

Wheat Market Outlook and Price Report: January 18, 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 January 18, 2021

International Grains Council (IGC) Global Wheat Estimates Jan. 14/21:

	17/18	18/19	19/20 est.	20/21 f'cast	
million tons				26.11	14.01
WHEAT					
	17/18	18/19	19/20 est.	20/21 f'cast	
million tons				26.11	14.01
Consumption	742	740	745	752	753
Carryover stocks	267	260	278	295	294
year/year change	20	-8	19		15
Major exporters ^{b)}	82	69	64	64	63

- IGC projections for **world wheat supply and demand** in 2021/22 point to record production and, despite higher consumption, a further accumulation of global stocks.
- However, the build-up of **stocks** is again expected to be centred on China and India, while stocks by the major exporters fall by another 1 million mt.
- An above-average level of **trade** is predicted, even if not as high as the record of the year before. Russia will potentially export less than in 2020/21 but could remain the largest exporter.

➤ **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 675-4, up 5-4 cents on Friday, *up 36-8 cents on the week*.

Mch. '21 contract **Kansas hard red winter wheat** closed at 643-0, up 6-4 cents in Friday's trade, and up 48-4 on the week.

Mch. '21 **Minneapolis hard red spring wheat** closed at 643-2, up 2-6 cents on Friday, and up 35-6 on the week.

- Futures market summary: The lower-than-expected global wheat ending stocks estimate in the USDA report and news that Russia could further increase its 2020/21 wheat export tax supported all wheat futures prices last week.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat

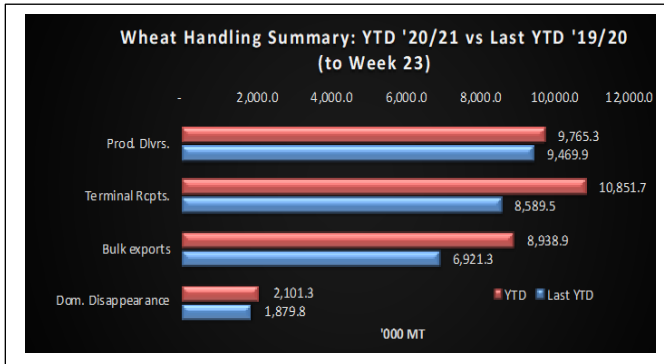


Mpls. Mch. '21 Wheat

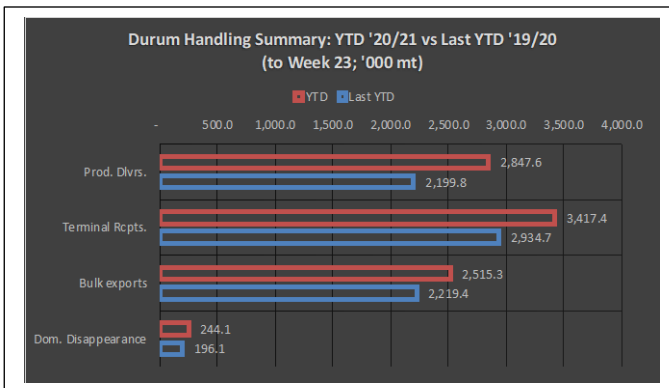


Canadian Wheat:

- World wheat markets all hit new season/contract highs this week as Russian export taxes pushed US dollar prices sharply higher (FOB traded at \$300/mt on Friday), which in turn lifted all other cash origins.
- Mch. '21 Minneapolis hard red spring wheat closed at 643-2, up 2-6 cents on Friday, and up 35-6 on the week. *This means we had a decent recovery in Mpls. wheat, which we still think is underpriced compared to corn and soybeans. Cash prices of wheat firmed considerably as the markets see any increase in Russian taxes as bullish.*
- **Canadian wheat exports** were excellent for week 23 at 449,000 mt. Canadian year-to-date wheat exports remain well ahead of last years with an additional 2 million mt (+29%) shipped over last year.
- Grower wheat deliveries were also high (600,000 mt) on somewhat improved prices.
- We expect markets will be slow during the week following the big rally in markets after the WASDE report. (The US is also closed on Monday due to Martin Luther King Day.) Traders will watch the weather in South America, any new developments in Russia (export tax) and whether China will continue to buy aggressively at current higher prices.
- *We would continue to hold wheat for the present.*



- **Canadian durum exports** for week 23 were at 49,000 mt, for a year-to-date total of 2.5 million mt, compared to 2.2 million mt last year-to-date. This is 13% (+236,000 mt) ahead of last year's pace. Grower deliveries were big at 147,000 mt.
- Year-to-date **US durum export sales** in 2020/21 are 25% behind last year's pace at 590,000 mt but still are 20% ahead of the 5-year average. Total sales to Italy, the largest market for US durum, are only 6% behind last year's pace at 433,000 mt, which is 63% more than the 5-year average.
- We would target \$9.00/bu. for additional durum sales.



