

Wheat Market Outlook and Price Report: February 8, 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 February 8, 2021

AMIS¹ February Global Wheat Supply and Demand Overview:

Wheat	FAO-AMIS			USDA		IGC	
	2019/20	2020/21		2019/20	2020/21	2019/20	2020/21
	est	3 Dec	4 Feb	est	f cast 12 Jan	est	f cast 14 Jan
Prod	761.3	761.7	766.5	763.9	772.6	763.7	768.0
	627.7	627.7	632.2	630.3	638.4	630.1	633.7
Supply	1,032.8	1,038.3	1,043.6	1,047.1	1,072.7	1,023.5	1,046.3
	783.8	776.6	781.6	773.7	786.8	771.3	783.1
Utiliz.	750.7	757.6	756.1	747.0	759.5	745.2	752.8
	624.0	627.7	626.2	621.0	624.5	616.3	620.5
Trade	184.5	184.5	184.5	191.3	192.5	184.3	186.8
	177.7	177.5	176.5	186.0	183.5	177.5	178.7
Stocks	277.1	282.9	284.3	300.1	313.2	278.3	293.5
	149.3	143.8	145.0	148.4	154.3	148.2	154.4

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 **2020 wheat production estimate** was raised to an all-time high, following upward revisions since December, largely in Australia, Canada and Iraq.
- **Utilization of wheat in 2020/21** was scaled down, mostly on downgraded feed wheat use, especially in the EU due to high prices.
- **Wheat trade in 2020/21** (July/June) is expected to remain near the 2019/20 level as higher imports mostly by China, Iran, Morocco and Pakistan outweigh lower imports by Iraq and Turkey.

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 ending stocks** (ending in 2021) were lifted on upward revisions in Australia, EU and the Russian Federation as they are more than offsetting cuts in Ukraine and the US.
- We will have to see what changes USDA will make to their wheat numbers on Tuesday. Some analysts expect USDA to reduce global wheat carryout by 0.7 million tonnes to 312.5 million tonnes.

Global wheat conditions (based on AMIS² report):

Australia: Harvesting is wrapping up with exceptional conditions in New South Wales, Victoria, and South Australia, while conditions are favourable in Western Australia and poor in Queensland.

EU: Conditions are generally favourable for winter wheat with some minor areas of concern in southern and south-eastern Europe for excess rainfall and lack of winter hardening against winterkill, respectively.

UK: Conditions are favourable.

Ukraine: Conditions are generally favourable with adequate snow cover protection against recent severe frosts that only affected minor areas.

Russian Federation: Conditions are mixed for winter wheat due to the dry conditions last fall that may continue to impact the crop once it emerges from dormancy.

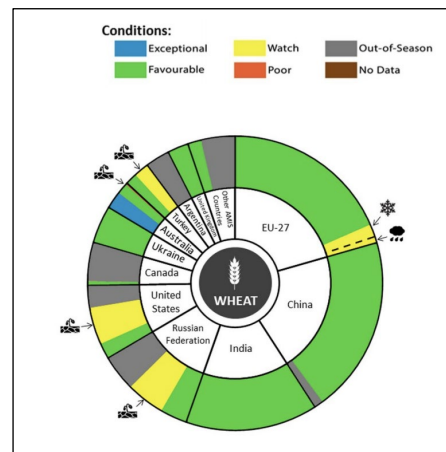
Turkey: Conditions are mixed due to dry conditions combined with potential winterkill events in the west.

China: Winter wheat is in dormancy under generally favourable conditions.

India: Conditions are favourable with sowing completed in most areas. Total sown area is increased compared to last year and the average.

US: Winter wheat is under mixed conditions due to expanding dryness throughout the Great Plains. Total sown area is increased compared to last year.

Canada: Conditions are favourable in the main producing province of Ontario, however, below-average snowfall in the Prairies leaves some areas vulnerable to winterkill.



