

Wheat Market Outlook and Price Report: November 29, 2021
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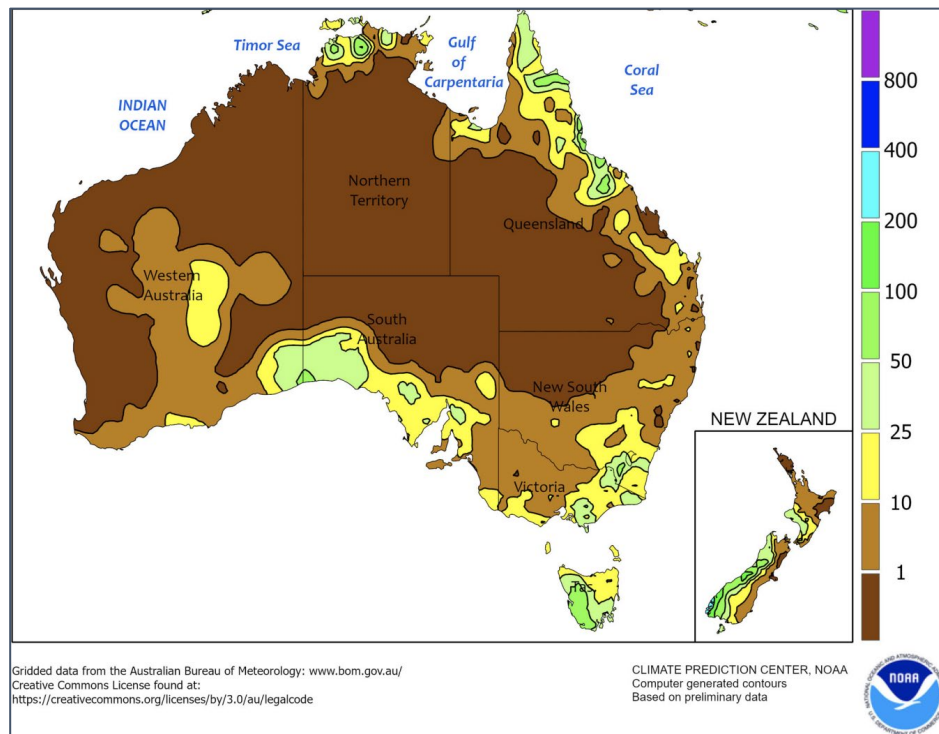
i) Background and Rationale for the Report

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 29, 2021

Australia – Precipitation Nov. 14-20/21:



- In the wake of last week's heavy rain, drier weather overspread a large portion of the eastern wheat belt in Australia. Mostly sunny skies in southern Queensland, northern New South

Wales, and northern Victoria helped dry mature winter grains and oilseeds and allowed harvesting to regain momentum.

- Elsewhere in the wheat belt, pockets of rain (10-25 mm) in southern New South Wales and South Australia continued to disrupt winter crop harvesting and likely caused further reductions in crop quality.
- In contrast, dry weather covered most of Western Australia, favoring wheat, barley, and canola dry-down and harvesting.
- Cooler-than-normal weather prevailed throughout the wheat belt.

Recent Developments in Wheat Demand:

The wheat fundamentals of world wheat have not changed: Supplies by major exporters are declining, while consumers remain under covered, and there are still seven months of the season to cover.

We note that outside markets were all heavily down late last week as the outbreak of a new Covid -19 strain called omicron was widely reported. It remains to be seen what effect this new strain will have on demand and the movement of goods.

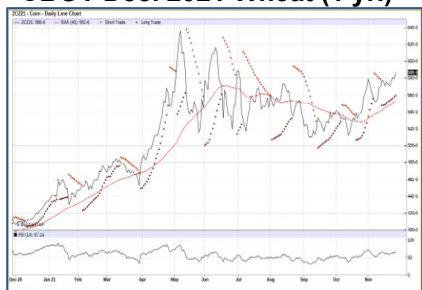
➤ **Global wheat production and trade:**

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 825-4, down 11-2 cents on Friday, *up 5-4 cents on the week.*
- Dec. '21 contract Kansas hard red winter wheat closed at 865-0, down 8-2 cents in Friday’s trade, *up 37-6 cents on the week.*
- Dec. '21 Minneapolis hard red spring wheat closed at 1039-4, up 2-6 cents on Friday, *up 22-6 cents on the week.*
- This Monday morning, all wheat futures are down significantly (6-17c/bu) as the markets try to assess the significance and implications of omicron!