US Wheat:

- **USDA/ WASDE report on wheat:** USDA reported US winter wheat planted acreage for 2021/22 at 31.99 million acres, *up 5% from last year* due to strong prices during fall planting. (Of that, 69.7% was HRW and 19.4% was SRW, compared to 70.2% and 18.3% in 2019/20.)
- In its Jan. **Grain Stocks report**, USDA reduced its total '20/21 global wheat ending stocks estimate by 3.30 mmm mt to 313 million mt, below industry expectations, on reduced supplies and increased consumption. Despite a significant reduction from last month, record global ending stocks would still be 4% more than last years and 13% more than the 5-year average.
- Weekly US wheat export sales at 222,000 mt were disappointing, but there were reports of HRW trading to Brazil. However, we suspect this is only a limited stopgap measure due to the Argentine port issues.
- US HRS for January '21 is valued at \$298/mt FOB PNW, PNW White wheat is valued at \$285/mt FOB PNW, FOB Gulf HRW 11/12.5 pro is valued at \$296.35/mt.

Australian wheat:

- Australian wheat futures are headed for their highest weekly close in 2 months despite the currency sitting at 34-month highs.
- Apr-May FOB values remain in the low \$290's for WA APW; there is nothing for sale prior to this.
- Australian new crop FOB APW wheat values for March closed at \$293/mt, up \$12/mt from the previous week. *There were no offers for Jan. or Feb. '21.*

Argentine wheat:

- Argentine FOB wheat values jumped \$5-7/mt based on the overall strength in world wheat values. Note they remain at a significant discount to US, EU and Black Sea values.
- The harvest is now over, BAGE maintained its crop at 17 million mt (USDA 17.5 million mt).
- The port-, farmer- and inspection strikes are now over, but it will take some time before the vessel backlog is eliminated.
- 'Nominal values' for FOB 12% pro Argentine wheat are at \$275/mt for Jan. delivery.

EU wheat:

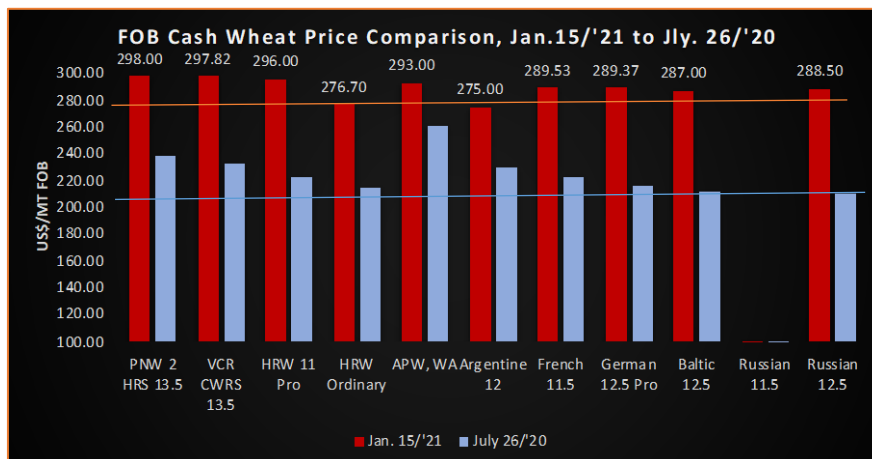
- Matif wheat in Europe rallied €2-4/mt based on talk that Russian export discussions were getting close to a consensus on the AgMin's proposals. - A €50/mt export tax on old crop wheat from March 1st forward looked like a done deal on Friday. It also seems that the imposition of a variable tax on new crop has been agreed upon, but the exact mechanism has not been announced.
- *Jan. FOB prices were higher in the EU:* French 11.5 pro closed at \$289.53/mt, up \$11.53/mt from last week. German 12.5 pro was up by \$18.37/mt to \$289.37/mt. Baltic 12.5 pro increased by \$18.40/mt on the week to \$287.00/mt.

Black Sea wheat:

- A €50/mt export tax on old crop wheat from March 1st forward looked like a done deal on Friday. It also seems that the imposition of a variable tax on new crop has been agreed upon, but the exact mechanism has not been announced.
- Black Sea prices also rallied sharply, with the FOB bid-offer for Jan Russian 12.5 pro wheat (in theory a position with no export tax) closing at new highs of \$288-290/mt, up \$10-11/mt. FOB values beyond January are not defined.
- **Ukrainian grain exports** have fallen 18% to 27.2 million tonnes so far in the season, which runs from July 2020 to June 2021, economy ministry data showed on Friday.

