

Wheat Market Outlook and Price Report: December 6, 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 6, 2021

AMIS¹ December Global Wheat Supply-Demand Outlook:

Wheat	FAO-AMIS			USDA		IGC	
	2020/21	2021/22	2021/22	2020/21	2021/22	2020/21	2021/22
	est	4 Nov	2 Dec	est	f'cast	est	f'cast
Prod.	776.5	770.4	769.6	774.7	775.3	773.4	777.4
Supply	642.2	633.4	632.5	640.4	638.4	639.1	640.4
Utiliz.	1056.2	1059.0	1059.1	1070.2	1063.2	1049.0	1055.8
Trade	795.3	791.5	791.6	785.9	782.2	785.7	791.7
Stocks	761.8	778.8	777.0	782.2	787.4	770.6	781.5
	620.9	636.0	634.2	632.2	638.4	624.7	635.1
	189.1	192.3	193.3	198.0	205.0	190.7	195.7
	178.3	182.8	183.8	187.4	195.0	179.7	185.1
	289.5	282.1	284.7	287.9	275.8	278.4	274.3
	159.1	148.2	150.8	143.8	134.8	150.1	146.0

in million tonnes

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.

- AMIS trimmed the **2021 global wheat production** further, mostly on lower estimates for Brazil and the UK, resulting in global production falling by nearly 1 percent from last year's record.
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¹ 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.

- **Wheat utilization** in 2021/22 lowered on weaker feed use expectations, especially in the EU, but still rising by 2.0 percent from the previous season.
- **Wheat trade** in 2021/22 (July/June) to expand by 2.2 percent from the 2020/21 level, driven by robust demand, especially from the Near East to compensate for reduced harvests.
- **Global ending stocks** forecast (ending 2022) scaled up m/m but still expected to fall 1.7 percent below opening levels, with most of the drawdown concentrated among major exporters.
- There is a new **USDA-Wasde report** out due on Dec. 9th.

Recent Developments in Wheat Demand:

AMIS lowered wheat utilization by 1.8 mln mt from last month, but wheat trade was increased by 1.1 mln mt from last month's estimate.

- There again were a lot of sizeable wheat tenders in the cash wheat markets over the past week (Egypt, Saudi Arabia, Ethiopia, Jordan, Tunisia, Bangladesh).

➤ 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 803-6, down 11-2 cents on Friday, *down 36-4 cents on the week.*
- Mar. '21 contract Kansas hard red winter wheat closed at 824-2, down 18-0 cents in Friday's trade, *down 44-6 cents on the week.*
- Mar. '21 Minneapolis hard red spring wheat closed at 1020-6, down 21-4 cents on Friday, *down 27-6 cents on the week.*
- This Monday morning, KC futures are down slightly, but CBOT Mpls. wheat is currently up 2-7c.

CBOT Dec. 2021 Wheat (1 yr.)



KC Dec. '21 Wheat



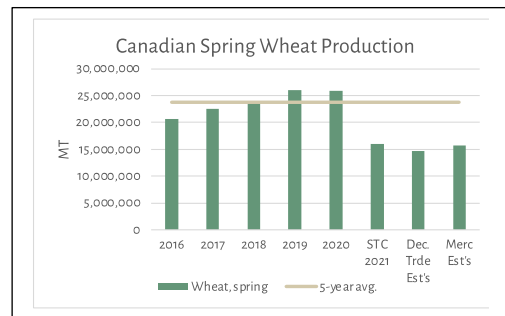
Mpls. Dec. '21 Wheat



Canadian Wheat:

- The **rail recovery** continues to be slow as rain is still hampering repair efforts. Deliveries to Vancouver terminals were small and will continue to be restricted. The Canadian Gov't has asked Vancouver terminals to prioritize feed grain deliveries to BC over wheat exports.

- **Stats Canada** put Canadian all wheat production at 21.65 mln mt. This was 450k mt higher than what trade was expecting, but largely in-line with our estimate. Spring wheat production was put at 16 mln mt (62% of last year's volume), which was significantly higher than the 14.70 mln mt that the trade was expecting, but closer to our 15.73 mln mt number.
- **Canadian exports** during week 17 were 245.4k mt for a season total of 4.17 mln mt, down 38% from last year. Visible supplies in the Canadian elevator system grew to 1.61 mln mt but supplies in Vancouver and Prince Rupert shrank to 52.0k mt and 124.6k mt respectively.



