

Wheat Market Outlook and Price Report: August 23, 2021

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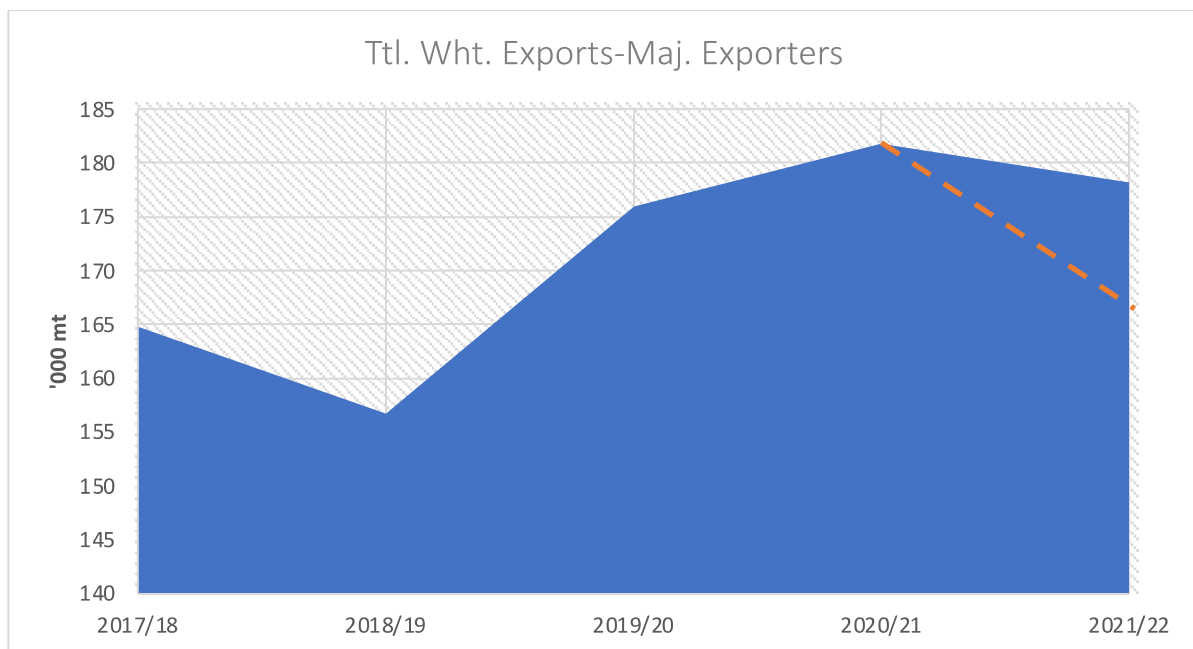
i) Background and Rationale for the Report

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 August 23, 2021

Wheat export projections for 2021/22:



- The graph (blue area) represents the current USDA-WASDE ideas about wheat export volumes by the major exporters. (Argentina, Australia, Canada, EU, Kazakhstan, Russia, Ukraine, USA). USDA expects wheat exports to be down by 2% to 178.2 million mt from 181.1 million mt in '20/21.
- Private analysts think that the USDA numbers for are too high, especially for Canada (due drought) and the EU (due quality problems.) They calculate that exports could be down an additional 12 million mt. – See dotted red line. If correct and combined with increased demand over the past 5 years, this would give further significant support to global wheat markets.

➤ **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:**

Sept. '21 contract **Chicago winter wheat** closed at 714-2, down 13-2 cents on Friday, down 18 cents on the week.

Sept '21 contract **Kansas hard red winter wheat** closed at 702-0, down 13-4 cents on Friday, down 40-2 cents on the week.

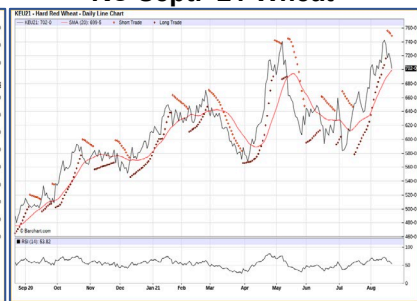
Sept. '21 **Minneapolis hard red spring wheat** closed at 918-4, up 1-4 cents on Friday, down 25.8 cents on the week.

