

Wheat Market Outlook and Price Report: March 1, 2021
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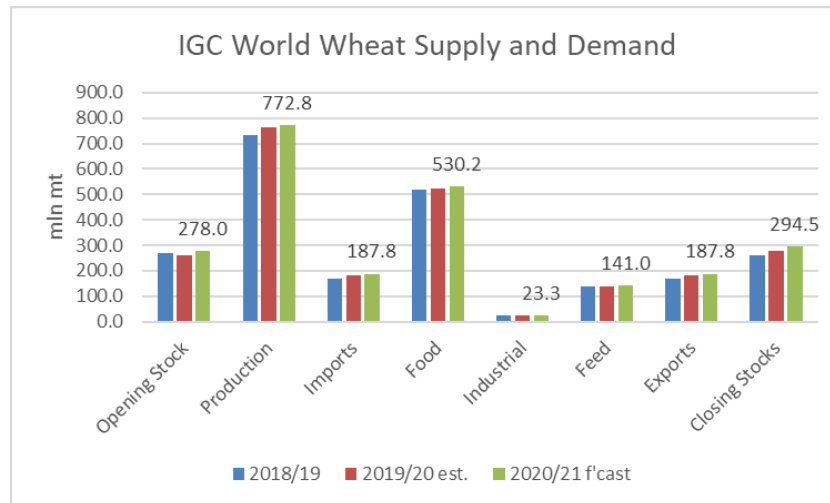
i) Background and Rationale for the Report

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 1, 2021

Feb. 25 '21 – ICG World Wheat Update



- **ICG increased their 2020/21 global wheat production estimate** by 5.0 million mt to 773 million mt (+11 million mt y/y). The increase was from bigger than expected crops in Australia, Russia, and Kazakhstan.
- Both **global trade and consumption were raised** by a combined 5 million mt, leaving **ending stocks unchanged** at 295 million mt (+16 million mt y/y)
- **ICG’s preliminary estimates for 2021/22:**
 - ICG expects a **record 790 million mt of wheat production**, citing a bounce back in Europe and good harvests in North Africa and India. citing a bounce back in Europe and good harvests in North Africa and India.
 - The preliminary **wheat ending stocks for 21/22 was increased** from the January report believing lost trade will more than offset higher feeding.

➤ **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 660-2, down 15-4 cents on Friday, *up 4-6 cents on the week*.
- May. '21 contract Kansas hard red winter wheat closed at 633-6, down 18-6 cents in Friday's trade, *down 4-4 cents on the week*.
- May. '21 Minneapolis hard red spring wheat closed at 638-6, down 11-6 cents on Friday, and *down 1-2 cents on the week*.
- Futures market summary: US wheat futures closed the week mixed as slow demand and poor export sales weighted on the market.
- Funds data showed that traders added 5,625 contracts to their long position for an estimated net long of 26,910 contracts.

CBOT May 2021 Wheat (1 yr.)



KC May '21 Wheat

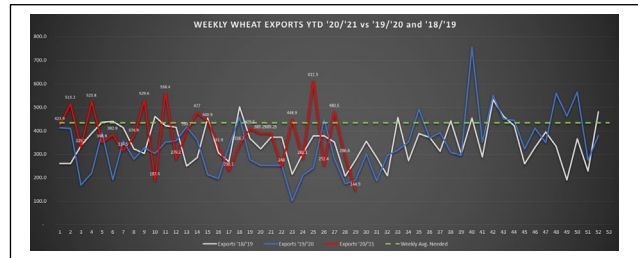


Mpls. May '21 Wheat

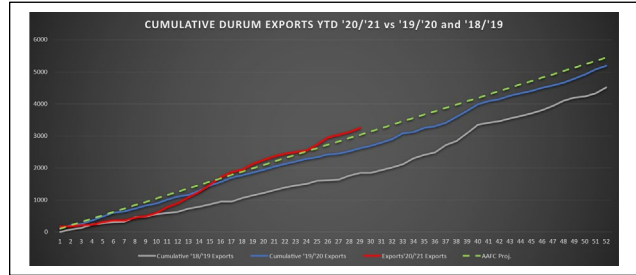


Canadian Wheat:

- US winter crops seem to have survived the extreme cold conditions with limited damage. This allowed trade's focus the return to the lack of demand in the global market, notably from Saudi, Algeria, and Egypt. These large importers do not have coverage beyond March, so they will need to resume buying soon. This must all be considered in the context of a large Russian supply that is currently being kept off the market.
- **Canadian wheat exports** were lower again in week 29. Weekly exports were just 144.9,000 mt for a season total of 11 million mt, 29% (2.46 million mt more than last year) Cold weather likely played a roll in the slow export week. There also seems to be a seasonal decline around week 28-33.
- **Canadian producer deliveries** rebounded to 421.6,000 which caused visible supplies to rise to 2.9 million mt -indicating higher export levels to come.
- Canadian wheat should have no trouble competing on the world market. The biggest risk to exports we see is rail car availability. Even though rail movement has been strong this year, all the elevators we spoke to said they could source and move more grain if they had access to the cars.
- Bids in Canada were sideways last week. #1 & 2 CWRS 13.5 fetch \$7.90-8.05/bu (+) in SK, feed wheat fetches \$7.50-7.85/bu, depending on location. New crop wheat should be worth ~\$7.75/bu.
- **We expect world prices to remain supportive and Canadian prices to improve as the "basis" narrows. There is no rush for Canadian farmers to push for sales at the present.**

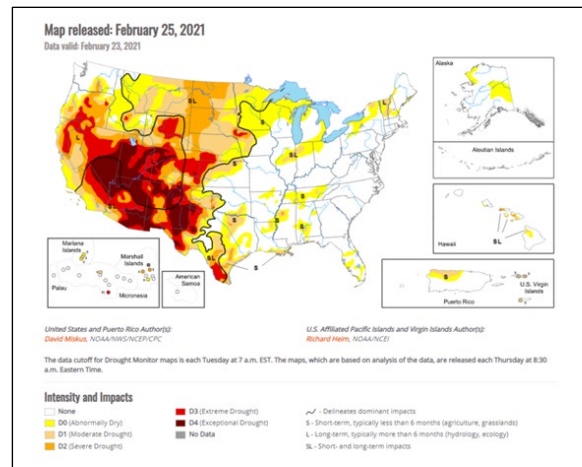


- **Durum exports** for week 29 were large at 140,300 mt. We have exported 23% (611,000 mt) more durum year-to-date than last year. Canada needs to export 94,500 mt/week to reach the AAFC's export estimate. We think this is reasonable.
- Seasonally, **durum prices** begin to trend lower at the end of January when over sea buyers have found coverage until new crop. Although we have seen some weakness in durum bids recently, prices have not been following the seasonal pattern. Last year was also an anomaly as bids rallied through springtime (when bids are usually fairly flat). We have an even tighter supply situation than last year and would not be surprised to see a similar pattern.
- We hear that \$9.00-9.25/bu is being paid for #1 CWAD in SK, which is a good price to sell.
- New crop durum ranges from \$8.50-9.00 delivered.



US Wheat:

- The cold snap across the US caused **US winter wheat conditions** to fall slightly. Kansas ratings fell 3% to 40% G/E. OK conditions fell from 61% to 48% G/E. IL fell from 65% to 46% G/E. KY fell to 72% from 86%. *Our sources indicate the extreme cold will have little impact in final yield.*
- Temperatures have risen across the US, but **drought pressure** has not subsided. Sever drought has expanded into the Dakotas. Western Nebraska saw some beneficial rains. Warmer temperatures and minimal precipitation are expected this week.
- **Weekly commercial US export sales** were 168,000 mt (6.2 million bu), a marketing year low. Total wheat commitments are now 866 million bu, 4% ahead of last year. Average weekly what sales need to be ~7 million bu to reach the USDA's 985 million but export projection (2% more than last year).
- **Freight makes US wheat too expensive** on the global market, and while US FOB is relatively flat May through Sept, it is facing a \$45 inverse in the EU and Black Sea.
- US HRS for March '21 is valued at \$292/mt FOB PNW (up \$5.00/mt), PNW White wheat is valued at \$292/mt FOB PNW (down \$2.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$293/mt (up \$6/mt from last week).



Australian wheat:

- The **Australian Weather Bureau** is calling for above average rain in the country's East which will promote wheat production. Seeding will begin in April. The remainder of the country is forecast to receive normal rainfall.
- **Rising freight costs** are casing Aussie wheat to face more competition into Asian markets. Black Sea (Ukraine) new crop is at \$280/mt vs Aussie replacement at \$315-320.
- Australian new crop FOB APW wheat values for May (first available position) closed at \$290/mt, unchanged from the previous week. *There continue to be no offers for Jan., Feb., March, or April '21.*

Argentine wheat:

- Argentina was very quiet on both FOB and domestic markets. The current crop program is essentially done, and new crop planting is two months away.