(CGC) Grain Handling Summary Wheat	Wk. 17	(Nov. 28/'21)		
			Terminal Rcpts.	Bulk exports
('000 mt)	Prod. Dlvs.			Dom. Disappearance
Wk. 17	385.4	83.0	245.4	100.8
Week ago	288.3	199.3	190.9	52.3
YTD	5,715.7	5,538.8	4,167.7	1,562.3
Last YTD	7,204.6	8,225.4	6,679.1	1,578.3
YTD less Last YTD	-1,488.9	-2,686.6	2,511.4	-16.0
YTD over Last YTD	79%	67%	62%	99%

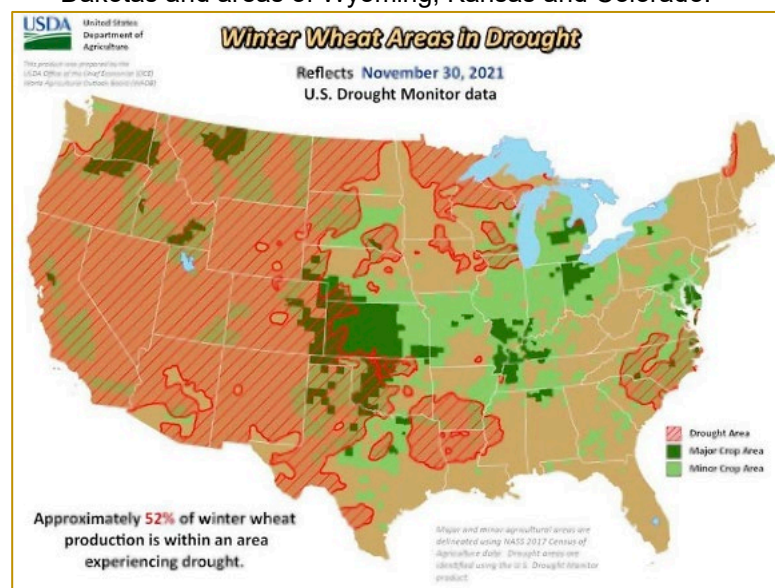
- Japan tendered last week looking for Australian wheat for March delivery. Japan bought 423,188k mt of US, Canadian, and Australian wheat during November at an average price of \$481.61/mt (CFR). This was an increase from the 331,793 mt and 286,064 mt of wheat purchased in October and November respectively. Japan bought Canadian wheat at an average price of \$487.00/mt during November.
- **Overall, the wheat outlook is unchanged for now. We will continue to watch how the quota situation in Russia plays out. The Australian situation needs watching as well, but local/Cdn. prices will struggle as movement to the west continues to be restricted. Global demand remains strong, and end users are still buying at consecutively higher prices.**
- **Durum:** The largest surprise in the StatsCan numbers was in durum. Stats Canada put Canadian durum production 891k mt lower than AAFC's number to just 2.65 mln mt. This was well below the 3.60 mln mt that the trade was expecting. AAFC already had ending stocks and domestic use at low levels. So, if the 2.65 mln mt production number were correct, most of the 891k mt decrease would have to come out of exports. This would take exports down to 2.21 mln mt.
- Stats Canada's production number would lower total supply to ~3.43 mln mt. As of shipping week 17, producers have delivered 1.28 mln mt of durum into the Canadian elevator system. This means that just over 30% of the total supply has been delivered which is in-line with last year.
- Canada exported 22.2k mt of durum during shipping week 17 for a year-to-date total of 1.07 mln mt. This represents roughly 48% of Canadian exportable supplies; last year just 33% of the exportable supplies had been exported.
- In an unusual move, Australia exported 29k mt of old crop durum during October. Usually, there are no Australian durum exports until January. The Australian harvest might put some pressure on the market. However, the main durum growing areas are Queensland and New South Wales, which also happen to be some of the areas most affected by untimely rains.

- Canadian bids were slightly lower, while bids in the US fell sharply. This is concerning, but if Stats Canada's durum production number is correct (-we think they are too low-), there is significantly less durum available than expected and there are questions about Australian durum quality. We would wait and see how/ if the market reacts to Stats Canada's number before selling additional tonnage.