CBOT Dec. 2021 Wheat (1 yr.)



KC Dec. '21 Wheat



Mpls. Dec. '21 Wheat



Canadian Wheat:

- **Rail movement west:** Railcars are moving again through the Rocky Mountains following the historic storm mid-November. CPR opened their track to movement as of 2 p.m. on Nov. 23rd and reports indicate that CNR started a very limited movement on Nov. 24th. Trains have passed over the repaired CP track, but with the speed reduced to 10 m/hr. If we consider CRP more or less open, this means the South Shore terminals can receive rail cars. (South Shore: Alliance Terminal (P&H, Paterson, Global Foods, NW Terminal), Cascadia (Viterra, JRI), Pacific Elevators

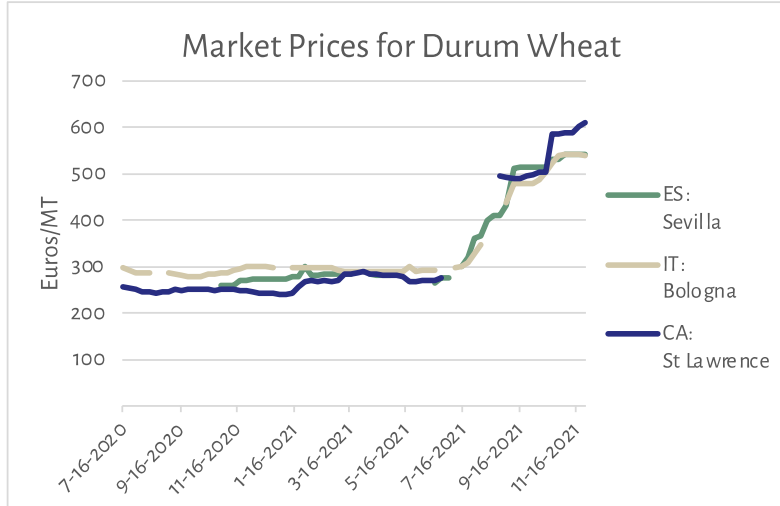
(Viterra)). And we worry if the new rains over the weekend and the big precipitation expected tomorrow (Tuesday) will cause additional damage. The North shore is serviced by CN and will likely see very little of the renewed rail movement. (North Shore: Cargill, JRI, G3 and Neptune terminals (which is where our potash and coal is exported)).

- Wheat prices continued to rise over the week. Very tight stocks make weather concerns in Australia very important. European wheat futures prices also made an all-time high in the December contract at 313.50 Euros on Wednesday. Wheat followed the other commodities lower on Friday from pressure over concerns about the new COVID variant (omicron).
- In shipping week 16, Canadian spring wheat exports were 190.9k mt for a season total of 3.922 million mt. This is just 61% (-681.6 million mt) of last year's export number. Visible supplies rose slightly to 2.76 million mt. Visible stocks continue to be large versus other years. For comparison, visible supplies in week 16 of last year (when total supply was 30% larger) was 2.22 million mt. Stocks in Vancouver fell to 75.2k mt over the week, while stocks in Prince Rupert rose to 124.6k mt.

(CGC) Grain Handling Summary Wheat	Week 16	(Nov. 21/'21)		
	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
('000 mt)				
Week 16	288.3	199.3	190.9	52.3
Week ago	274.6	339.2	309.4	63.2
YTD	5,330.2	5,453.1	3,922.5	1,435.9
Last YTD	6,700.5	7,799.8	6,448.9	1,510.4
YTD less Last YTD	-1,370.3	-2,346.7	-2,526.4	-74.5
YTD over Last YTD	80%	70%	61%	95%

