

## Wheat Market Outlook and Price Report: March 15, 2021

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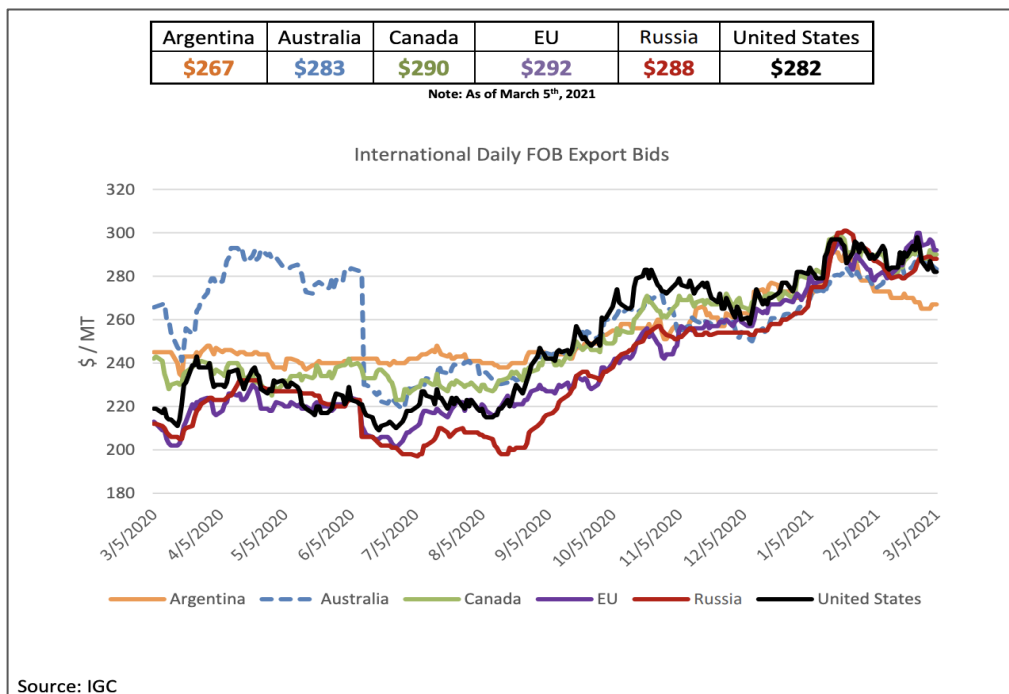
### i) Background and Rationale for the Report

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 March 15, 2021

#### USDA March Wheat Market Analysis: Global Wheat Price Developments<sup>1</sup>:



- **Wheat prices** rose in most major exporting countries since the February WASDE report amid the implementation of Russia's export policies and concerns with winter wheat conditions in the United States and Black Sea, combined with strong import demand from several major markets.

<sup>1</sup> Note on FOB prices: Argentina- 12.0%, up river; Australia- average of APW; Fremantle, Newcastle, and Port Adelaide; Russia - Black Sea- milling; EU- France grade 1, Rouen; US- HRW 11.5% Gulf; Canada- CWRS (13.5%), Vancouver.

- Most major exporter quotes were trading within a narrow range since the Feb. USDA report, though over the past month Argentine quotes have fallen, reflecting abundant supplies after its recent harvest. Despite new supplies also available in Australia, quotes there have trended up on strong demand from Asian markets. – However, we note that over the past week, Russian wheat has again entered the markets and sellers are keen to capture the old crop-new crop inverse.

➤ **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 - May '21 contract Chicago winter wheat** closed at 638-4, down 4 cents on Friday, *down 14-6 cents on the week.*  
 May '21 contract **Kansas hard red winter wheat** closed at 603-4, down 0-6 cents in Friday's trade, *down 22-8 cents on the week.*  
 May '21 **Minneapolis hard red spring wheat** closed at 633-6, down 0-2 cents on Friday, and *down 11-4 cents on the week.*
- Futures market summary:** Wheat futures prices fell last week due to lower global cash wheat prices and the anticipation of significant, much-needed precipitation across most winter and spring wheat-producing regions in the Great Plains. KC HRW led the way on the improved rainfall on the Plains, while the sharp losses in corn and soybeans helped pull CBOT wheat lower.