➤ Significant purchases/ trades:

- There were no major cash trades reported during the week.
- Turkey (TMO) tenders on Tuesday for 400,000 mt of wheat for Jan. 26 -Feb. 25. – This will be the first real indicator of how the trade is prepared to price wheat in the cash market following the steep futures increases and the Russian export tax increase.
- Jordan returns Jan 20th for 120,000 mt Jun-July-Aug.
- Weekly US export sales of 222,000 mt were below expectations but the season total of 774 million bu remains 7.5% ahead of last year against the USDA's projected 2% increase.
- The wheat price comparison of current FOB prices to those posted in July last summer demonstrates the scale of price appreciation for wheat as well as the important changes in relative pricing between origins.



➤ Wheat Market Outlook:

Significant events:

- The main support for wheat continued to come from the **Russian export tax** story. As of Friday afternoon, we believe that the €25/mt export tax starting on Feb 15th, will increase to €50/mt on March 1st. It seems that the imposition of a **variable tax on new crop** has also been agreed upon, but the exact mechanism has not been announced.
 - We will have to assess how Russian farmers will react, and what the implications might be for either Russian domestic or world prices.
- Argentina: BAGE maintained its wheat crop size at 17 million mt (USDA 17.5 million mt).
- The bullish USDA-WASDE report on feed grains means that more wheat will be needed for feed.

➤ **Outlook:**

We saw new highs in commodity prices following the bullish WASDE report. We can expect more rallies in wheat as high grain prices will make meat expensive for many and increase the food usage of grains. EU price rationing is required to limit exports and preserve stocks, but this was made more difficult following Friday's Russian run-up of prices.

We have tenders from Jordan and Turkey coming up this week, followed next by Algeria and Egypt (GASC). These tenders should give the market a good idea of buyer's attitudes to the higher prices. – The tenders will set the tone/ level for the rest of the season.

We expect the buyers will buy wheat. - *We would continue to hold wheat for the present.*

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	18-01-2021
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		May '21 (bu.)	May '21 (mt)	
1 CWRS 13.5	\$7.54	\$277.05	1 CWRS 13.5	7.72	\$283.66	
1 CWAD 13.0	\$8.23	\$302.40	1 CWAD 13.0	8.27	\$303.87	
1 CPSR 11.5	\$7.05	\$259.05	1 CPSR 11.5	7.26	\$266.76	
SW Sask			SW Sask			
1 CWRS 13.5	\$7.41	\$272.27	1 CWRS 13.5	7.56	\$277.78	
1 CWAD 13.0	\$8.26	\$303.51	1 CWAD 13.0	8.29	\$304.61	
1 CPSR 11.5	\$6.98	\$256.47	1 CPSR 11.5	7.21	\$264.92	
NE Sask			NE Sask			
1 CWRS 13.5	\$7.32	\$268.97	1 CWRS 13.5	7.48	\$274.85	
1 CWAD 13.0	\$8.31	\$305.34	1 CWAD 13.0	8.50	\$312.32	
1 CPSR 11.5	\$6.85	\$251.70	1 CPSR 11.5	7.06	\$259.41	
SE Sask			SE Sask			
1 CWRS 13.5	\$7.18	\$263.82	1 CWRS 13.5	7.41	\$272.27	
1 CWAD 13.0	\$8.32	\$305.71	1 CWAD 13.0	8.44	\$310.12	
1 CPSR 11.5	\$6.82	\$250.59	1 CPSR 11.5	7.05	\$259.05	

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 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/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)

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.”

- 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				18-01-2021
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	\$359.54	\$382.98		
HRS	\$352.51			
HRW 11.5	\$368.92			
SWW 12.0	\$344.07			
1 CWRS 13.5 ³	\$359.54		\$278.15	\$81.39
2 CWRS 13.0 ³	\$352.51		\$264.92	\$87.59
3 CWRS ³	\$368.92		\$263.09	\$105.83
CPS ³	\$337.51		\$260.51	\$76.99
1 CWAD ⁴		\$376.42	\$293.95	\$82.46
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$288.50	January		
French 11.5 (Rouen)	\$289.53	January		
ASW 10.5 (W Coast)	\$293.00	March		
Argentine 12.0	\$275.00	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

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					18-01-2021
Canadian Funds	Grade				
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS	
Dec/Jan delivery	\$9.42	\$9.86	\$7.20	\$7.20	
Parity Track Rosetown	\$7.92	\$8.37	\$7.69	\$7.69	
Track Bid Rosetown Area	\$7.21	\$7.16	\$7.09	\$7.09	
Gross Margin at Elevator (\$/bu)*	\$0.71	\$1.21	\$0.60	\$0.60	
Gross Margin at Elevator (\$/mt)*	\$26.04	\$44.28	\$22.01	\$22.01	

* to cover elevation, elevator market risk, margin