

Wheat Market Outlook and Price Report: November 22, 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 November 22, 2021

International Grains Council (IGC): November Global Wheat Estimate:

	18/19	19/20	20/21 est.	21/22 f'cast	21.10	18.11
million tons					21.10	18.11
WHEAT						
Production	732	761	773	781	777	777
Trade	168	185	191	194	196	196
Consumption	740	745	771	783	782	782
Carryover stocks	260	276	278	276	274	274
year/year change	-8	16	3			-4
Major exporters ^{b)}	69	63	60	54	53	53

b) Argentina, Australia, Canada, EU, Kazakhstan., Russia, Ukraine, USA

- The International Grains Council (IGC) lowered its forecast for the **2021/22 global wheat production** last Thursday, partly driven by a diminished outlook for the crop in Iran.
- Specifically, the IGC) reduced their '**21/22 world wheat production estimate** by 4 million mt to 777 million mt in November from 781 million mt in October.
 - You may recall that the IGC May production estimate was at 790 million mt, 13 million mt higher than last week's estimate.
- **Wheat trade** was increased by 2 million mt from last month to 196 million mt.

- **Wheat consumption** was lowered by 1 million mt to 782 million mt, which still is 5 million mt higher than the production estimate.
- **Ending stocks for '21/22** were estimated at 274 million mt, 2 million mt less than estimated a month ago and 4 million mt less than last years. Ending stocks for the major exporters decreased by 1 million mt from last month to 53 million mt (7 million mt less than last years).

Recent Developments in Wheat Demand:

The trade notes that there is a lot of tender action on the global wheat export markets, and elevated prices do not seem to have caused any demand rationing so far.

➤ **Global wheat production and trade:**

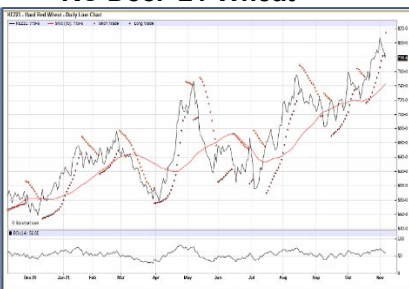
There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- **Futures:**
Dec. '21 contract Chicago winter wheat closed at 823-0, up 3-0 cents on Friday, *up 6-0 cents on the week.*
Dec. '21 contract Kansas hard red winter wheat closed at 834-6, up 7-4 cents in Friday's trade, *up 1-6 cents on the week.*
Dec. '21 Minneapolis hard red spring wheat closed at 1010-2, down 6-4 cents on Friday, *down 39-6 cents on the week.*
- This Monday morning, all wheat futures are up again significantly, with Minneapolis currently up 16 cents. *December Matif in Europe also climbed another €10/mt today (~C\$14.28/mt; Monday) due to more big volume buying of the March contract.*

CBOT Dec. 2021 Wheat (1 yr.)



KC Dec. '21 Wheat



Mpls. Dec. '21 Wheat



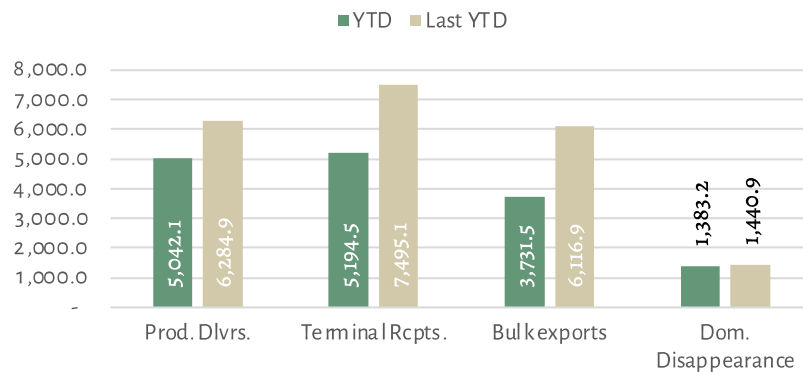
Canadian Wheat:

- The flooding in BC has washed out the infrastructure (roads and rail lines) that Canada relies on for exports to Asian markets. Exports from the Pacific coast account for one third of Canada's GDP. The wheat market is susceptible to shipping delays as we will still export a large portion of the commodity compared to other crops like canola, which will also be supported by domestic crush. The railroads seem optimistic that the disruptions will be temporary. CN says they are working "around the clock" to restore the track.
- The impact so far is as follows: Railways did not deliver empty cars to country elevators and crushing plants. Many producers have been requested to stop delivering, although the will of the producer and of the receiving locations are of the opposite mind. However, if the empties are not getting delivered for loading, this will quickly disrupt the flow of commodities.

