

Wheat Market Outlook and Price Report: November 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 November 1, 2021

International Grains Council (IGC): Global wheat balance sheet, October '21 numbers:

	18/19	19/20	20/21 est.	21/22 f'cast	23.09	21.10
million tons						
WHEAT						
Production	732	761	773	781	781	
Trade	168	185	191	191	194	
Consumption	740	745	770	783	783	
Carryover stocks	260	276	279	277	276	
<i>year/year change</i>	-8	16	3			-3
Major exporters ^{b)}	69	63	60	54	54	

B) Major exporters: Argentina, Australia, Canada, the EU, Kazakhstan, Russia, Ukraine, USA.

- The IGC left the 2021/22 global wheat production unchanged at 781 million mt. This is up 8 million mt from '20/21.
- *Global trade in wheat was increased by 3 million mt from last month to 194 million mt.*
- Consumption stayed the same from last month at 783 million mt. *This is a significant 13 ml mt higher than the year prior. – Consumption in this scenario is running ahead of production.*
- Global wheat ending stocks were lowered by 1 million mt to 276 million mt. This is 3 million mt lower than last years.
- *Importantly, ending stocks by major exporters were estimated at 54 million mt, 6 million mt lower than last years.*

Recent Developments in Wheat Demand:

There are big tenders in the market from the Middle East: Saudi Arabia is tendering for a big 655k mt of wheat for Jan.- through April '22 arrival. This tender will be interesting if they buy any USA Hard Red wheat. Results should be out today. [Note that Canada still is not eligible to offer wheat to Saudi Arabia as a fallout from then Foreign Minister Freeland about the country.]

Egypt (GASC) bought 360k mt of wheat last Wednesday. Jordan passed on a tender for 120k mt of wheat last week.

- *It seems that consumers are paying up and are not well covered.*

➤ **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:**

Dec. '21 contract Chicago winter wheat closed at 772-6, up 0-2 cents on Friday, *up 16-6 cents on the week.*

Dec. '21 contract Kansas hard red winter wheat closed at 785-6, down 4-2 cents in Friday's trade, *up 11-6 cents on the week.*

Dec. '21 Minneapolis hard red spring wheat closed at 1052-2, up 14-6 cents on Friday, *up 39-2 cents on the week.*

- *MPLS wheat added double digits to the rally, setting new life of contract highs and closing out the month \$1.42 per bushel higher. Matif wheat also hit contract highs.*
- *This Monday morning, wheat futures remain strong, with Mpls currently up another 25c/bu.*

CBOT Dec. 2021 Wheat (1 yr.)