➤ **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** - Mch. '21 contract **Chicago winter wheat** closed at 641-2, up 3-6 cents on Friday, *down 21-8 cents on the week*.
Mch. '21 contract **Kansas hard red winter wheat** closed at 625-2 up 6-4 cents in Friday's trade, and *down 21-8 on the week*.
Mch. '21 **Minneapolis hard red spring wheat** closed at 626-0, up 4-2 cents on Friday, and *down 7-4 cents on the week*.
- **Futures market summary:** Wheat futures finished lower in a week that was once again dominated by the Russian export tax saga.

² 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.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



Mpls. Mch. '21 Wheat



Canadian Wheat:

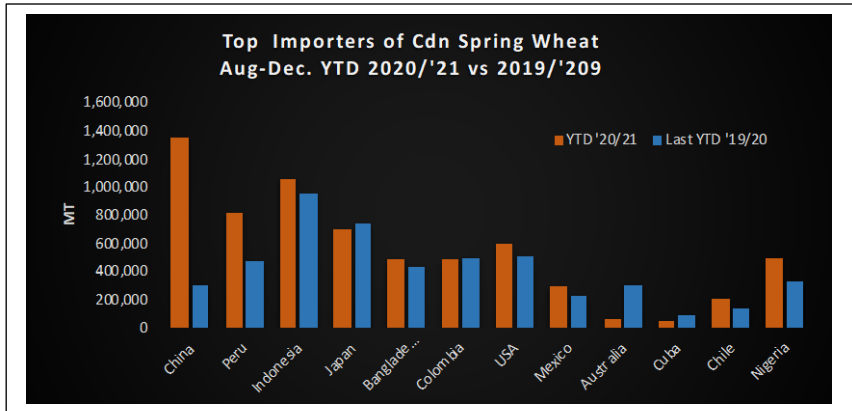
- *The world wheat market is not an easy call going forward amidst political interference, farmer indecision and currency volatility, not to mention the N Hemisphere growing season. With punitive taxes the Russian Govt has short-sightedly removed all of the inherent advantages (and production incentives) that gave Russian farmers their lead in world agriculture, and it seems to be heading down the same road as Argentina.*
- At 252,000 mt, weekly **Cdn. wheat exports** were unusually small last week (wk. 26), advancing year-to-date wheat exports to 10.1 million mt, 2.2 million mt higher (+28%) than last year-to-date.
- StatsCan showed **December exports** by destination for wheat (excl. durum) at 1.75 million mt for the month, and at 8.8 million mt to the end of December, compared to 6.8 million mt last year to end Dec.

('000 mt)	Terminal			Dom.
	Prod. Divrs.	Rcpts.	Bulk exports	Disappearance
Wk. 26	466.6	317.5	252.4	46.8
Week ago	589.3	366.9	611.5	52.3
YTD	11,307.6	11,917.8	10,084.4	2,249.6
Last YTD	10,660.1	9,391.8	7,871.7	2,058.7
YTD less Last YTD	647.5	2,526.0	2,212.7	190.9
YTD over Last YTD	106%	127%	128%	109%

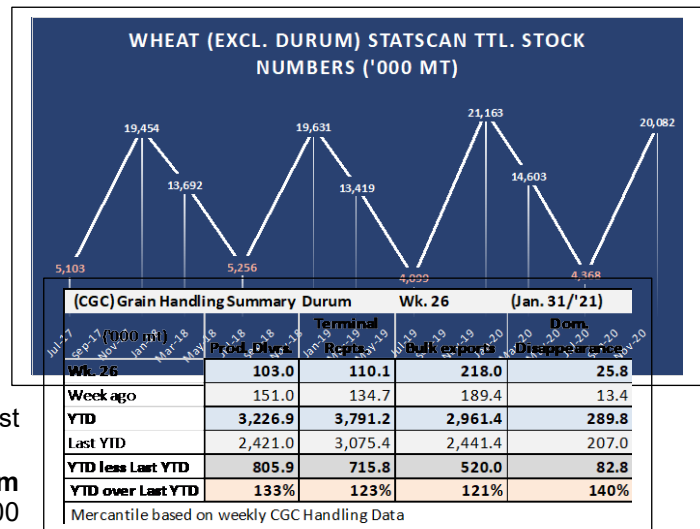
Mercantile based on weekly CGC Handling Data

The biggest wheat export gains this year are to China (+ 1 million mt over last year), to Peru (+353,000 mt), and to Nigeria (+167,000 mt).