- We note that the main/ most important wheat export season starts in January, when exports from the Black Sea and Europe should slow down. - *Hopefully the railroads are correct in their most recent estimate that states traffic will resume mid-week.*
- The Deputy Minister Agriculture and Agri-Food Canada (AAFC) forecasted at a conference in Geneva that the Canadian wheat area will be 6% higher than last year. Average yields would raise output to 22 million mt. [We doubt this will happen.] The statement received a lot of notoriety at the conference.
- In shipping week 15, Canadian spring wheat exports were 309.4k mt for a season total of 3.732 million mt. This is just 61% (-2.384 million mt) of last year's export number. Visible supplies rose to 2.713 million mt. Of this, 187.4k mt is sitting in Vancouver and 42.0k mt is sitting in Prince Rupert. The stocks in Western ports will provide some cushion to the rail delays.



Wheat Handling Summary:
YTD '21/22 vs Last YTD '20/21 (to Week 15)

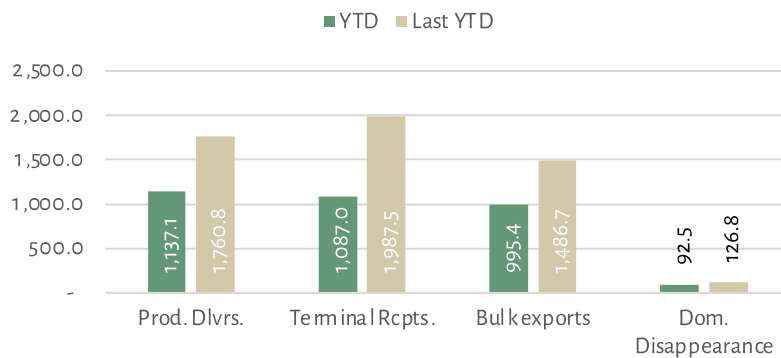


- **Durum:** Durum bids in Canada weakened over the week which was partly due to shipping disruptions. US durum levels have come up to Canadian levels and are now trending sideways. This should help put a floor on durum prices despite the shipping delays. Prices in Italy and Spain have been trending sideways for the past three weeks at CA\$775/mt and CA\$771/mt respectively.
- The Deputy Minister Agriculture and Agri-Food Canada is forecasting that Canadian durum area would be 10% higher than last year. Given average yields this would translate to a 5.5 million mt crop. [We doubt this will happen, but again, the statement received a lot of notoriety at the conference.]
- Week 15 exports were again small 66.9k mt for a season total of 995.4k mt. This is 67% (-491.3k mt) of last year's amount. Total visible supplies are 719.5k mt, but just 40.9k mt of this is sitting in West Coast ports. The small stocks in Vancouver will make durum more immediately impacted by rail delays. However, there are 328k mt of durum sitting in eastern ports, and these are not

affected by rail slowdowns. Year-to-date, Canada has relied on the Vancouver port to export 40% of all Canadian durum exports.

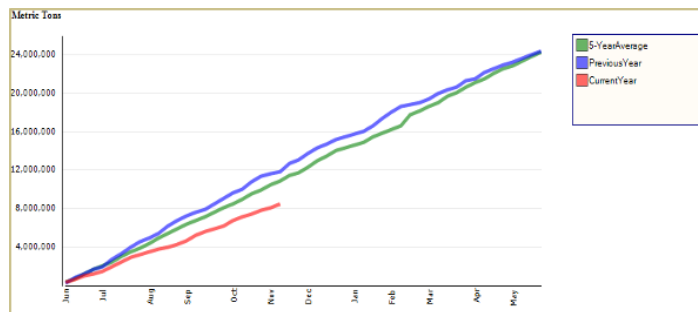
- Durum production in Kazakhstan is estimated at just 360,000 mt, 180,000 mt less than last year. The small durum crop will prevent them from exporting any significant volumes.