KC Dec. '21 Wheat

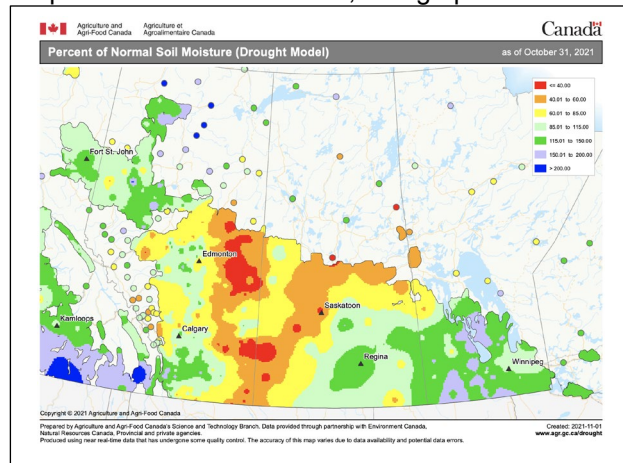


Mpls. Dec. '21 Wheat



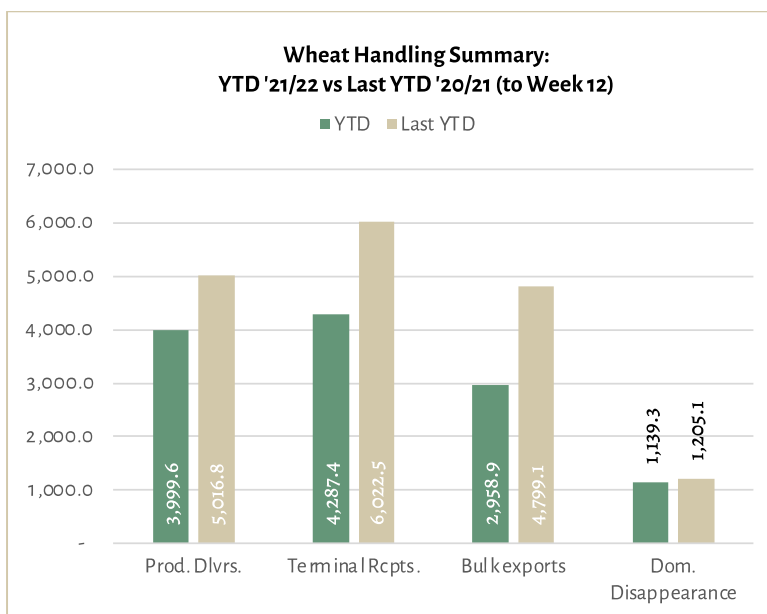
Canadian Wheat:

- While there has been widespread precipitation in parts of Western Canada, a large portion of AB and SK still have soil moisture levels well below average.
- In shipping week 12, Canadian spring wheat exports recovered slightly from the week before at 185.5k mt. This is still well below the 249.4k mt worth of weekly sales needed to reach AAFC's export estimate. Stocks in Eastern ports continue to grow and there are now 1.1 million mt of wheat ready to export from Eastern terminals with an additional 238k mt sitting in Vancouver. Total visible supplies (stocks in primary elevators, process elevators and export terminals) are at a 3-year record of 2.85 million mt as grain companies are trying to secure stocks.



- Total grain deliveries of 4 million mt indicate that 22% of the total Canadian wheat crop has been delivered into the grain handling system. Deliveries lag last year's by 20% when the crop is ~36% smaller.

(CGC) Grain Handling Summary Wheat	Wk. 12	(Oct 24/'21)		
				Dom.
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Disappearance
Wk. 12	442.8	250.3	185.5	77.1
Week ago	288.8	212.5	95.8	57.0
YTD	3,999.6	4,287.4	2,958.9	1,139.3
Last YTD	5,016.8	6,022.5	4,799.1	1,205.1
YTD less Last YTD	-1,017.2	-1,735.1	-1,840.2	-65.8
YTD over Last YTD	80%	71%	62%	95%