- StatsCan pegged Dec. 31 **wheat stocks** at 20 million mt, which is 5% lower than the wheat stocks on Dec. 31/'19.



- It remains difficult to assess the outlook for world wheat while it is unclear when at what price Russian farmers will be forced to sell their wheat. EU wheat remains too cheap, and we await developments in Argentina as well.
- In Canada, some traders have kept their bids on hold, but #1 CWRS 13.5 should still fetch \$7.75-7.90/bu delivered Sask. New crop wheat should be worth \$7.50/bu (+).

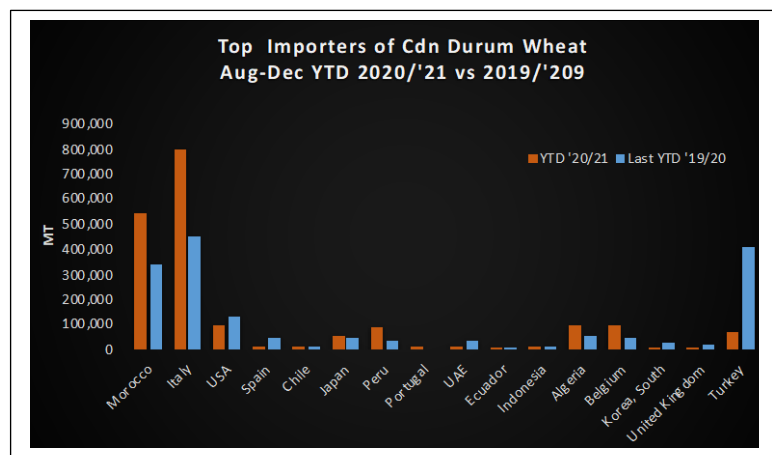


- Weekly **durum exports** for week 26 were a good 218,000 mt, for a year-to-date total of 3 million mt, compared to 2.4 million mt last year-to-date. The export pace now is 21% ahead of last year's pace.
- StatsCan showed **December durum exports** by destination for durum at 588,000 mt for the month, and at 2.3 million mt to the end of December, compared to 1.9 million mt last year to end Dec.

The biggest durum export gains this year are to Italy (+346,000 mt over last year), to Morocco (+200,000 mt, and to Peru (+53,000 mt).

However, sales to Turkey are down by a big 340,000 mt!

- StatsCan pegged Dec. 31 **durum stocks** at 4.8 million mt, which is 2% higher than the durum stocks on Dec. 31/'19 due to the higher production last year. We expect durum exports to stay strong for the remainder of the crop year.
- We are still targeting \$8.80-9.00/bu. for additional durum sales.



US Wheat:

- Last week beneficial precipitation alleviated some dryness from north-central Kansas to south central Nebraska. However, extreme dryness continues to plague winter wheat producers in the High and Southern Plains. Looking ahead, extremely cold temperatures and minimal precipitation are expected across the Southern Plains.
- USDA reported weekly wheat export bookings at 643,000 mt (the high end of expectations), for an 11-week high. For new crop, forward bookings are 145% ahead of last season's pace with 558,000 mt on the book.
- The next USDA is out on Tuesday. For wheat, the focus will be on what they do with EU and Russian exports.

- US HRS for February '21 is valued at \$287/mt FOB PNW (down \$1.00/mt), PNW White wheat is valued at \$287/mt FOB PNW (up \$5.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$284.32/mt (up \$.28/mt from last week).