- Official FOB values for March low protein wheat were \$258-265/mt, well above the cash market. New crop (Dec) is bid at \$242 compared to the wide bid-offer spread of the cash market at \$230-243.

EU wheat:

- Matif wheat futures hit 7 ½ year highs rising €6.25/mt over the week, taking the March-May inverse to €15/mt.
- EU premiums remained firm as a number of major importers (Saudi, Algeria, and Egypt) do not have coverage beyond March. The EU is well poised to make these sales once they come to market.
- **EU Commission** raised their wheat export estimate 1 million mt to 27 million mt, still well below last year's 36.9 million mt. They lowered their corn import number 2 million mt to 16.5 million mt. Wheat stocks remain tight in the EU. They must either slow wheat exports, or increase corn imports. So far, they are having limited success with either.
- The soft wheat crop in **France** is in strong condition. Crop ratings rose 1% from last week to 87% Gd/Ex, well ahead of last year's 64% rating.
- *March FOB prices in the EU:* French 11.5 pro closed at \$300.17/mt, up \$7.34/mt from last week. German 12.5 pro was up by \$3.03/mt to \$292.67/mt. Baltic 12.5 pro increased by \$1.81/mt on the week to \$291.45/mt.

Black Sea wheat:

- The **additional €50/mt Russian export tax** came into effect today. This is on top of the €25/mt tax imposed two weeks ago. There are no new crop bids from Russia. The tax is cutting into the value of Russian farmer's wheat by upwards of US\$30/mt. Given the Russian farmer still has valid concerns about his new crop wheat crop, the incentive to sell his old crop wheat simply is not there. Over the past few years, Russia has exported 10-12 million mt of wheat in the July-Sep quarter, and importers would be well advised to take some alternative cover. On the contrary, many of them are still short on old crop imports.
- Russia has exported upwards of 32 million mt of wheat this marketing year through February, but there is little on the books for March-May. This will push their ending stocks to 16-18 million mt (7 million mt last year).
- **Ukraine's Ag Ministry** is reporting that the county has exported 13.6 million mt of wheat. This is 20% less than this time last year as drought hurt wheat yields.
- The reported FOB offer for March Russian 12.5 pro wheat closed at \$288.47/mt (nominal value), up \$3.47/mt from last week.

➤ Significant purchases/ trades:

Cash trade last week for wheat was very limited as the Russian cash prices remain undetermined due to the export tax and inclement winter weather. North American prices are competitive.

- The Black Sea market remains completely dead and offers no lead to the US, EU cash inverses continue to tighten, but concern continues to be expressed about the seeming ongoing lack of demand from some of the major importers.
- **Taiwan** issued a tender seeking 100,000 tonnes of U.S. wheat.
- **Saudi Arabia** bought 355,000 mt of **Australian/Ukrainian/Canadian** wheat at \$330.4/mt.
- **Net US wheat export sales** of 168,000 mt for delivery in 2020/21 were a marketing year low, down 58% from last week's 399,000 mt and well below trade expectations (250,000 mt to 700,000 mt).

➤ **Wheat Market Outlook:**

Significant events:

- **ICG increased their 2020/21 global wheat production estimate** by 5.0 million mt to 773 million mt (+11 million mt y/y). This increase was from bigger than expected crops in Australia, Russia and Kazakhstan. The combination of increases to both trade and consumption left global ending stocks unchanged at 294 million mt (+16 million mt y/y)
- **Reduced export demand** pressured Gulf HRW export basis for nearby and deferred deliveries. All other export basis values for HRW, HRS, SRW and soft white (SW) remained unchanged from last week.
- Without issuing a tender, **Saudi Arabia** bought 355,000 mt of **Australian/Ukrainian/Canadian** wheat at \$330.4/mt. **Canada** has been excluded from official tenders since December 2018. We expect that similar purchases will be made as the country seeks to do more business with foreign owned assets.
- **India's** wheat exports could rise again this year. The country's wheat crop is seen at 115 million mt vs last year's 107.6 million mt when they exported 1.8 million mt. Harvest will start in April.
- The **Baltic Dry Index** increased slightly from last week to close at 1,700.