**Durum Handling Summary:
YTD '21/22 vs Last YTD '20/21 (to Week 15)**



US Wheat:

- Wheat was mixed last week. Rail disruptions in the West were negative for spring wheat, while strong demand and Russian government intervention was positive for winter wheat.
- US winter wheat planting is 94% complete, in-line with average. 46 percent of the crop is in Gd/Ex condition which is the same as last year. There was good rainfall in the eastern part of the High Plains while the western Plains stayed dry. Drought expanded in Oklahoma and Texas. Heavy rains alleviated drought in the PNW.



Source: USDA-FAS

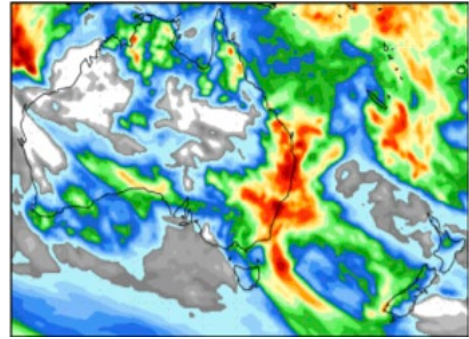
- US weekly wheat sales for the week ending Nov 11th were within expectations at 399,100 mt. This made for a season total of 503 million bushels, down 21% from last year. This is the lowest mid-November volume on record. Average wheat sales to reach the USDA's 860 million bushel projection must reach 11.1 million bushels per week through to the end of May. This is roughly the same as last year's pace during that timeframe.

- US HRS for Dec. '21 is valued at \$438.00/ mt FOB PNW (down \$19/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$362.80/mt (up \$1.60/mt from last week).

Australian wheat:

- Aussie wheat futures have jumped to a second day of new contract highs as rain persists across the east and south of the country.
- We will continue to watch the forecasts in Australia, harvest is progressing, but the forecast continues to have rain for the next two weeks. Protein levels in the West (WA) are very low while the Eastern regions are not offering until harvest is done.
- Australian new crop FOB APW wheat for Dec.'22 was quoted at \$355.00/mt, unchanged from last week.

Australian Weather forecast:
Precipitation Nov. 18-Nov. 26



Argentine wheat:

- BAGE's in Argentina updated crop ratings to 59% Gd/Exc. compared to 50% last week and just 17% last year. Harvest is 18% complete vs 20% last year and 19% on average. The weather forecast is looking favorable.
- Fob prices are little changed, and the GM issue seems to have gone off the radar for now.
- Fob values for Dec. 12% protein Argentine wheat ranged from \$303-308/million mt, up \$3/mt from last week.

EU wheat:

- Matif wheat in Europe rose €5.50/mt to new all-time highs early in the session. This was helped by reports of additional sales of French wheat to China. Note the direct link to Matif wheat is not clear as China reportedly bought 72kg feed wheat.
- With no access to Egypt and to Algeria due to their inferior quality this year, France will need additional demand in the second half of the campaign, but the quality issues will remain a handicap, and this will continue to support dollar priced world wheat values.
- Fob prices in the EU: Dec. French 11.5 pro closed at \$348.30/mt, up \$2.8/mt from last week. Dec. German 12.5 pro wheat closed at \$349.80, up \$8.60/mt. Dec. Baltic 12.5 pro wheat was at \$346.30/mt, up \$7.40/mt.

Black Sea wheat:

- Black Sea Fob prices continue to rally with the nominal monthly carry now at \$5-7/mt, as the market tries to build in protection against the tax rises.
- March futures traded to new highs of \$366/mt, which implies a tax of \$116/mt, against the current \$77/mt.
- Russian farmers are still not selling.
- Russian Dec. 12.5 pro wheat is valued at ~\$342.00/mt, up \$2/mt from last week.

➤ **Significant purchases/ trades:**

- The final volume of the **Algerian purchase** is said to amount to 750,000 mt of wheat, with reports of freight fixings suggesting the Russian share was very much more than the 250,000 mt originally suggested.
- **Jordan** is expected to return on the Nov 25th for 120,000 mt of wheat for Mar-May;
- **Turkey** (TMO) will tender Thursday for 385,000 mt of wheat for Jan. 10-31 shipment.

- US markets will be closed on Nov 25.
- **USA weekly export sales** at 399,000 mt were within expectations and left the season total of 503 million bushels down 20% on last year's 633 million bushels.

