

## Wheat Market Outlook and Price Report: April 12, 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 April 12, 2021

#### AMIS<sup>1</sup> April Global Wheat Supply and Demand Overview:

Wheat	FAO-AMIS			USDA		IGC	
	2019/20	2020/21		2019/20	2020/21	2019/20	2020/21
	est	4 Mar	8 Apr	est	9 Mar	est	25 Mar
Prod	760.6	774.0	774.3	763.9	776.8	762.0	774.2
Supply	627.0	639.8	640.0	630.3	642.5	628.4	639.9
Utiliz.	1,032.2	1,050.9	1,050.6	1,047.2	1,077.1	1,021.6	1,052.6
Trade	783.3	788.9	788.6	773.8	791.1	769.3	787.6
Stocks	750.6	754.5	763.0	746.9	775.9	743.1	760.3
	623.9	623.6	622.1	620.9	630.9	615.1	624.3
	184.3	186.6	188.0	191.4	195.6	184.1	189.7
	177.6	177.6	178.0	186.0	185.1	177.4	179.5
	276.3	292.0	284.0	300.3	301.2	278.4	292.3
	148.6	152.7	153.1	148.6	150.8	147.5	154.1

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.

- The **global wheat 2020 production** estimate remains a record, 1.8 percent higher than in 2019, largely driven by bumper crops in Australia and India coupled with a sharp rise in production in the Russian Federation.

<sup>1</sup> 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.

- **Global wheat utilization in 2020/21** lifted sharply, mostly reflecting higher feed use of wheat in China.
- **Global wheat trade in 2020/21** (July/June) is now pointing to a 2 percent expansion from 2019/20 following this month's upward revision on bigger purchases by China and Nigeria.
- **Global wheat stocks (ending in 2021)** are still up sharply from the previous season although trimmed by 8 million tonnes this month on a lower-than-earlier anticipated buildup of inventories in China.

**Global wheat conditions (based on AMIS<sup>2</sup> report):**

**EU:** Conditions are favourable for winter wheat across most of Europe as warm weather in early March led to a restart of growth and development after winter dormancy.

**UK:** Conditions are favourable as a break in rainfall has allowed a return to fieldwork.

**Ukraine,** conditions are generally favourable albeit with a slightly delayed start to regrowth due to recent cool weather.

**Russian Federation:** Recent rainfall has eased dry conditions for winter wheat. However, the Southern and North Caucasus regions are under watch due to remaining drier than-average conditions.

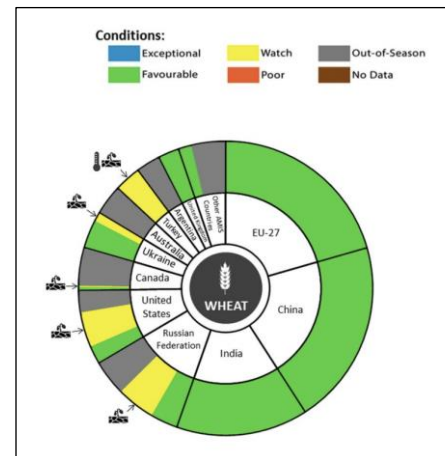
**Turkey:** Conditions remain under watch as rainfall deficits continue, potentially affecting crop growth and irrigation reservoir levels.

**China:** Conditions are generally favourable for winter wheat as crop growth resumes in the north. Spring wheat sowing has begun under favourable conditions.

**India:** Conditions are favourable as the crop moves towards the maturity stage. There is an increase in total sown area compared to last year and longer-term average.

**US:** Winter wheat remains under watch conditions due to continuing dryness throughout the Great Plains, however, total sown area is estimated to have increased compared to last year.

**Canada:** Conditions are favourable in the main producing province of Ontario, while dry conditions remain 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:** May '21 contract Chicago winter wheat closed at 638-6, up 10 cents on Friday, *up 27-6 cents on the week.*  
May '21 contract Kansas hard red winter wheat closed at 586-4, up 10 cents in Friday's trade, *up 21-4 cents on the week.*  
May '21 Minneapolis hard red spring wheat closed at 654-0, up 13-6 cents on Friday, and *up 54-6 cents on the week.*
- **Futures market summary:** Continued dryness on the Plains, Dakotas and Canada plus a sale to China provided the impetus to the wheat market, and the rally in corn provided further support as wheat cannot afford to buy too much feed demand. Grains are all trading unchanged to lower this

<sup>2</sup> The analysis is a collective assessment of the market situation and outlook by the ten international organizations and entities that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Group, WFP, WTO, GLAM.