(CGC) Grain Handling Summary Durum	Wk. 17	(Nov. 28/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 17	85.9	100.1	50.7	12.8
Week ago	57.7	77.7	1,068.4	31.2
YTD	1,280.8	1,302.3	1,889.0	136.6
Last YTD	2,138.6	2,366.8	1,727.7	164.5
YTD less Last YTD	-857.8	-1,064.5	161.3	-27.9

US Wheat:

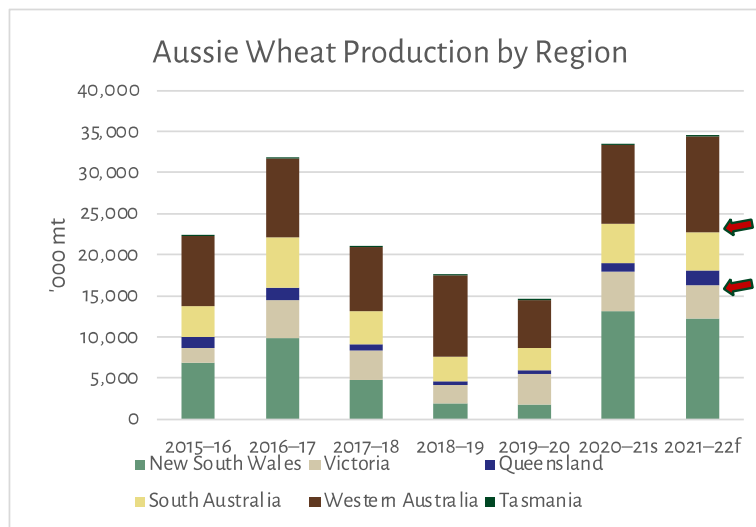
- Commercial US wheat sales for the week ending Nov. 25th were well below what the trade was expecting (250-600k mt) at 79,900 mt. Total commitments are now 14.3 mln mt, down 23% from last year vs the USDA's projected 13% decline. To reach the USDA's 860 mln bushel number, average weekly sales would need to be 11.1 mln bushels during Dec-May. This is possible, the 5-year average for that timeframe is 12.2 mln bushels per week, but the current slow pace makes us doubtful.
- US winter wheat crop ratings were unchanged from last week at 44% Gd/Ex, down 2% from last year. There were localized showers in many parts of the US, but the drought deepened in the Dakotas and areas of Wyoming, Kansas and Colorado.



- US HRS for Jan. '22 is valued at \$445.00/ mt FOB PNW (up \$5/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$365.30/mt (down \$9.70/mt from last week).

Australian wheat:

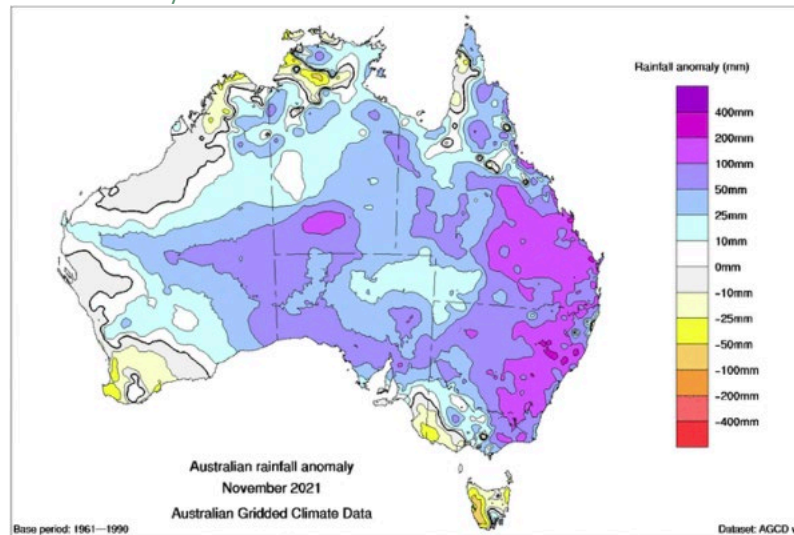
- *In their December estimate, The Australian Bureau of Agricultural and Resource Economics and Science (ABARES) raised their estimate for the Australian crop by nearly 3.0 mln mt to a new record of 34.3 mln mt.* Despite the increase, Australian wheat prices rose to their highest level since 2008 over quality concerns.
- Heavy rains in Queensland and New South Wales (NSW) have not only delayed harvest but have also caused flooding. These regions account for 41% (14.0 mln mt) of the total 2021/22 Australian crop. Even if just half of the crop in these regions is impacted, the untimely rain could potentially turn 7.0 mln mt of wheat from milling quality into feed quality. Quality concerns from rain damage, combined with a crop that is already experiencing low protein levels has widened the premium between milling and feed wheat by AU\$25/mt to AU\$30/mt over the past few weeks.
- Rain in Australia is supposed to end over the weekend, but there still will be localized showers.