**CBOT May 2021 Wheat (1 yr.)**



**KC May '21 Wheat**



**Mpls. May '21 Wheat**



Canadian Grain Exports (CGC numbers)	Wk. 31				
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains
<b>Crop Year To date</b>	7,246	15,363	1,865	619	33,037.0
<b>Year Ago</b>	5,551	11,932	1,578	535	24,598.0
<b>Change this Cr.Yr. in MT</b>	1,695	3,431	287	84	8,439
<b>Change this Cr. Yr. in Percent</b>	131%	129%	118%	116%	134%

**Canadian Wheat:**

- International traders are again prepared to sell Russian wheat, which provides more origin offers. Combined with the help of better weather conditions being reported, this took wheat prices lower. As we get towards the end of the current crop year, we are seeing more offers trying to catch the inverses. Eastern European prices show good returns to growers and we expect them to be keen sellers at present prices.

(CGC) Grain Handling Summary Wheat ('000 mt)	Wk. 31			(Mch. 7/'21)
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
<b>Wk. 31</b>	545.9	354.5	397.0	39.8
<b>Week ago</b>	513.7	323.4	328.9	37.1
<b>YTD</b>	13,472.2	13,412.3	11,766.8	2,450.6
<b>Last YTD</b>	12,571.0	10,413.1	9,080.5	2,376.4
<b>YTD less Last YTD</b>	901.2	2,999.2	2,686.3	74.2
<b>YTD over Last YTD</b>	107%	129%	130%	103%

Mercantile based on weekly CGC Handling Data

**Canadian growers now need to compete to minimize carry-in stocks and collect the cash market inverts.**

- **Canadian wheat exports** in week 31 were excellent at just under 400,000 mt. The season total is 11.8 million mt, a full 2.7 million mt (+30%) higher than last year to date. The biggest wheat importers this year have been China, followed by Indonesia, and Japan. – Good railcar availability this year has doubtlessly helped to seize export opportunities.
- In Sask, 1 CWRS 13.5 fetch ~8.20/bu, and 2 CWRS 12.5 (readily exportable product) fetches ~\$8.00/bu, and feed wheat up to \$7.75/bu, depending on location. *We would sell spring wheat above \$8.10/bu.*
- *Growers should make sure they get as much old crop sold as they can. The objective is to catch the cash inverse and have as much storage space available for new crop as is possible. We expect Europeans to be very aggressive sellers July through Dec, leaving little room for North American origins. Demand for Canadian stocks will be greatest after January.*
- **Canadian durum exports** for week 31 at 169,000 mt were very good as well, for a year-to-date total of 3.6 million mt, 26% higher than last year-to-date.
- Canada's biggest durum importers have been Italy, followed by Morocco, and by Algeria. Exports to Turkey are down by 344,000 mt.
- Old crop durum in Sk is trading at up to ~\$9.00/bu delivered for March. We would be sold min. 50% of the crop at that. New crop durum is bid at \$8.25-\$8.50/bu FOB farm Sk.

(CGC) Grain Handling Summary Durum		Wk. 31		(Mch. 7/'21)
('000 mt)	Prod. Dlvs.	Terminal	Bulk exports	Dom.
		Rcpts.		Disappearance
<b>Wk. 31</b>	<b>136.3</b>	<b>134.0</b>	<b>168.5</b>	<b>15.3</b>
Week ago	147.5	107.8	142.4	12.0
<b>YTD</b>	<b>3,893.2</b>	<b>4,297.5</b>	<b>3,595.9</b>	<b>337.6</b>
Last YTD	2,894.2	3,413.9	2,851.2	227.0
<b>YTD less Last YTD</b>	<b>999.0</b>	<b>883.6</b>	<b>744.7</b>	<b>110.6</b>
<b>YTD over Last YTD</b>	<b>135%</b>	<b>126%</b>	<b>126%</b>	<b>149%</b>

Mercantile based on weekly CGC Handling Data

**US Wheat:**

- The USA maintains widespread rain across the central Plains, Southern Midwest and south-east, which is good for wheat, but may be an issue for early corn plantings.
- March **USDA/ WASDE** report: USDA increased its global wheat consumption estimate by 7 million mt to 776 million mt on increased feed wheat use in China (+5 million mt). USDA now pegs total global production in '20/21 at 777 million mt, up from the February estimate on increased production estimates for Australia. The global ending stocks estimate fell by 3 million mt this month to 301 million mt, still a world record and up 9% from the 5-year average.
- **Weekly commercial US export sales** of 329,000 mt for delivery in '20/21 were up 50% from last week's 219,000 mt and on the high end of trade expectations of 150-350,000 mt. Increases were primarily for Mexico, Japan, Thailand, Vietnam, and Ecuador. Year-to-date sales of 24.1 million mt are 2% ahead of last year's pace. USDA forecasts total U.S. wheat exports to reach 26.8 million mt in '20/21, 2% ahead of last year.
- US HRS for April '21 is valued at \$288/mt FOB PNW (down \$3.00/mt), PNW White wheat is valued at \$290/mt FOB PNW (up \$5.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$271.60/mt (down \$5.46/mt from last week).