Australian wheat:

- Aussie futures headed for 4-week low close, whilst FOB markets are little changed.
- Australian exporters are still pricing May/June while staying out of later positions until the Russian new crop price structure is known.
- It is early but the expected perseverance of La Nina into the S Hemisphere winter suggests potentially good rains into the planting period.
- Australian new crop FOB APW wheat values for April (first available position) closed at \$290/mt, down \$5/mt from the previous week. *There were no offers for Jan., Feb., or March '21.*

Argentine wheat:

- There was little change to Argentine FOB prices, but the price losses in the other origins have significantly narrowed the FOB spreads, which has removed the competitiveness of Argentine wheat to non-Mercosur destinations.
- The Argentine Govt repeated last week that it has not ruled out export tax increases.
- 'Nominal values' for FOB 12% pro Argentine wheat are at \$266-274/mt for Feb. delivery.

EU wheat:

- EU wheat was down on both futures and cash premiums, which bought additional demand both in domestic and export markets (France did 50% of this week's GASC sale). This is demand the EU wheat balance actually sheet does not need. The 3 Mmt drop in wheat feeding by Brussels made no sense with wheat €20/mt below imported corn.
- *Feb. FOB prices in the EU:* French 11.5 pro closed at \$280.00/mt, down \$10.90/mt from last week. German 12.5 pro was down by \$11.48/mt to \$278,72/mt. Baltic 12.5 pro dropped by \$9.10/mt on the week to \$281.11/mt.

Black Sea wheat:

- The week was once again dominated by the Russian export tax saga. The tax/ tax calculation is now known through end May. The floating tax rate calculation starts April 1st for all shipments from June 1st forward, and the trade still has no idea how this calculation will be made.
- The bottom line was a stifling of FOB trade, but perhaps Russian farmers seem to start to accept the inevitability of lower prices and started selling, despite the extreme cold forecast for next week. - Russia will have shipped 30 million mt by Feb 15th, when the export tax and the 17.5 million mt quota begin. This makes a 40 million mt season total perfectly feasible, and still allows stock building of 4 million mt.
- The FOB offer for Feb. Russian 12.5 pro wheat closed at \$280.00/mt, down \$10.21/mt.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 480,000 mt of wheat at an average price of \$311.4/0/mt, about \$12/mt higher than their previous purchase. The purchase included 240,000 mt of French wheat (the largest single purchase of French wheat in six years), 120,000mt of Russian wheat, and 60,000 mt each of Ukrainian and Romanian wheat. - This was the largest Egyptian wheat purchase since late August 2020.
- **US export sales** were 643,000 mt for a season total 824 million bu, up 6% on last year's 781 million bu. Of note was the white wheat total of 217 million bu which is now above the USDA's annual estimate of 215 million bu.

➤ **Wheat Market Outlook:**

Significant events:

- The **Russian tax** is known through end May, but the floating rate calculation starts April 1st for all shipments from June 1st forward, and the trade still has no idea how this calculation will be made. The end result this week was a stifling of FOB trade, but Russian farmers seemed to start to accept the inevitability of lower prices and began to sell, despite the extreme cold forecast for next week. Russia will have shipped 30 million mt by Feb 15th when the export tax and the 17.5 million mt quota start, making a 40 million mt season total perfectly feasible. This still allows a stock build of 4 million mt. Another school of thought is that Russian farmers do not need to sell and the addition of taxes will push Russian process higher, and thus heighten world prices. Old crop Black Sea futures fell \$10/mt with new crop down \$7/mt. EU wheat was down on both futures and cash premiums, which bought additional demand both in domestic and export markets.
- *Scrutiny of the **USDA/ WASDE reports** next Tuesday will focus on what how USDA sees EU and Russian exports.*
- **Egypt** made its largest wheat purchase since late August 2020 last Tuesday, buying 480,000 mt of wheat at an average price of \$311.4/0/mt, about \$12/mt higher than their previous purchase. The purchase included 240,000 mt of French wheat, the largest single purchase of French wheat in six years, 120,000mt of Russian wheat, and 60,000 mt each of Ukrainian and Romanian wheat. Russia now accounts for 74% of GASC purchases, with Ukraine the next largest seller, accounting for 15%. *The purchase of French and Romanian wheat does confirm expectations that international demand would shift towards European origin as a result of the Russian tax.*