Data Source: ABARES

- The milling wheat market was counting on Australian wheat to replenish supplies. The potential losses could make the already scarce milling quality wheat even harder to find. -We will have to see what the final numbers on quality will be. There are reports that a leading Middle Eastern flour mill paid over \$23 mln in October for a cargo of high-quality Aussie milling wheat. Now, they are willing to pay 10% more, but have not been able to conclude a purchase.

Monthly Rainfall Anomalies for Australia – November 2021



Source: Australia Bureau of Meteorology

- China reportedly bought more ASW this week, which presumably must come from WA as ASW carries a 300 Hagberg. Harvest in WA is progressing well in generally dry conditions.
- Australian new crop FOB APW wheat for Jan.'22 was quoted at \$365.00/mt, unchanged from last week.

Argentine wheat:

- BAGE in Argentina raised Gd/Exc ratings by a sharp 12% to 65%. Nevertheless, BAGE left Argentine production unchanged at 20.3 mln mt with harvest 45% complete (40% last year, 41% average).
- Discussions in Brazil regarding **Argentine GM wheat** continue. Millers are still in broad opposition, although it is not clear how they would react if sellers were to issue "non-GM" certificates. Similarly, it is not clear what happens to contracts that are already on the books, or where Brazilian millers would buy if they can't or won't import Argentine wheat.
- Argentina wheat will not participate in the Saudi Arabian wheat tender as the specs stipulate non-GM wheat.
- Fob values for Jan. 12% protein Argentine wheat ranged from \$316/mln mt, unchanged from last week.

EU wheat:

- Matif rebounded €8-9/mt as the stream of tenders continued, including reports of China back buying Australian wheat.
- Fob prices in the EU: Jan.'22 French 11.5 pro closed at \$341.80/mt, down \$8.40/mt from last week. Dec. German 12.5 pro wheat closed at \$353.00, down \$4.30/mt. Dec. Baltic 12.5 pro wheat was at \$350.20/mt, down \$5.40/mt.

Black Sea wheat:

- There was some confusion in the market on Friday over a Reuters report about the Russian export quota. The report said that Russia is considering an export quota of 9 mln mt compared to rumours of a 5 mln mt quota. This was seen as bearish, causing a break in the market on Friday. However, July-Nov Russian shipments, plus the December line-up already account for 22.5 mln mt of wheat. A 9 mln mt quota would allow Russian exports to be 31.5 mln mt. This is in-line with what we have

- been expecting and is still 5 mln mt below USDA's 36.5 mln mt number for Russian exports. So, the more important question is: Where will the extra 5 mln mt of supplies come from in an already tight global wheat market?
- Russian Jan. '22 12.5 pro wheat is valued at ~\$348.00/mt, down \$2/mt from last week.

➤ **Significant purchases/ trades:**

- **Jordan** bought 60k mt of wheat for LH June at \$351.50/mt, presumably based on new crop Balkan wheat (other offers were much higher at \$393-403/mt).
- **Tunisia** bought 100k mt of soft wheat at \$382-388/mt and **92,000 tonnes of durum at \$674-684.00/mt delivered.**
- **Saudi Arabia surprised** with a 535k mt tender for May and July arrival (but no June). They paid \$359.90 to 373.90/mt depending on position and port (Jeddah, Yanbu, Dammam).
- **Japan** bought 423,188k mt of US, Canadian, and Australian wheat during November at an average price of \$481.61/mt (CFR).
- **Egypt** bought 600k mt of wheat last Monday, which some said represented the largest single purchase since at least 2008, when it bought 540k mt.
- **US wheat sales** for the week ending Nov. 25th were well below what the trade was expecting (250-600k mt) at 79,900 mt.

