

Wheat Market Outlook and Price Report: December 20, 2021

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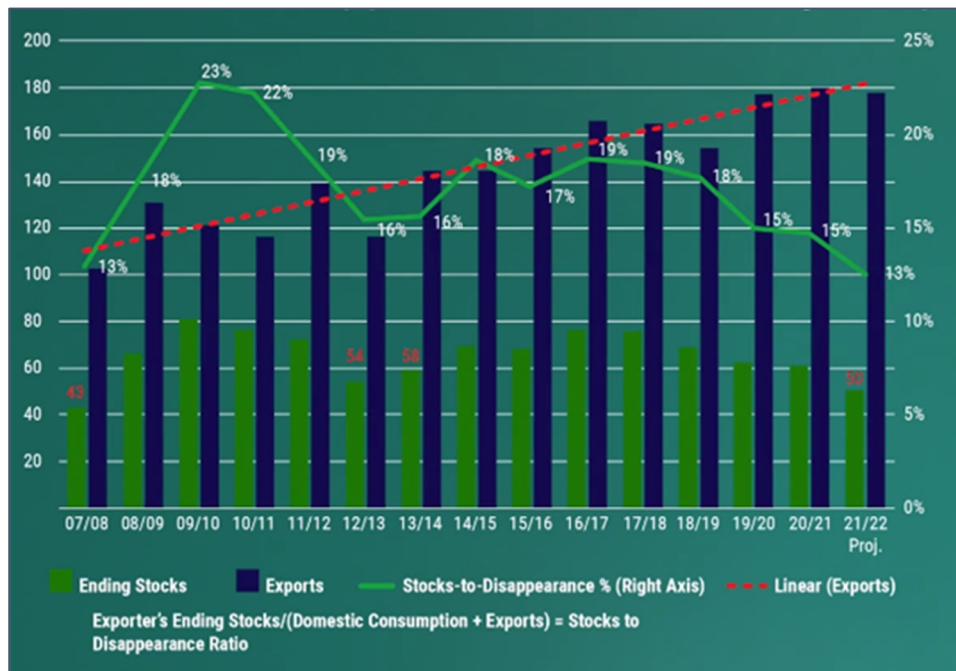
i) Background and Rationale for the Report

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 December 20, 2021

Ending Stocks, Exports and Stocks-to-Use Ratios of Major Wheat Exporting Countries



- Although global wheat production is set to be a record 777.9 million mt (according to the USDA), **global wheat demand** is projected to outstrip production by 12 million mt.
- Most of the major **global wheat importers** are expected to increase imports this year. Two notable increases are in Iran, where imports are up 218% over last year, and Turkey, where imports are 36% higher than last year.
- According to the Agricultural Marketing Information System (AMIS), higher volatility is prominent when the stocks-to-use ratio falls below 18%. **The stocks-to-use ratio** is a measure of the amount of supply

of a product compared to the amount of demand for the product. The stocks-to-use ratio of major exporting countries is expected to fall to 12.5% this year. This is the lowest level since the 2007/08 season. Volatility has certainly been prevalent in recent weeks and will likely continue until harvest in the Northern Hemisphere draws near.

Recent Developments in Wheat Demand:

Some of the momentum has come out of the wheat market which spurred traders to do some profit taking last week. Wheat futures rebounded on Thursday from strong US sales and dry weather concerns.

➤ **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:**
- Mar. '21 contract Chicago winter wheat closed at 775-0, up 4-4 cents on Friday, *down 10-2 cents on the week.*
- Mar. '21 contract Kansas hard red winter wheat closed at 810-0, up 6-2 cents in Friday's trade, *up 4-4 cents on the week.*
- Mar. '21 Minneapolis hard red spring wheat closed at 1022-4, down 4-2 cents on Friday, *down 3-0 cents on the week.*