➤ **Wheat Market Outlook:**

Significant events:

- Wheat was mixed last week. **Rail disruptions** in the Canadian West were negative for spring wheat, while strong demand and **Russian government intervention** was positive for winter wheat.
- The International Grains Council (IGC) lowered its forecast for the **2021/22 global wheat production** last Thursday by 4 million mt to 777 million.
- The Deputy Minister Agriculture and Agri-Food Canada (AAFC) forecasted at a conference in Geneva that the **2022 Canadian wheat area** will be 6% higher than last year and the durum area will be 10% higher.
 - We think this statement at a major conference is premature.
- The **flooding in BC** has washed out the infrastructure (roads and rail lines) that Canada relies on for exports to Asian markets. We will be watching carefully how long it will take to make the most urgent repairs top rail lines. - CN says they are working "around the clock" to restore the track.
- **Rain has persisted in Australia**, and Australian wheat futures have jumped to new contract highs. The forecast maintains wet into December as La Nina continues to build into the second strongest ever. There are also reports about the lack of protein in W Australia.
 - Today there is 'unconfirmed talk' about 6-8 million mt of feed wheat in NSW alone, from a total crop of 11 million mt. If true, those importers who had been hoping for price relief from the S Hemisphere wheat harvest may not see that relief and may well have to bite the bullet at higher prices.
- There were reports of **additional French wheat sales to China**. Note the sales reportedly were for 72kg feed wheat.
- **Black Sea Fob prices** continue to rally with the nominal monthly carry now at \$5-7/mt, as the market tries to build in protection against the tax rises.

Outlook:

We don't expect the markets to do much as it is a short week in the USA. Markets may be slightly lower and trade in a narrow range. Last week US wheat began higher but ended lower. But over time, North American exports will need to increase as other origins cannot continue their current export pace. This will improve North American exports and values.

Given the short week and a good number of tenders this week, we see no need to be aggressive sellers.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 22-11-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb. '22 (bu.)	Feb. '22 (mt)
1 CWRS 13.5	\$12.28	\$451.22	1 CWRS 13.5	\$12.38	\$454.89
1 CWAD 13.0	\$19.77	\$726.43	1 CWAD 13.0	\$20.11	\$738.92
1 CPSR 11.5	\$11.12	\$408.59	1 CPSR 11.5	\$11.17	\$410.43
SW Sask			SW Sask		
1 CWRS 13.5	\$12.09	\$444.23	1 CWRS 13.5	\$12.23	\$449.38
1 CWAD 13.0	\$19.89	\$730.84	1 CWAD 13.0	\$20.20	\$742.23
1 CPSR 11.5	\$10.89	\$400.14	1 CPSR 11.5	\$11.07	\$406.76
NE Sask			NE Sask		
1 CWRS 13.5	\$12.05	\$442.77	1 CWRS 13.5	\$12.11	\$444.97
1 CWAD 13.0	\$20.26	\$744.43	1 CWAD 13.0	\$20.44	\$751.05
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$11.93	\$438.36	1 CWRS 13.5	\$12.01	\$441.30
1 CWAD 13.0	\$20.29	\$745.54	1 CWAD 13.0	\$20.51	\$753.62
1 CPSR 11.5	\$11.13	\$408.96	1 CPSR 11.5	\$11.21	\$411.90

Data source: PDQ, Nov. 22/'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	(0.10)	(3.67)
1 CWRS 12.5	(0.02)	(0.85)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.5	(0.09)	(3.31)
2 CWAD 12.5	(0.11)	(4.04)

Data source: PDQ, Nov. 22/'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

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.”

- HRS in the Pacific North West (PNW) \approx 2 CWRS 13.0% in Vancouver
- 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 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				22-11-2021
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	\$539.28	\$863.49		
HRS	\$529.01			
HRW 11.5	\$487.96			
SWW 12.0	\$519.68			
1 CWRS 13.5³	\$539.28		\$443.87	\$95.41
2 CWRS 13.0³	\$529.01		\$438.72	\$90.29
3 CWRS³	\$487.96		\$431.74	\$56.22
CPS³	\$513.15		\$415.57	\$97.58
1 CWAD⁴		\$856.96	\$716.88	\$140.09
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$342.00	December		
French 11.5 (Rouen)	\$348.30	December		
ASW 10.5 (W Coast)	\$340.00	December		
Argentine 12.0	\$305.00	December		

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