- The US dollar broke solidly though the March highs back to the level of November last year. This, along with a sizeable sell-off in corn and soybeans, took US wheat futures lower on Thursday and again on Friday.
- Wheat futures are back up 3-6 cents/bu this Monday morning.

CBOT Sept. 2021 Wheat (1 yr.)



KC Sept. '21 Wheat



Mpls. Sept. '21 Wheat



Canadian Wheat:

- SK spring wheat was 13% harvested and 4% were in swath as of Aug. 16th. In the US, harvest progressed more rapidly, with in South Dakota 80% harvested per USDA, Montana 54%, Minnesota 92% and North Dakota 48% harvested. USDA currently estimates HRS production at 8.3 million mt, a 42% decrease from last year. US HRS conditions reflect the ongoing drought with only 11% of the remaining crop in good to excellent condition. There is rain forecasted through the weekend, which though welcome, is expected to delay harvest progress. In Russia and Kazakhstan, spring wheat continues to be hit by heat and dryness, so their outlook has not improved. - And looking forward, Northern Hemisphere soil moisture levels are low ahead of winter plantings, and competition among crops for acreage will be high.
- *The milling wheat market is firm with bids around \$10.50/bu. - We expect the wheat market to remain strong with the price gap with other origins continuing to narrow towards N American values.*
- Statistics Canada's crop update is due in one week, with private sources expecting figures well below the USDA's 24 million mt.
- Early movement data: Canada exported 792,000 mt of wheat during crop weeks 1 & 2, which is 145,000 mt smaller than what we did last year.

(CGC) Grain Handling Summary Wheat		Week 2		(Aug. 15/'21)
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 2	231.0	377.8	376.2	69.7
Week ago	145.6	476.7	416.0	70.9
YTD	376.9	862.7	792.2	142.9
Last YTD	790.7	1,276.0	937.0	208.9
YTD less Last YTD	-413.8	-413.3	-144.8	-66.0
YTD over Last YTD	48%	68%	85%	68%

- **Durum:** About 22% of Canadian durum has been combined and yields continue to disappoint.
- In the US, the durum harvest made good progress last week with Montana 31% harvested and North Dakota 32% harvested. Industry sources report variable yields, but good quality. USDA currently estimates durum production at 34.7 million bu (940,000 mt), *a 50% decrease from last year and down 7% from the July forecast.*
- Prices have responded strongly to the combined US-Canada durum problem, and \$20/bu is now bid for #3 CWAD in SK. Prices by US companies have been leading bids in S SK, with Canadian Co's clearly playing catch-up. Note that even now, Canadian bids tend to show much bigger grade discounts than US bids. \$20.00/bu for #3 CWAD is in the market as of Friday.
- *These are the highest durum prices and the biggest premiums over spring wheat that we have ever witnessed. We would be loath to miss unprecedentedly high values, and as long as the durum is already in hand, we would be min. 60% sold at these levels.*
- **Durum exports** for weeks 1 & 2 amounted 230,000 mt, which is 47,000 mt ahead of last year's export shipments.

(CGC) Grain Handling Summary Durum		Week 2		(Aug. 15/'21)
('000 mt)	Prod. Dlvrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 2	33.3	50.4	77.6	2.9
Week ago	21.6	68.9	152.3	2.0
YTD	54.6	119.4	229.8	4.8
Last YTD	111.4	184.9	183.0	5.8
YTD less Last YTD	-56.8	-65.5	46.8	-1.0
YTD over Last YTD	49%	65%	126%	83%

US Wheat:

- USDA currently estimates HRS production at 305 million bu (8.3 million mt), *a 42% decrease from last year*. US HRS conditions reflect the ongoing drought with only 11% of the remaining crop in good to excellent condition.
- USDA currently estimates durum production at 34.7 million bu (940,000 mt), *a 50% decrease from last year and down 7% from the July forecast*.
- Weekly US Export Sales came in at 307,000 mt, which was in the mid-range of expectations. US exports continue to run behind the pace needed to make the USDA's annual projection, but the price gap with other origins continues to narrow.
- The US dollar broke solidly though the March highs back to the level of November last year. This, along with a sizeable sell-off in corn and soybeans, took US wheat futures lower on Thursday and again on Friday.
- US HRS for Sept. '21 is valued at \$408.00/ mt FOB PNW (up \$3/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$318.00/mt (down \$8.60/mt from last week).

Australian wheat:

- Australia remains the one of the few regions which so far has seen very favourable conditions.
- Australian new crop futures are heading for new contract highs as the Australian \$ fell for 5 straight days to near 10-month lows.
- One problem for increased exports will be logistics capacity. Note that Australian wheat is currently only quoted for Dec. onward.
- Australian new crop FOB APW wheat for Dec. was quoted at \$310.00/mt, up \$10/mt from last week.

Argentine wheat:

- Argentina is increasingly becoming the next concern for the wheat market with almost complete dryness forecast for the next two weeks. The Brazilian crop was already hit by several freeze events and will take more Argentine exports than normal.
- BAGE (Buenos Aires Grain Exchange) has not yet issued a production estimate, but they lowered GD/EX to 37% from 46% a week ago.
- FOB values for Sept. 12% protein Argentine wheat ranged from \$285-290/million mt, down \$4/mt from last week.

EU wheat:

- Matif September wheat futures rallied €10/mt (~Canadian\$15/mt) to new highs this Monday, before giving back €15/mt and closing unchanged.
- Quality is still the major problem across Europe, but especially in France.
- FOB prices in the EU: Sept. French 11.5 pro closed at \$335.2/mt, up \$35.10/mt from last week. N/C Sept. German 12.5 pro wheat closed at \$305.80, down \$2.50/mt. Sept. Baltic 12.5 pro wheat (N/C) was at \$301.10/mt, down \$0.10/mt.

Black Sea wheat:

- Russian harvest data has restarted and still seems to indicate a crop of around 73-75 million mt. However, the upcoming rise in the export tax is reportedly starting to push farmers into selling their wheat, which is pressuring domestic prices although not the FOB market.
- CME Black Sea futures were little changed at the European close.
- With the payment system in Afghanistan now inoperable, the 2 million mt market for Kazakh flour will likely largely disappear, although this will be at least partly offset by the smaller Kazakh crop.
- Russian 12.5 pro wheat for Sept. is quoted at ~\$298.00/mt, up \$3/mt from last week.

➤ **Significant purchases/ trades:**

There was very little cash trade during the week as most wanted to see what the USA's new WASDE report had to say on Thursday.

- **Algerian state agency** OAIC purchased 290,000 mt of optional-origin milling wheat in a tender on Tuesday.
- **Egypt** (GASC) purchased 180,000 mt of wheat to be sourced from Romania (120,000 mt) and from the Ukraine (60,000 mt).
- **Japan** bought 144,000 mt of wheat from U.S., Canada, and Australia, and is also tendering for 80,000 MT of feed wheat along with 100,000 MT of barely.
- **Morocco's** 363,000 MT U.S. sourced durum wheat tender is due August 24.
- There were no concrete results from the **Philippine** tender, but they may have bought an unspecified volume at around \$340/mt.
- **Jordan** will re-tender on Aug 25th for 120,000 mt for Dec-Feb.'22.
- **Weekly US Export Sales** came in at 307,000 mt, which was in the mid-range of expectations.