Monday morning. The weaker tone is fueled by improved moisture conditions over North Dakota and the corn belt, and lower Chinese prices.

**CBOT May 2021 Wheat (1 yr.)**



**KC May '21 Wheat**



**Mpls. May '21 Wheat**



Canadian Grain Exports (CGC numbers)		Wk. 35			
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains
<b>Crop Year To date</b>	8,190	17,381	2,114	711	<b>36,871.6</b>
<b>Year Ago</b>	6,590	13,794	1,690	674	<b>27,993.0</b>
<b>Change this Cr.Yr. in MT</b>	<b>1,600</b>	<b>3,587</b>	<b>424</b>	<b>38</b>	<b>8,879</b>
<b>Change this Cr. Yr. in Percent</b>	<b>124%</b>	<b>126%</b>	<b>125%</b>	<b>106%</b>	<b>132%</b>

**Canadian Wheat:**

- As mentioned, dryness in the Dakotas and Canada and the Chinese sales provided direct support to Minneapolis wheat, with the rally in corn also providing additional support as wheat cannot afford to buy too much feed demand.
- Traders will have to wait for the July USDA report for the new crop wheat S&D breakdown by class, but in a season where HRW and HRS crop conditions are less than ideal, and China seems to be showing increased interest for wheat, ending stocks for these two classes look potentially tight, especially if Canada remains dry.
- Canadian wheat exports** in week 35 remained quite good at 336,000 mt. The season total is 13.3 million mt, 2.9 million mt (+26%) higher than last year to date.

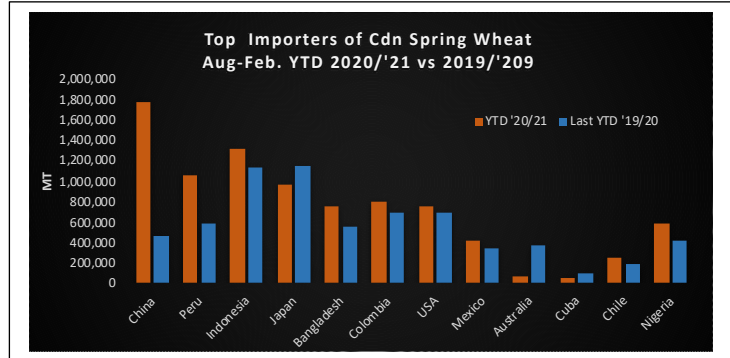
	2020/2021	Previous Month	2019/2020
Hard Red Winter	411	383	506
Soft Red Winter	94	99	105
White Wheat	64	64	95
Hard Red Spring	255	258	280
Durum	27	32	42
<b>Total</b>	<b>852</b>	<b>836</b>	<b>1,028</b>

('000 mt)	Wheat		Wk. 35 (Apr. 4/'21)	
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
<b>Wk. 35</b>	<b>293.5</b>	<b>354.4</b>	<b>335.7</b>	<b>74.8</b>
Week ago	362.3	396.4	386.0	55.2
<b>YTD</b>	<b>15,072.4</b>	<b>14,986.5</b>	<b>13,257.0</b>	<b>2,698.4</b>
Last YTD	14,488.5	11,987.9	10,516.0	2,751.7
<b>YTD less Last YTD</b>	<b>583.9</b>	<b>2,998.6</b>	<b>2,741.0</b>	<b>-53.3</b>
<b>YTD over Last YTD</b>	<b>104%</b>	<b>125%</b>	<b>126%</b>	<b>98%</b>

Mercantile based on weekly CGC Handling Data

- The StatsCan **February exports by destination** showed that Canada shipped just under 1.2 million mt during the month, substantially less than we shipped during January (2 million mt)! However, year-to-date exports at 11.95 million mt are still 30% ahead of last years.

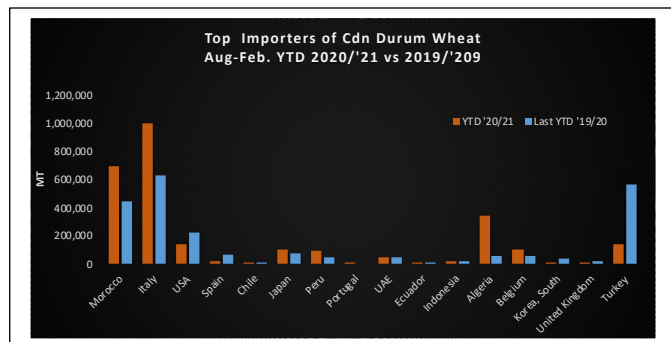
Bangladesh, Japan, Peru and Colombia were the biggest destinations for the month with 147,000 mt, 143,000 mt, 142,000 mt and 139,000 mt, respectively. China, Indonesia and Peru have been the most important destinations year-to-date.