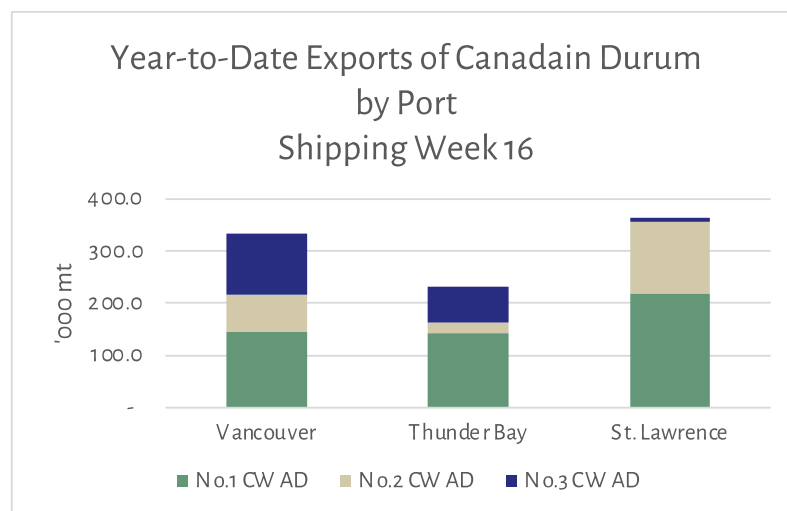
- Harvest results in Australia continue to show lower than expected protein levels. This will be important as high-protein wheat is short and Australia was supposed to re-supply the increasingly tight milling wheat situation.
- *Prairie wheat values continue to be strong, and the outlook remains largely unchanged. Rail disruptions will put pressure on SK basis levels for now and we think long term impacts can be avoided unless there are further disruptions to the rail movement west. The Australian crop, although large, may not have the quality that buyers are counting on.*
- **Durum:** Global durum prices were mixed last week. After trending sideways for 3 weeks, price in Italy fell 5 Euros/mt to 538 Euros/mt. Bids in the St. Lawrence rose 8 Euros/mt to 609 Euros/mt (~C\$875/mt), while prices in Spain were unchanged at 540 Euros/mt.

Durum Wheat Price Comparison for Canada, Italy, and Spain



- Morocco has resumed buying durum. - After buying essentially nothing in June and July, the country imported near-normal volumes of durum in August and July. Morocco was a strong buyer last year due to an extremely poor domestic crop. The 2021 crop has rebounded to 2017 levels, but Morocco will still need to import some supplies. Morocco has imported 202k mt of Canadian durum year-to-date this marketing year, up 24% from last YTD.
- Week 16 Canadian exports were 50.7k mt for a season total of 1 million mt. This is 61% (-682k mt) of last year's volume. Total visible supplies rose to 733.8k mt. Stocks on the west coast fell to just 37.7k mt, but there are 322.7k mt sitting in eastern ports ready for export to Europe/ N Africa. *To date, 64% of all 2021/22 Canadian durum shipments have been exported from eastern ports.*

Marketing Year 2021/22 Canadian Durum Exports by Port



- Nearby old crop durum will be under pressure while the movement west is restricted. Strong US values will put a floor on prices. In the meantime, eastern movement will be even more dominant. New crop bids may warrant a look.

(CGC) Grain Handling Summary Durum	Week 16	(Nov. 21/'21)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 16	57.7	77.7	50.7	31.2
Week ago	70.2	59.7	66.9	5.7
YTD	1,194.8	1,195.3	1,046.1	123.7
Last YTD	1,944.4	2,187.5	1,727.7	138.2
YTD less Last YTD	-749.6	-992.2	-681.6	-14.5
YTD over Last YTD	61%	55%	61%	90%

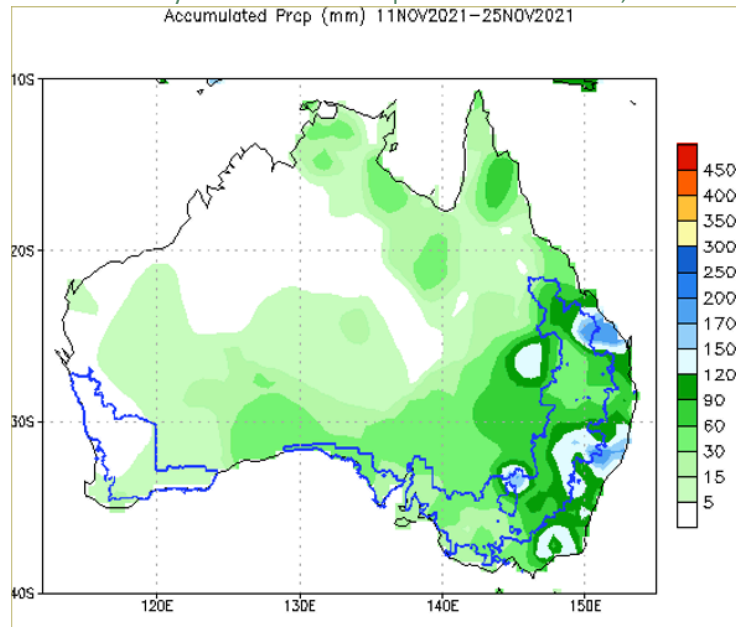
US Wheat:

- US winter wheat planting is 94% complete. Crop conditions fell 2% from last week to 44% Gd/Ex, 1% higher than last year. Conditions deteriorated in the PNW and across the Midwest into the Rust Belt.
- US weekly wheat sales for the week ending Nov. 18 were a 6-week high at 567,500 mt, up 70% from the prior 4-week average. Total commitments are now 523 million bushels, down 21% from last year vs the USDA's expected 12% decline. Average sales need to be 10.8 million bushels (294k mt) to reach the USDA's projection. Average sales over the same period last year were 10.3 million bushels (280k mt).
- US HRS for Dec. '21 is valued at \$440.00/ mt FOB PNW (up \$2/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$375.00/mt (up \$9.20/mt from last week). – Remember, the UD had a short week.

Australian wheat:

- Harvest results in Australia continue to show lower than expected protein levels. This will be important as high-protein wheat is short and Australia was supposed to re-supply the increasingly tight milling wheat situation. Harvest in the Australian west is progressing well, and yields are surpassing expectations. In the east however, harvest has been sporadic as rain continues to stall harvest and cause quality concerns. With the percentage of feed wheat on the rise, the APW-ASW spread increased to AU\$100.
- There are still another 3-5" of rain in the forecast through the end of next week, and it will be some time before the market can fully assess the extent of losses/damage to crops.

Australia 15-Day Accumulated Precipitation: Nov. 11 - 25, 2021



Source: National Weather Service

- *The November rainfall in NSW is 300-400% of normal and La Nina is expected to last until February. The APW-ASW quality spreads are now at all-time highs causing additional problems for world milling supplies.*
- Nevertheless, ABARES said today they expect the wheat to reach an amazing 34.4 million mt, which would be a new record over the one made last year. Abares does cite the recent rains and the quality damage being done.
- Australian new crop FOB APW wheat for Dec.'22 was quoted at \$365.00/mt, up \$10/mt from last week.

Argentine wheat:

- Harvest weather remains generally favourable and BAGE raised their crop estimate by 500k mt to 20.3 million mt.
- Fob values for Dec. 12% protein Argentine wheat ranged from \$310-317/million mt, up \$7/mt from last week.

EU wheat:

- Matif rose to record highs due to the Australian rains, the ongoing rapid speed of EU exports, and a 17-month low in the Euro.
- We note that at around a \$305/mt Fob equivalent, Matif Sept. wheat looks historically cheap compared to Black Sea wheat at \$320/mt.
- Fob prices in the EU: Dec. French 11.5 pro closed at \$350.20/mt, up \$1.90/mt from last week. Dec. German 12.5 pro wheat closed at \$357.30, up \$7.50/mt. Dec. Baltic 12.5 pro wheat was at \$355.60/mt, up \$9.30/mt.

Black Sea wheat:

- Russia's Minister of Economic Development said last Friday that the volume and validity period of Russian export quotas would now be announced in December. (The announcement was previously expected in January with effect on Feb 15th.) He said: "*The quota should secure the domestic market and leave a sufficient amount of grain in the domestic market while maintaining a balance with exports*". It is unclear what exactly this means, but there is a risk that the quota will be smaller than previously expected and put into effect earlier, to put additional pressure on Russian farmers to sell their wheat.
- The Russian export tax will exceed \$80/mt next week.
- Russian domestic wheat and flour prices remain at near record highs, and the above may be a final attempt to incite Russian farmers to sell their wheat to beat the quota.
- Russian Dec. 12.5 pro wheat is valued at ~\$350.00/mt, up \$8/mt from last week.