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



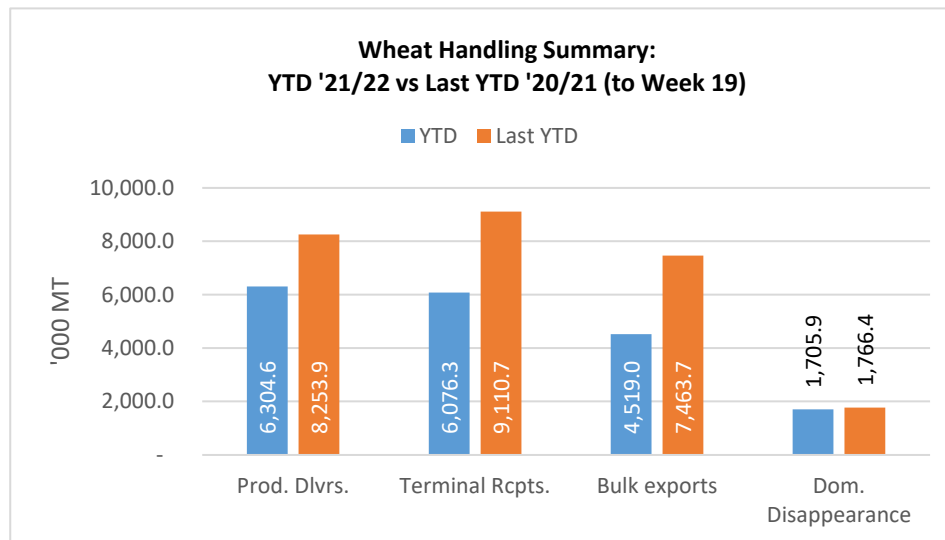
Mpls. Mch. '21 Wheat



Canadian Wheat:

- While futures prices were falling last week, cash prices for spring wheat were unchanged or higher in some areas. This was thanks in part to the weakening Canadian dollar, but also reflects the effort that buyers are making to snatch any remaining uncommitted supplies.

Canadian exports during week 19 were 189.9k mt for a season total of 4.52 million mt. This is 61% of last year's amount. Visible supplies in the Canadian elevator system fell 50k mt to 2.83 million mt. Supplies in Vancouver grew slightly to 69.5k mt but shrank in Prince Rupert to 24.9k mt.



- Spring wheat futures are stuck in a sideways range. This will likely continue until after Christmas, especially as movement west continues to be limited. Our opinion on wheat has not changed and we think price will be higher into the New Year. If you need to sell, sell old crop wheat, otherwise wait for the New Year. New crop can be sold for \$10.50 or better.
- **Durum:** Strategie Grains put their initial forecast of the 2022/23 durum crop at 8.2 million mt, 8% (600k mt) more than last year. The increase in production is from a 2% increase in seeded area and higher than average yields. Should this target be met, it would be the largest EU durum crop since 2018.
- The larger EU durum crop would help make up for the potential production shortfalls in Northern Africa. A large portion of Morocco, Tunisia, and many parts of Algeria have seen 0-80% of the normal amount of rainfall over the past 3 months.
- Week 19 exports of Canadian durum were 3.4k mt which makes for a season total of 1.12 million mt. This is just 52% (-1.02 million mt) of last year's amount. Visible supplies fell to 776.0k mt. There is 101.1k mt of durum sitting in terminals at Thunder Bay and an additional 271.7k mt of durum sitting in terminals on the St. Lawrence. As of week 19, (out of 52), 51% of the Canadian exportable supplies has been shipped.

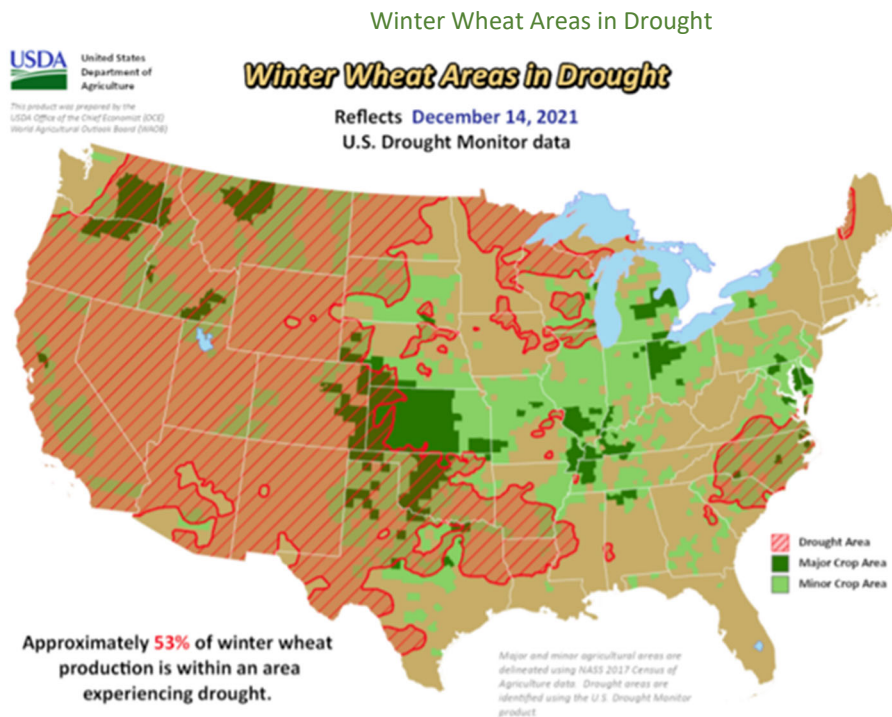
Durum prices were relatively unchanged from last week. Old crop durum can still be sold for \$21.00-\$21.50 per bushel. Buyers don't seem too interested in putting on a position during the remaining weeks of the year. They will likely start looking at putting some programs together in the new year.