➤ **Wheat Market Outlook:**

Significant events:

- USDA expects **global wheat exports** to be down by 2% to 178.2 million mt from 181.1 million mt in '20/21, but other analysts put exports supplies lower, specifically by the EU and Canada.
- **Statistics Canada's** crop update is due in one week, with private sources expecting figures well below the USDA's 24 million mt.
- The **US dollar** broke solidly though the March highs back to the level of November last year. This, along with a sizeable sell-off in corn and soybeans, took US wheat futures lower on Thursday and again on Friday.
- **Wheat quality** is still the major problem across Europe, but especially in France.
- There is **quite a bit of rain** in the driest parts of the corn/soybean belt – ND/ MN/ IA/ SD. Especially for the Red River Valley and S MN. – We think it is late to make much difference for wheat and might even impact quality.
- **Russian harvest data** has restarted and still seems to indicate a crop of around 73-75 million mt. However, the upcoming rise in the **export tax** is reportedly starting to push farmers into selling their wheat, which is pressuring domestic prices.

➤ **Outlook:**

There is rain forecasted on the Canadian Prairies into this week, which though welcome, is expected to delay harvest progress. In Russia and Kazakhstan, spring wheat continues to be hit by heat and dryness, so their outlook has not improved. Looking forward, Northern Hemisphere soil moisture levels are low ahead of winter plantings and competition among crops for acreage will be high.

The milling wheat market is firm with bids around \$10.50/bu. We expect the wheat market to remain strong with the price gap with other origins continuing to narrow towards North American values. There is no rush for Canadian farmers to sell right now, other than durum. Durum priced high, which may a good opportunity to provide cash flow.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 23-08-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$10.49	\$385.44	1 CWRS 13.5	\$10.67	\$392.06
1 CWAD 13.0	\$19.36	\$711.36	1 CWAD 13.0	\$19.37	\$711.73
1 CPSR 11.5	\$9.19	\$337.68	1 CPSR 11.5	\$9.37	\$344.29
SW Sask			SW Sask		
1 CWRS 13.5	\$10.44	\$383.61	1 CWRS 13.5	\$10.61	\$389.85
1 CWAD 13.0	\$19.39	\$712.47	1 CWAD 13.0	\$19.40	\$712.83
1 CPSR 11.5	\$9.12	\$335.11	1 CPSR 11.5	\$9.31	
NE Sask			NE Sask		
1 CWRS 13.5	\$10.21	\$375.16	1 CWRS 13.5	\$10.40	\$382.14
1 CWAD 13.0	\$19.60	\$720.18	1 CWAD 13.0	\$19.60	\$720.18
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.27	\$377.36	1 CWRS 13.5	\$10.42	\$382.87
1 CWAD 13.0	\$19.42	\$713.57	1 CWAD 13.0	\$19.43	\$713.94
1 CPSR 11.5	\$9.24	\$339.51	1 CPSR 11.5	\$9.29	\$341.35

Data source: PDQ, Aug. 23/21

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, Aug. 3/21

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)

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.”

- 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 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				23-08-2021
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	\$499.53	\$753.02		
HRS	\$492.56			
HRW 11.5	\$403.72			
SWW 12.0	\$499.53			
1 CWRS 13.5 ³	\$499.53		\$376.26	\$123.27
2 CWRS 13.0 ³	\$492.56		\$367.07	\$125.48
3 CWRS ³	\$403.72		\$359.72	\$44.00
CPS ³	\$493.02		\$333.27	\$159.75
1 CWAD ⁴		\$746.51	\$736.35	\$10.16
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$298.00	September		
French 11.5 (Rouen)	\$335.20	September		
ASW 10.5 (W Coast)	\$290.00	December		
Argentine 12.0	\$290.00	September		

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					23-08-2021
Canadian Funds	Grade				
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS	
Dec/Jan delivery	\$13.23	\$10.81	\$10.60	\$10.60	
Parity Track Rosetown	\$11.73	\$9.31	\$11.92	\$11.92	
Track Bid Rosetown Area	\$9.99	\$9.79	\$9.07	\$9.07	
Gross Margin at Elevator (\$/bu)*	\$1.74	-\$0.48	\$2.85	\$2.85	
Gross Margin at Elevator (\$/mt)*	\$63.99	-\$17.50	\$104.77	\$104.77	

* to cover elevation, elevator market risk, margin