**Australian wheat:**

- Rain in Australia ahead of seeding remains favourable in the east, but the west could use some additional moisture.
- Australian wheat futures were down last week for both old crop and new crop.
- FOB values are little changed, but with there is more pressure to sell, but Asian buyers not liking the prices.
- Australian new crop FOB APW wheat values for June closed at \$290/mt, unchanged from the previous week.

## Argentine wheat:

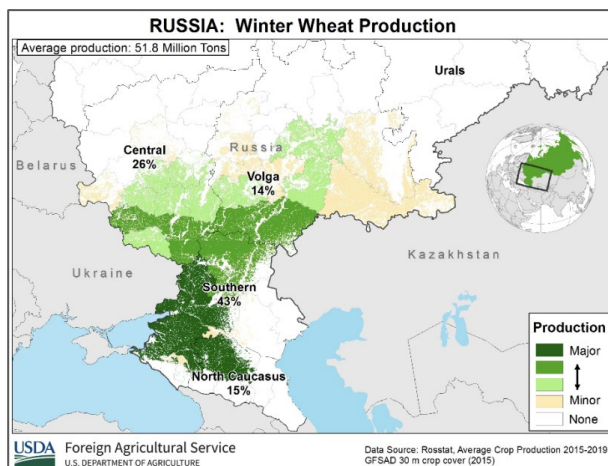
- Argentine wheat remains cheap on a FOB basis. However, the very low soil moisture levels should be a concern with the start of seeding just over a month away.
- FOB values for April 12% protein wheat ranged from \$256-266/mt.

## EU wheat:

- Mild, mostly dry weather promoted early winter crop development in Western Europe, while winter grains and oilseeds remained dormant in most eastern growing areas.
- *Improved condition reports from Europe are reducing the markets' needs for a weather premium.*
- France missed out on the Algeria tender; Algeria bought 500,000 mt of Baltic/Polish wheat instead at cheaper levels.
- *April FOB prices in the EU:* French 11.5 pro closed at \$283.90/mt, down \$8.74/mt from last week. German 12.5 pro was down by \$3.97/mt to \$277.80/mt. Baltic 12.5 pro dropped by \$11.60/mt on the week to \$275.40/mt.

## Black Sea wheat:

- Temperatures in **Ukraine** and **Russia** are finally moving above the seasonal average following last week's severe cold.
- *The 525,000 mt of Russian wheat offer to Egypt took the market by surprise and weighed on Black Sea/EU cash prices.* - Egypt (GASC) bought 360,000 mt of Romanian wheat at \$17/mt below the cheapest French wheat offer, which sent Matif down €3 to a 3-week low.
- *The big offer of Russian wheat suggests that the market is more comfortable on the tax issue and is now prepared to sell Russian wheat.*
- April Russian 12.5 pro wheat closed at \$280.00/mt, down \$10.00/mt from last week.
- Ukrainian wheat export prices lost \$1-\$2/mt over the past week after the decrease in Russian wheat prices and an expected jump in the 2021 crop. Asking prices for Ukrainian-origin 12.5% protein wheat stood at \$279 - \$286/mt FOB Black Sea.
- Latest update on **2020 Russian spring wheat:** According to USDA-FAS, Russian spring wheat yields last year were above average in several key growing areas. Yields in the Siberia District, which is the top producing district, were the third highest on record. Yields in the Volga District, which is the second top producing district, were the second highest on record. According to Russian analysts, spring wheat yield increases were largely due to improvements in technology (seed treatments, pesticides, fungicides and newer farm equipment). USDA does not yet have an estimate for 2021 crop Russian spring wheat.



➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 360,000 tonnes of Romanian wheat for April at \$297.50/mt, around \$14/mt below their previous purchase.
- **Algeria** bought 450,000 mt of feed wheat in their international tender.
- The **Philippines** passed on their tender for 385,000 mt of feed wheat.
- **Saudi Arabia** didn't show.
- **US export sales** were 330,000 tonnes taking the season total to 886 myn bushels, up 2% on last year and in line with the USDA.