US Wheat:

- Bargain buying was in full force as traders bought a marketing year high of 651k mt (23.9 million bushels) of US wheat during the week ending Dec. 9th. The trade was expecting sales to be in the 200k – 400k mt range. Total sales are now at 559 million bushels, down 23% from last year

compared to USDA's expected 15% decline. Average weekly sales through to the end of May will need to be 9.8 million bushels to reach the USDA's 840 million bushel projection.

- US winter wheat conditions were unchanged from last week at 44% Gd/Ex (46% last year). Dryness in the US Plains is starting to cause visible stress to the winter wheat crops. Crops in parts of Oklahoma look "scrawny" and have poor root systems. Additionally, low snow cover is leaving the crop exposed to the harsh winter conditions. A powerful storm system ripped through Central US and the upper Midwest on Wednesday. High winds caused damage from Colorado to Michigan. The system has covered parts of the winter wheat area, but it seems the damage will have a limited impact on yield. There is lots of time for the crop to recover, but it is off to a less-than-ideal start. The US drought monitor says that 53% of the US winter wheat crop is under drought conditions.



Source: USDA

- US HRS for Jan. '22 is valued at \$435.00/ mt FOB PNW (unchanged from last week), FOB Gulf HRW 11/12.5 pro is valued at \$346.30/mt (down \$19.00/mt from last week).

Australian wheat:

- Yields in Australia are better than expected which has prompted many analysts to boost their projections of the crop to 36 million mt compared to the USDA's 34 million mt. The entirety of

the increase was put into exports. We question this as Australia's export capacity is not unlimited.

- Higher yields have caused wheat futures in Australia to fall A\$75 over the past three weeks.
- Australian new crop FOB APW wheat for Jan.'22 was quoted at \$350.00/mt, down \$25/mt from last week.

Argentine wheat:

- Argentina's wheat crop is looking strong with yields supporting a 22 million mt production number compared to BAGE's 21 million mt estimate and the USDA's 20 million mt number. Harvest in Argentina is 65% complete.
- Argentina's government is expected to relax their export controls on wheat. By the end of November, Argentina's government reported wheat stocks were 6.9 million mt, the highest amount on record for that time of year. A strong harvest and large stocks should prompt the government to relax controls. Some expect Argentine exports will be 14 million mt compared to the USDA's 13.5 million mt.
- Fob values for Jan. 12% protein Argentine wheat are \$303/million mt, down \$13/mt from last week.

EU wheat:

- The European Commission raised their estimate for 2021/22 usable common wheat production by 200k mt from last month to 130.6 million mt. They left their export number unchanged at 32.0 million mt. The entire increase in supply went into ending stocks which are expected to be 12.9 million mt.
- Strategie Grains raised their EU wheat export number by 1.1 million mt to 31.5 million mt. While Algeria accepting Russian imports has not been conducive, increases of French exports to China, Egypt, sub-Sahara Africa, Morocco, and Vietnam have all but made up for it.
- Fob prices in the EU: Jan.'22 French 11.5 pro closed at \$317.80/mt, down \$8.90/mt from last week. Dec. German 12.5 pro wheat closed at \$325.00 down \$7.50/mt. Dec. Baltic 12.5 pro wheat was at \$326.10/mt, down \$13.60/mt.

Black Sea wheat:

- Russia's Economic Ministry said that the export quota will be 8 million mt. This is 1 million mt less than previously reported, but still falls in-line with what we have been expecting their exportable surplus to be.
- Weather in the Black Sea is turning negative for their winter wheat crop. There is limited snow cover and temperatures are supposed to fall this week.
- Russian Jan. '22 12.5 pro wheat is valued at ~\$335.00/mt, down \$5.00/mt from last week.

➤ **Significant purchases/ trades:**

- **Iran** reportedly bought close to 500,000 mt of Jan-March shipment at (Euros) €365-368.
- The **Philippines** bought around 110,000 mt of Mar-May feed wheat at a reported \$325.
- **Jordan** bought 60,000 mt LH July at \$327.50.
- **USA** export sales were well above expectations at 651,000 mt, but the season total of 560 million bushels remains 22% down on last year.
- It is also of note that the Baltic Dry Index is heading for its lowest weekly close since June, with most of this the result of a 73% drop in the Cape market (60,000 tonner) since October although the Handies (25,000 tonner) and Panamax (60,000 and above) are also down.