- Soil moisture maps and weather forecasts put a real focus on the EU, Black Sea, US and Canada, with no room for yield losses this summer. *We think that O/C wheat needs to be sold. We would suggest no additional N/C sales at this time.*

- Durum:** We talked about a tightening US balance sheet last week, and the USDA report showed US durum ending stocks shrinking from 32 million bu to 27 million bu. We will have to watch how many durum acres get planted in the US, but their balance sheet looks to be tightening further in the new crop year.

- Canadian durum exports** for week 35 at 71,000 mt were small. We are still showing a year-to-date total of 4.1 million mt, 26% higher than last year-to-date. Annualizing year-to-date exports to the end of the crop year yields 6.2 million mt, while most are using 5.6-5.8 million mt of exports. If 5.8 million mt can be achieved, this would lower '20/21 ending stocks to ~660,000 mt. We expect next year's Canadian durum acres to increase by ~5%.



- February durum exports amounted to quite a good 476,000 mt, with major sales to Algeria (176,000 mt for Feb.) and to Italy (141,000 mt). Year-to-date durum sales add to 3.3 million mt compared to 2.6 million mt last year-to-date.

- Old crop durum in SK is trading at \$8.60-9.00/bu delivered. We would be sold ~ 70% of the crop at that. New crop durum is still bid at \$8.25-\$8.50/bu FOB farm SK; there is no rush to here.

### US Wheat:

- USDA/ WASDE report:** US wheat ending stocks were increased to 852 million bu (from 836 million bu last month). But the single big change in wheat was a 5 million mt increase in feed wheat demand by China. (There is some speculation that this move is ment to help solve the USDA corn problem with China.) At the same time, USDA lowered EU feed wheat usage by 1 million mt.
- US export sales** were below expectations at just 82,000 tonnes, leaving the season total at 925 myn bushels against the USDA's annual 985 myn bushels. New crop sales, however, were a sizeable 530,000 tonnes, and of the total, China bought 390,000 tonnes (130,000 tonnes of SRW, 65,000 tonnes of HRW, 195,000 tonnes of white wheat), giving food for thought for China's '21/22 import needs.
- US wheat futures were helped by the Chinese buying and the continued dryness in the Plains, Dakotas and Canada. It was noted that the China's wheat purchases were at close to feed grain values, which puts a minimum value to wheat compared to corn.

- US HRS for April '21 is valued at \$288/mt FOB PNW (up \$8.00/mt from last week), PNW White wheat is valued at \$278/mt FOB PNW (unchanged from last week), FOB Gulf HRW 11/12.5 pro is valued at \$259.60/mt (up \$1.00/mt from last week).

**Australian wheat:**

- E Australia is dry, while WA still has showers in the forecast.
- Australian new crop FOB APW wheat values for May was offered at \$270/mt, unchanged from the previous week.

**Argentine wheat:**

- Central Argentina again had good rains in the prime wheat areas.
- USDA raised the current Argentine wheat crop to 17.7 million mt, but farmer sales of 11.7 million mt remain way below last year's 17 million mt, as they continue to store wheat as a currency hedge.
- FOB values for April 12% protein wheat ranged from \$245-250/mt, unchanged from last week.

**EU wheat:**

- Matif wheat fell to 2021 lows early due to big volume aggressive Black Sea offers to Egypt (GASC), and due to the distorting effect of Russia's floating tax on the old crop June position. However, Matif wheat it ended the week higher on US gains, dryness across Europe and on reports that China was also back looking for new crop French wheat.
- The USDA raised EU exports a nominal 500,000t.
- April FOB prices in the EU: French 11.5 pro closed at \$262.00/mt, up \$0.70/mt from last week. German 12.5 pro was down by \$0.40/mt to \$259.60/mt. Baltic 12.5 pro increased by \$0.10/mt on the week to \$259.20/mt.