➤ **Significant purchases/ trades:**

- Egypt (GASC) issued an international wheat tender.
- Jordan passed on their 120k mt wheat tender.
- Turkey bought 385,000 mt of 12.5 and 13.5 pro wheat with the former around \$30 higher than what they paid in October.
- The Philippines bought around 100k tonnes of feed wheat in an international tender this week, likely from Australia and priced in the \$340 -350/tonne C&F range for February-March shipment.
- S Korea passed at its feed wheat tender where the lowest offer was \$356/mt
- US weekly wheat sales for the week ending Nov. 18 were a 6-week high at 567,500 mt.

➤ **Wheat Market Outlook:**

Significant events:

- **Outside markets** were all heavily down late last week as the outbreak of a new Covid -19 strain called **omicron** was widely reported. It remains to be seen what effect this new strain will have on demand and the movement of goods.
- **Harvest results in Australia** continue to show lower than expected protein levels. This will be important as high-protein wheat is short and Australia was supposed to re-supply the increasingly tight milling wheat situation.
- Surprisingly, **ABARES** in Australia did say today they expect the wheat to reach an amazing 34.4 million mt, which would be a new record over the one made last year. Abares did cite the recent rains and the quality damage being done.
- In Canada, **railcars** are moving again -albeit slowly- through the Rocky Mountains following the historic storm in mid-November. It remains to be seen if the additional rains over the weekend and next Tuesday will cause additional damage to rail lines/ lead to longer disruptions with permanent damage to the export program.
- **Argentina:** Harvest weather remains generally favourable and BAGE raised their crop estimate by 500k mt to 20.3 million mt.
- **Matif wheat in Europe** rose to record highs due to the Australian rains, the ongoing rapid speed of EU exports, and a 17-month low in the Euro.
- **Russian domestic wheat and flour prices** remain at near record highs, and volume & validity period of the Russian export quota is now said to be announced in December. This may be a final attempt to incite Russian farmers to sell their wheat to beat the quota.

Outlook:

The prime focus of the wheat market remains on Eastern Australia, where harvest is sporadic at best due to excessive rains. Field operations in Western Australia are reported to be running more normally in generally dry conditions, with yields above expectations. Quality wheat for milling is becoming in short supply and consumers remain short their longer-term coverage. We remain positive on Canadian quality cash wheat and Minneapolis and Kansas futures.

We see no need to be aggressive sellers of cash wheat 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: 29-11-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Feb. '22 (bu.)	Feb. '22 (mt)
1 CWRS 13.5	\$12.84	\$471.79	1 CWRS 13.5	\$12.95	\$475.83
1 CWAD 13.0	\$19.59	\$719.81	1 CWAD 13.0	\$19.92	\$731.94
1 CPSR 11.5	\$11.90	\$437.25	1 CPSR 11.5	\$11.93	\$438.36
SW Sask			SW Sask		
1 CWRS 13.5	\$12.68	\$465.91	1 CWRS 13.5	\$12.82	\$471.06
1 CWAD 13.0	\$19.63	\$721.28	1 CWAD 13.0	\$19.94	\$732.68
1 CPSR 11.5	\$11.63	\$427.33	1 CPSR 11.5	\$11.85	\$435.42
NE Sask			NE Sask		
1 CWRS 13.5	\$12.55	\$461.14	1 CWRS 13.5	\$12.65	\$464.81
1 CWAD 13.0	\$19.92	\$731.94	1 CWAD 13.0	\$20.11	\$738.92
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$12.49	\$458.93	1 CWRS 13.5	\$12.60	\$462.97
1 CWAD 13.0	\$20.01	\$735.25	1 CWAD 13.0	\$20.25	\$744.07
1 CPSR 11.5	\$11.82	\$434.31	1 CPSR 11.5	\$11.90	\$437.25

Data source: PDQ, Nov. 29/'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. 29/21

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)
 - 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

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.”

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				29-11-2021
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	\$546.16	\$868.51		
HRS	\$536.78			
HRW 11.5	\$484.70			
SWW 12.0	\$522.70			
1 CWRS 13.5³	\$546.16		\$469.22	\$76.94
2 CWRS 13.0³	\$536.78		\$463.71	\$73.07
3 CWRS³	\$484.70		\$456.36	\$28.34
CPS³	\$516.13		\$431.01	\$85.13
1 CWAD⁴		\$861.94	\$716.88	\$145.07
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$350.00	December		
French 11.5 (Rouen)	\$350.20	December		
APW 10.5 (W Coast)	\$365.00	December		
Argentina 12.0	\$312.50	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