➤ **Outlook:**

The market will continue to struggle with the complete lack of global demand. The Black Sea market remains completely dead and offers no lead to the US, EU cash inverses continue to tighten, but concern continues to be expressed about the seeming ongoing lack of demand from some of the major importers. Market prices will not improve until we see some significant new business.

Canadian prices should get firmer as the tight crop and bigger railcars availability narrow the "basis". There is no rush for Canadian farmers to push for sales at the present.

iii) Primary Elevator Price Tables and Grade Spreads

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

| NW Sask | Spot | | NW Sask | Deferred | |
|-------------|--------|----------|-------------|---------------|---------------|
| | (bu.) | (mt) | | May '21 (bu.) | May '21 (mt.) |
| 1 CWRS 13.5 | \$7.76 | \$285.13 | 1 CWRS 13.5 | \$7.92 | \$291.01 |
| 1 CWAD 13.0 | \$8.39 | \$308.28 | 1 CWAD 13.0 | \$8.35 | \$306.81 |
| 1 CPSR 11.5 | \$7.19 | \$264.19 | 1 CPSR 11.5 | \$7.32 | \$268.97 |
| SW Sask | | | SW Sask | | |
| 1 CWRS 13.5 | \$7.55 | \$277.42 | 1 CWRS 13.5 | \$7.69 | \$282.56 |
| 1 CWAD 13.0 | \$8.36 | \$307.18 | 1 CWAD 13.0 | \$8.34 | \$306.44 |
| 1 CPSR 11.5 | \$7.15 | \$262.72 | 1 CPSR 11.5 | \$7.25 | \$266.39 |
| NE Sask | | | NE Sask | | |
| 1 CWRS 13.5 | \$7.53 | \$276.68 | 1 CWRS 13.5 | \$7.68 | \$282.19 |
| 1 CWAD 13.0 | \$8.38 | \$307.91 | 1 CWAD 13.0 | \$8.43 | \$309.75 |
| 1 CPSR 11.5 | \$6.90 | \$253.53 | 1 CPSR 11.5 | \$7.01 | \$257.58 |
| SE Sask | | | SE Sask | | |
| 1 CWRS 13.5 | \$7.41 | \$272.27 | 1 CWRS 13.5 | \$7.52 | \$276.31 |
| 1 CWAD 13.0 | \$8.39 | \$308.28 | 1 CWAD 13.0 | \$8.38 | \$307.91 |
| 1 CPSR 11.5 | \$6.88 | \$252.80 | 1 CPSR 11.5 | \$6.97 | \$256.11 |

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).

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.”

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 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 | | | | March 1, 2020 |
|---|--|-------------------------|----------------------|--|
| 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 | \$347.77 | \$340.80 | | |
| HRS | \$344.96 | | | |
| HRW 11.5 | \$356.14 | | | |
| SWW 12.0 | \$359.86 | | | |
| 1 CWRS 13.5 ³ | \$347.77 | | \$278.15 | \$69.62 |
| 2 CWRS 13.0 ³ | \$344.96 | | \$262.72 | \$82.24 |
| 3 CWRS ³ | \$356.14 | | \$250.23 | \$105.92 |
| CPS ³ | \$353.35 | | \$247.65 | \$105.70 |
| 1 CWAD ⁴ | | \$373.34 | \$330.70 | \$42.65 |
| Competing wheat: US\$/mt | | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$288.47 | | March | |
| French 11.5 (Rouen) | \$300.17 | | March | |
| APW 10.5 (W Coast) | \$290.00 | | May | |
| Argentine 12.5 | \$265.00 | | March | |
| 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 | | | | | March 1, 2020 |
|--|------------------|--------------|--------------|--------------------|---------------|
| Canadian Funds | | | | | |
| PNW value/Vancouver | 1CWRS13.5 | 2CWRS | 3CWRS | Winter wht. | CPS |
| May/June delivery | \$9.29 | \$9.21 | \$9.52 | \$9.62 | \$9.62 |
| Parity Track Rosetown | \$7.79 | \$7.71 | \$8.02 | \$8.12 | \$8.12 |
| Track Bid Rosetown Area | \$7.57 | \$7.15 | \$6.81 | \$6.74 | \$6.74 |
| Gross Margin at Elevator (\$/bu)* | \$0.22 | \$0.56 | \$1.21 | \$1.38 | \$1.38 |
| Gross Margin at Elevator (\$/mt)* | \$8.13 | \$20.75 | \$44.42 | \$50.71 | \$50.71 |
| * to cover elevation, elevator market risk, margin | | | | | |