**Black Sea wheat:**

- The USDA raised Russian wheat exports by 500,000 mt, despite the fact that the tax structure will virtually eliminate any Russian sales for April or May.
- Russian new crop wheat ended the week firmer with bids at \$235/mt following the midweek sale to Egypt at \$230/mt, which is \$30 below corn values.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 295,000 mt of Russian wheat and 55,000 mt of Ukrainian wheat as cheap as \$232.90/mt and up to \$234/mt FOB for August shipment.
- **Japan's** Ag Ministry was seeking 91,000 tonnes of milling wheat in their regular weekly tender, including 66,000 from the U.S. and 25,000 from Canada.
- **Algeria** reportedly bought 30-50,000t wheat at around \$280/mt C&F.
- **Tunisia** bought 3 x 25,000t 15 May-25 June at \$259.82-\$262.42/mt.
- **Thailand** again made no purchase in a tender for up to 504,000 tonnes of feed wheat for shipment from May through December.
- **US export sales** were below expectations at just 82,000 tonnes, leaving the season total at 925 myn bushels against the USDA's annual 985 myn bushels. New crop sales, however, were a sizeable 530,000 tonnes, and of the total, China bought 390,000 tonnes (130,000 tonnes of SRW, 65,000 tonnes of HRW, 195,000 tonnes of white wheat), giving food for thought for China's '21/22 import needs.



➤ **Wheat Market Outlook:**

**Significant events:**

- **China's wheat purchases** were at close to feed grain values, which puts a minimum value to wheat compared to corn.
- **HRW is buying feed demand**, and along with corn and soybeans.
- **HRS wheat** will have to join in the fight to buy additional acres.
- **Soil moisture maps** and weather forecasts put a focus on the EU, Black Sea, US and Canada, with no room for yield losses this summer.

➤ **Outlook:**

There was little fresh to report in the latest WASDE report. We think the USDA is optimistic in their carry in and too high on their wheat acreage estimate to be planted this spring.

In the short-term wheat takes its direction from corn, while weather will be watched closely.

***We recommend cleaning out old stock grains and no new crop sales for the time being.***

**iii) Primary Elevator Price Tables and Grade Spreads**

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

Date: 12-04-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '21 (bu.)	Sept. '21 (mt)
1 CWRS 13.5	\$8.04	\$295.42	1 CWRS 13.5	7.44	\$273.38
1 CWAD 13.0	\$8.46	\$310.85	1 CWAD 13.0	7.56	\$277.78
1 CPSR 11.5	\$7.36	\$270.44	1 CPSR 11.5	\$6.52	\$239.57
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$7.82	\$287.34	1 CWRS 13.5	7.29	\$267.86
1 CWAD 13.0	\$8.43	\$309.75	1 CWAD 13.0	7.65	\$281.09
1 CPSR 11.5	\$7.29	\$267.86	1 CPSR 11.5	\$6.49	\$238.47
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$7.80	\$286.60	1 CWRS 13.5	7.21	\$264.92
1 CWAD 13.0	\$8.33	\$306.08	1 CWAD 13.0	7.60	\$279.25
1 CPSR 11.5	\$7.19	\$264.19	1 CPSR 11.5	6.33	\$232.59
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$7.66	\$281.46	1 CWRS 13.5	7.17	\$263.45
1 CWAD 13.0	\$8.35	\$306.81	1 CWAD 13.0	7.65	\$281.09
1 CPSR 11.5	\$7.04	\$258.68	1 CPSR 11.5	\$6.19	\$227.45

**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 Basis<sup>3</sup> (see *Export Basis*

<sup>3</sup> 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.”

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
  - 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				12-04-2021
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$348.82	\$376.47		
HRS	\$341.45			
HRW 11.5	\$329.01			
SWW 12.0	\$322.10			
1 CWRS 13.5 <sup>3</sup>	\$348.82		\$286.60	\$62.22
2 CWRS 13.0 <sup>3</sup>	\$341.45		\$284.77	\$56.69
3 CWRS <sup>3</sup>	\$329.01		\$281.09	\$47.92
CPS <sup>3</sup>	\$315.65		\$250.59	\$65.05
1 CWAD <sup>4</sup>		\$370.02	\$321.51	\$48.51
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$235.00	May		
French 11.5 (Rouen)	\$262.00	April		
ASW 10.5 (W Coast)	\$266.00	May		
Argentine 12.0	\$247.50	May		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB

## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities				12-04-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.12	\$8.78	\$6.85	\$6.85
Parity Track Rosetown	\$7.62	\$7.28	\$7.09	\$7.09
Track Bid Rosetown Area	<b>\$7.75</b>	<b>\$7.65</b>	<b>\$6.82</b>	<b>\$6.82</b>
Gross Margin at Elevator (\$/bu)*	-\$0.13	-\$0.37	\$0.27	\$0.27
Gross Margin at Elevator (\$/mt)*	-\$4.75	-\$13.52	\$10.07	\$10.07

\* to cover elevation, elevator market risk, margin