
| 1 CWAD 13.0 | \$10.05 | \$369.28 | 1 CWAD 13.0 | \$9.94 | \$365.24 |
| 1 CPSR 11.5 | \$9.04 | \$332.17 | 1 CPSR 11.5 | \$8.45 | \$310.49 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$10.26 | \$376.99 | 1 CWRS 13.5 | \$9.99 | \$367.07 |
| 1 CWAD 13.0 | \$9.89 | \$363.40 | 1 CWAD 13.0 | \$9.82 | \$360.83 |
| 1 CPSR 11.5 | \$9.08 | \$333.64 | 1 CPSR 11.5 | \$8.53 | \$313.43 |

Table 2: Grade Spreads, in Canadian Dollars per Bu and per Million 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 | (0.35) | -12.86 |
| 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/mln mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mln 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 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/mln 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.
 - If premiums are paid for 1 CWRS 13.5, elevator companies are often able to retain the premium

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.”

- 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 | | | July 19, 2020 | |
|---|--|-----------------------|--------------------|--|
| 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 | \$477.60 | \$470.65 | | |
| HRS | \$474.80 | | | |
| HRW 11.5 | \$361.33 | | | |
| SWW 12.0 | \$400.24 | | | |
| 1 CWRS 13.5 ³ | \$477.60 | | \$390.22 | \$87.38 |
| 2 CWRS 13.0 ³ | \$474.80 | | \$377.36 | \$97.44 |
| 3 CWRS ³ | \$361.33 | | \$370.01 | -\$8.69 |
| CPS ³ | \$393.75 | | \$257.21 | \$136.54 |
| 1 CWAD ⁴ | | \$463.24 | \$404.18 | \$59.05 |
| Competing wheat: | | | | |
| | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$240.00 | | August | |
| French 11.5 (Rouen) | \$253.50 | | August | |
| APW 10.5 (W Coast) | \$285.00 | | August | |
| Argentine 12.5 | \$280.00 | | August | |
| 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 | | | | July 19, 2020 |
|--|----------------|-----------------|--------------------|----------------|
| Canadian Funds | | Grade | | |
| PNW value/Vancouver | 2CWRS | 3CWRS | Winter wht. | CPS |
| May/June delivery | \$12.75 | \$9.66 | \$10.72 | \$10.72 |
| Parity Track Rosetown | \$11.25 | \$8.16 | \$9.22 | \$9.22 |
| Track Bid Rosetown Area | \$10.27 | \$10.07 | \$7.00 | \$7.00 |
| Gross Margin at Elevator (\$/bu)* | \$0.98 | -\$1.91 | \$2.22 | \$2.22 |
| Gross Margin at Elevator (\$/mt)* | \$35.97 | -\$70.16 | \$81.56 | \$81.56 |

* to cover elevation, elevator market risk, margin