➤ **Wheat Market Outlook:**

Significant events:

Domestic events:

- While futures prices were falling last week, cash prices for spring wheat in the Canadian Prairies was unchanged to higher in some areas. This was thanks in part to the weakening Canadian dollar, but also reflects the effort that buyers are making to snatch any remaining uncommitted supplies. Durum prices were also relatively unchanged and are supported by US values.

International wheat market:

- It is also of note that the **Baltic Dry Index** is heading for its lowest weekly close since June, with most of this the result of a 73% drop in the Cape market (60,000 tonner) since October although the Handies (25,000 tonner) and Panamax (60,000 and above) are also down.
- There were additional stories of **China** buying wheat in volume.
- **Australia's wheat crop** is expected to reach a record 34.4 MMT according to AgriCensus, 400 TMT more than the USDA forecast this month. In a report, the Grain Industry Association of Western Australia asked, "how are we going to deal with so much grain?" Following a rebound in production last year, Australia is starting with increased beginning stocks and reduced reliance on wheat as domestic feed. Despite rain in some western growing regions during harvest, Australian wheat exports are expected to remain strong through 2022.
- The government of **Argentina** may relax export controls on wheat. In late October, export licenses for wheat were 9 MMT, representing 70% of the total export forecast despite being two months ahead of harvest. However, by the end of November, the government reported wheat stocks of 6.9 MMT, the highest amount recorded for that time of year. With harvest well underway and production projected higher, traders expect the government to release a new quota for wheat exports.
- **Russia's** economy ministry announced plans to reduce the wheat export quota from 9 MMT to 8 MMT. Plans have already been announced to set a quota starting February 15, 2022, lasting through the remainder of the export season that ends June 30. Russia's wheat exports are down 37.5% in 2021/22 due to a smaller crop and an export tax.

Outlook:

As yields in South America are essentially built into the market. Attention will be on weather in the Northern Hemisphere. The Black Sea needs to be watched there is little snow cover and winter kill is a risk. USA winter crop ratings will go lower due to adverse weather. Canada has nowhere near replenished its soil moisture losses. The Northern Hemisphere needs near perfect spring weather (i.e. rain). World exporter stocks/use ratios are record low so in our view wheat remains supportive. Trade will be thin for the holidays, so we recommend hanging up your marketing hat for a couple weeks and enjoying the season.

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)		Mch '21 (bu.)	Mch '21 (mt.)
1 CWRS 13.5	\$12.82	\$471.06	1 CWRS 13.5	\$12.89	\$473.63
1 CWAD 13.0	\$19.77	\$726.43	1 CWAD 13.0	\$20.22	\$742.96
1 CPSR 11.5	\$11.48	\$421.82	1 CPSR 11.5	\$11.56	\$424.76
SW Sask			SW Sask		
1 CWRS 13.5	\$12.64	\$464.44	1 CWRS 13.5	\$12.73	\$467.75
1 CWAD 13.0	\$19.86	\$729.74	1 CWAD 13.0	\$20.27	\$744.80
1 CPSR 11.5	\$11.14	\$409.33	1 CPSR 11.5	\$11.52	\$423.29
NE Sask			NE Sask		
1 CWRS 13.5	\$12.55	\$461.14	1 CWRS 13.5	\$12.58	\$462.24
1 CWAD 13.0	\$20.07	\$737.45	1 CWAD 13.0	\$20.35	\$747.74
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SE Sask			SE Sask		
1 CWRS 13.5	\$12.44	\$457.10	1 CWRS 13.5	\$12.50	\$459.30
1 CWAD 13.0	\$20.06	\$737.08	1 CWAD 13.0	\$20.36	\$748.11
1 CPSR 11.5	\$11.40	\$418.88	1 CPSR 11.5	\$11.58	\$425.50

Data source: PDQ, Dec. 20/21

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, Dec. 20/21

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

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.”

- 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 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			December 20, 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	\$543.46	\$856.66		
HRS	\$534.71			
HRW 11.5	\$483.55			
SWW 12.0	\$515.40			
1 CWRS 13.5 ³	\$543.46		\$470.32	\$73.13
2 CWRS 13.0 ³	\$534.71		\$464.81	\$69.89
3 CWRS ³	\$483.55		\$457.46	\$26.09
CPS ³	\$508.75		\$418.88	\$89.87
1 CWAD ⁴		\$850.09	\$643.02	\$120.10
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$335.00		January	
French 11.5 (Rouen)	\$317.80		January	
APW 10.5 (W Coast)	\$350.00		January	
Argentine 12.5	\$303.00		January	
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				