➤ **Outlook:**

World wheat futures ended lower in a week that was once again dominated by the Russian export tax saga. Trade was very slow with indications that due to the tax we could see Russian farmers as sellers. However, in our opinion they have already shipped 30 million tonnes year-to-date, are well capitalized and are not pressured to sell while new crop production remains questionable.

Friday's StatsCan report shows a record large Canadian wheat disappearance, which could keep the wheat market volatile. We don't expect that the USDA will change their estimates for wheat this week, although there are trade estimates going into the Tuesday report that show analysts expect USDA to reduce global wheat carryout by 0.7 myn tonnes to 312.5 myn tonnes.

We see no reason to make any sales until we have an opportunity to digest the contents of new WASDE report.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 08-02-2021

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '21 (bu.)	May '21 (mt)
1 CWRS 13.5	\$7.53	\$276.68	1 CWRS 13.5	7.74	\$284.40
1 CWAD 13.0	\$8.41	\$309.02	1 CWAD 13.0	8.47	\$311.22
1 CPSR 11.5	\$6.98	\$256.47	1 CPSR 11.5	7.27	\$267.13
SW Sask			SW Sask		
1 CWRS 13.5	\$7.34	\$269.70	1 CWRS 13.5	7.56	\$277.78
1 CWAD 13.0	\$8.25	\$303.14	1 CWAD 13.0	8.48	\$311.59
1 CPSR 11.5	\$6.98	\$256.47	1 CPSR 11.5	7.24	\$266.03
NE Sask			NE Sask		
1 CWRS 13.5	\$7.29	\$267.86	1 CWRS 13.5	7.47	\$274.48
1 CWAD 13.0	\$8.51	\$312.69	1 CWAD 13.0	8.65	\$317.84
1 CPSR 11.5	\$7.04	\$258.68	1 CPSR 11.5	7.01	\$257.58
SE Sask			SE Sask		
1 CWRS 13.5	\$7.18	\$263.82	1 CWRS 13.5	7.39	\$271.54
1 CWAD 13.0	\$8.44	\$310.12	1 CWAD 13.0	8.57	\$314.90
1 CPSR 11.5	\$6.80	\$249.86	1 CPSR 11.5	7.00	\$257.21

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 14.0	0.10	3.77
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.05)	-1.84
1 CWRS 12.5	(0.30)	-11.02
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.10	3.67
2 CWAD 13.0	(0.20)	-7.35
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 Basis³ (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:

³ 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.”

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				08-02-2021
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	\$356.04	\$383.25		
HRS	\$349.00			
HRW 11.5	\$367.77			
SWW 12.0	\$351.35			
1 CWRS 13.5³	\$356.04		\$277.78	\$78.26
2 CWRS 13.0³	\$349.00		\$266.76	\$82.24
3 CWRS³	\$367.77		\$261.25	\$106.52
CPS³	\$344.78		\$257.94	\$86.84
1 CWAD⁴		\$376.68	\$301.30	\$75.38
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$280.00	February		
French 11.5 (Rouen)	\$280.00	February		
ASW 10.5 (W Coast)	\$286.00	April		
Argentine 12.0	\$270.00	February		

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				08-02-2021
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.32	\$9.83	\$7.35	\$7.35
Parity Track Rosetown	\$7.82	\$8.33	\$7.89	\$7.89
Track Bid Rosetown Area	\$7.26	\$7.11	\$7.02	\$7.02
Gross Margin at Elevator (\$/bu)*	\$0.56	\$1.22	\$0.87	\$0.87
Gross Margin at Elevator (\$/mt)*	\$20.69	\$44.97	\$31.86	\$31.86
* to cover elevation, elevator market risk, margin				