➤ **Wheat Market Outlook:**

**Significant events:**

- *The 525,000 mt of **Russian wheat** offer to Egypt took the market by surprise and weighed on Black Sea/EU cash prices.* - Egypt (GASC) bought 360,000 mt of Romanian wheat at \$17/mt below the cheapest French wheat offer, which sent Matif down €3 to a three-week low. - *The big offer of Russian wheat suggests that the market is more comfortable on the tax issue and is now prepared to sell Russian wheat.*
- **Egypt** (GASC) was able to buy wheat at \$8-9/mt below their last purchase price.
- **Improved condition reports** from Europe are reducing the markets' needs for a weather premium.
- Ocean freight is still steadily rising.

➤ **Outlook:**

Last week's big offer of Russian wheat (525,000 mt) suggests that the market is more comfortable on the tax issue and is now prepared to sell Russian wheat. This provides more origin offers, and with the help of better weather conditions being reported, took wheat prices lower.

*As we get towards the end of the current crop year, we are seeing more offers trying to catch the inverses. We expect this to continue, particularly while there seem to be few weather problems for now. Eastern European prices show great returns to growers and we expect them to be keen sellers at present prices.*

**Canadian growers now need to compete to minimize carry-in stocks and collect the cash market inverses.**

### iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 15-03-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Aug. '21 (bu.)	Aug. '21 (mt)
1 CWRS 13.5	\$7.64	\$280.72	1 CWRS 13.5	7.21	\$264.92
1 CWAD 13.0	\$8.54	\$313.79	1 CWAD 13.0	7.94	\$291.75
1 CPSR 11.5	\$6.92	\$254.27	1 CPSR 11.5		
SW Sask			SW Sask		
1 CWRS 13.5	\$7.50	\$275.58	1 CWRS 13.5	7.08	\$260.15
1 CWAD 13.0	\$8.56	\$314.53	1 CWAD 13.0	8.08	\$296.89
1 CPSR 11.5	\$6.92	\$254.27	1 CPSR 11.5		
NE Sask			NE Sask		
1 CWRS 13.5	\$7.39	\$271.54	1 CWRS 13.5	7.06	\$259.41
1 CWAD 13.0	\$8.36	\$307.18	1 CWAD 13.0		
1 CPSR 11.5	\$6.59	\$242.14	1 CPSR 11.5		
SE Sask			SE Sask		
1 CWRS 13.5	\$7.28	\$267.50	1 CWRS 13.5	6.93	\$254.64
1 CWAD 13.0	\$8.42	\$309.38	1 CWAD 13.0	7.67	\$281.83
1 CPSR 11.5	\$6.66	\$244.72	1 CPSR 11.5		

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

### 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 Basis<sup>2</sup> (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)
    - 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.

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<sup>2</sup> 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.”

- 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				15-03-2021
Type of Wheat	FOB Prices CDA <sup>1</sup> (calculated)		Street Prices	Export Basis <sup>2</sup>
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$346.36	\$375.30		
HRS	\$339.47			
HRW 11.5	\$342.68			
SWW 12.0	\$350.95			
1 CWRS 13.5 <sup>3</sup>	\$346.36		\$284.77	\$61.59
2 CWRS 13.0 <sup>3</sup>	\$339.47		\$284.77	\$54.70
3 CWRS <sup>3</sup>	\$342.68		\$266.39	\$76.29
CPS <sup>3</sup>	\$344.52		\$260.88	\$83.64
1 CWAD <sup>4</sup>		\$368.86	\$301.67	\$67.20
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$280.00	April		
French 11.5 (Rouen)	\$283.90	April		
ASW 10.5 (W Coast)	\$286.00	June		
Argentine 12.0	\$261.00	April		

<sup>1</sup> FOB Prices CDA = FOB US\$ converted into Canadian Currency

<sup>2</sup> Export Basis = FOB Prices CDA minus Cdn. Street Price

<sup>3</sup> DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

<sup>4</sup> Values derived to Lakehead FOB

## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities				15-03-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.06	\$9.15	\$7.50	\$7.50
Parity Track Rosetown	\$7.57	\$7.65	\$7.88	\$7.88
Track Bid Rosetown Area	\$7.75	\$7.25	\$7.10	\$7.10
Gross Margin at Elevator (\$/bu)*	-\$0.18	\$0.40	\$0.78	\$0.78
Gross Margin at Elevator (\$/mt)*	-\$6.72	\$14.87	\$28.65	\$28.65

\* to cover elevation, elevator market risk, margin