➤ **Wheat Market Outlook:**

Significant events:

Domestic events:

- The **rail recovery** continues to be slow as rain is still hampering repair efforts. Deliveries to Vancouver terminals were small and will continue to be restricted. The Canadian Gov't has asked Vancouver terminals to prioritize feed grain deliveries to BC over wheat exports.
- **Stats Canada** put Canadian all wheat production at 21.65 mln mt. This was 450k mt higher than what trade was expecting.
- Stats Canada put **Canadian durum production** 891k mt lower than AAFC's number to just 2.65 mln mt. This was well below the 3.60 mln mt that the trade was expecting.

International wheat market:

- In their December estimate, **ABARES** raised their estimate for the Australian crop by nearly 3.0 mln mt to a new record of 34.3 mln mt.
- The **untimely rains in Australia** could potentially turn 7.0 mln mt of wheat from milling quality into feed quality.
- **China** reportedly bought more ASW this week, which presumably must come from WA as ASW carries a 300 Hagberg. Harvest in WA is progressing well in generally dry conditions.
- Discussions in Brazil regarding **Argentine GM wheat continue**; millers are still in broad opposition.
- **Matif wheat in Europe** rebounded €8-9/mt late in the week as the stream of tenders continued.
- There was a report late last week stating that **Russia** is considering an **export quota** of 9 mln mt compared to rumours of a 5 mln mt quota.
- There still are a lot of **unanswered questions** in the wheat market:
 - What will the Russian tax be in 6 month's time?
 - What will the Russian Jan-June export quota be?
 - How much quality wheat is left in Germany and in the Baltics?
 - France will struggle with the protein requirements in tenders.

- How much can Australia offer into the milling markets, given protein is a problem in the west and Hagberg is a problem in the east?

Outlook:

Overall, the wheat outlook is unchanged for now. We will continue to watch how the quota situation in Russia plays out. The Australian situation needs watching as well, but local/ Cdn. prices may struggle as movement to the west continues to be restricted. Global demand remains strong, and end users are still buying at consecutively higher prices. The highs in the wheat market are not in yet.

We see no reason to sell 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 MLN MT

Date: 06-12-2021					
NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Mch. '22 {bu.}	Mch. '22 {mt}
1 CWRS 13.5	\$12.72	\$467.38	1 CWRS 13.5	\$12.77	\$469.22
1 CWAD 13.0	\$19.63	\$721.28	1 CWAD 13.0	\$20.01	\$735.25
1 CPSR 11.5	\$11.48	\$421.82	1 CPSR 11.5	\$11.54	\$424.03
SW Sask			SW Sask		
1 CWRS 13.5	\$12.52	\$460.03	1 CWRS 13.5	\$12.60	\$462.97
1 CWAD 13.0	\$19.69	\$723.49	1 CWAD 13.0	\$20.04	\$736.35
1 CPSR 11.5	\$11.19	\$411.17	1 CPSR 11.5	\$11.50	\$422.56
NE Sask			NE Sask		
1 CWRS 13.5	\$12.46	\$457.83	1 CWRS 13.5	\$12.51	\$459.67
1 CWAD 13.0	\$19.84	\$729.00	1 CWAD 13.0	\$20.03	\$735.98
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$12.32	\$452.69	1 CWRS 13.5	\$12.37	\$454.52
1 CWAD 13.0	\$19.87	\$730.10	1 CWAD 13.0	\$20.09	\$738.19
1 CPSR 11.5	\$11.41	\$419.25	1 CPSR 11.5	\$11.53	\$423.66

Data source: PDQ, Dec. 6/21

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MLN 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. 6/21

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/mln mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/mln 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 Basis² (see *Export*

- *Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. 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 YTD (East Coast shipments).

² 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.”

➤ 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				06-12-2021
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	\$540.60	\$874.72		
HRS	\$527.46			
HRW 11.5	\$470.21			
SWW 12.0	\$511.04			
1 CWRS 13.5 ³	\$540.60		\$464.44	\$76.16
2 CWRS 13.0 ³	\$527.46		\$458.93	\$68.53
3 CWRS ³	\$470.21		\$451.58	\$18.63
CPS ³	\$504.47		\$418.15	\$86.32
1 CWAD ⁴		\$868.15	\$716.88	\$151.28
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$348.00	January		
French 11.5 (Rouen)	\$341.80	January		
APW 10.5 (W Coast)	\$365.00	January		
Argentina 12.0	\$316.00	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