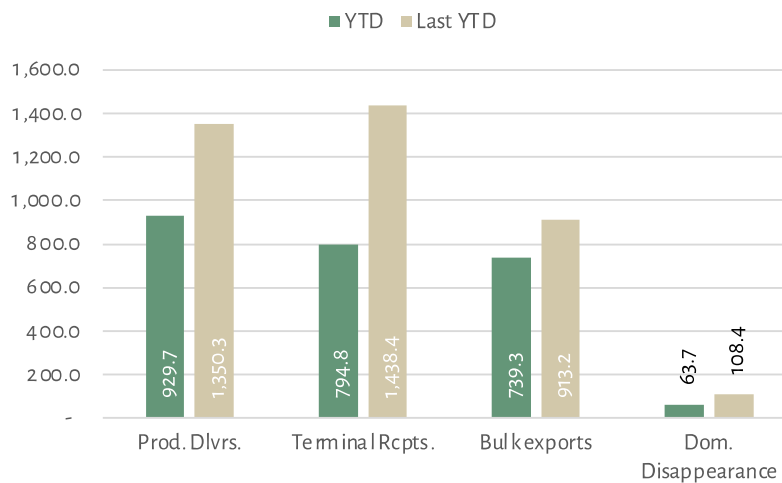


- It is early to spend too much attention to new crop in in the Northern Hemisphere, but soil moisture levels continue to be low in many of the major producing regions. The US Plains, the Volga Region of Russia, much of Ukraine, and Western Canada all have below average levels of soil moisture. Areas of Russia have received just 30-60% of normal precipitation and reports indicate that some winter wheat in Ukraine has not germinated due to dry conditions.
- Wheat demand continues to be strong. Tenders continue to come in and buyers remain under-covered. Wheat harvest is beginning in the Southern Hemisphere, but much of this is already priced into the market. Otherwise, it will be a long wait until the Northern Winter wheat crops are ready, and there is growing concern about dryness in many key areas. - We think futures will remain strong, especially if Saudi Arabia buys HRW.

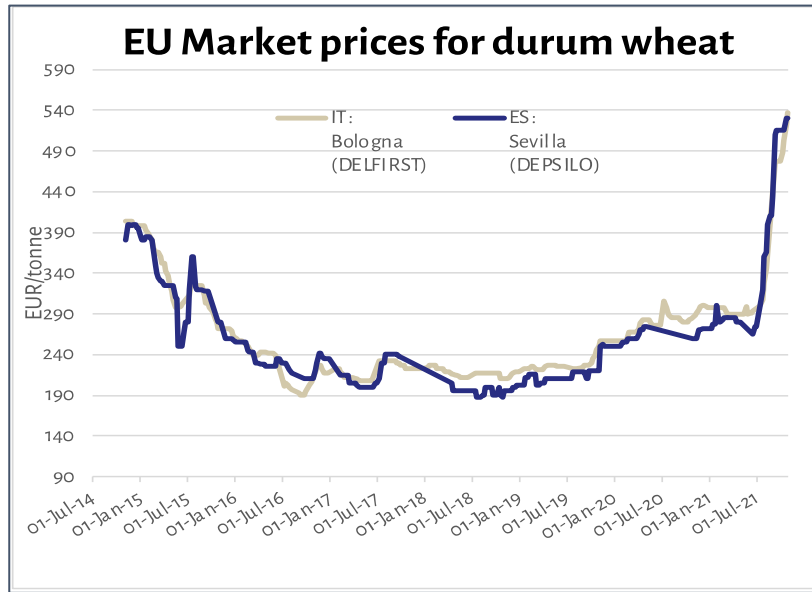
- **Durum:** Canadian durum exports have slowed and were very small last week at 4.1k mt. This makes for a season total of 739k mt. This is 19% (-174k mt) less than last year. Canadian farmers have delivered roughly 26% of their total production for the year which is 5% ahead of last year.

(CGC) Grain Handling Summary Durum	Wk. 12	(Oct. 24/'21)		
('000 mt)	Prod. Dlvsr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 12	107.8	82.4	4.1	9.1
Week ago	78.3	68.5	64.1	4.9
YTD	929.7	794.8	739.3	63.7
Last YTD	1,350.3	1,438.4	913.2	108.4
YTD less Last YTD	-420.6	-643.6	-173.9	-44.7
YTD over Last YTD	69%	55%	81%	59%

**Durum Handling Summary:
YTD '21/22 vs Last YTD '20/21 (to Week 12)**



- **International durum market:** According to Stratégie Grains, planting for the EU 2022 durum crop is expected to rise by just 2% from last year to 6.18 million acres. Given average yields this would translate to ~8.0 million mt (7.4 million mt last year). We think that prices will likely prompt a larger increase.
- Last week, Morocco announced it was dropping the import tariffs that were originally announced in May. It is not uncommon for the local government to implement tariffs to protect local farmers at harvest time and then remove them as domestic supplies runs thin.
- Global durum prices continued to rise over the week. Durum prices in Italy rose €15/mt from last week to €538/mt ~CA\$770.5/mt (or CA\$21.00 per bushel). The increase in durum prices indicate durum users still need coverage.

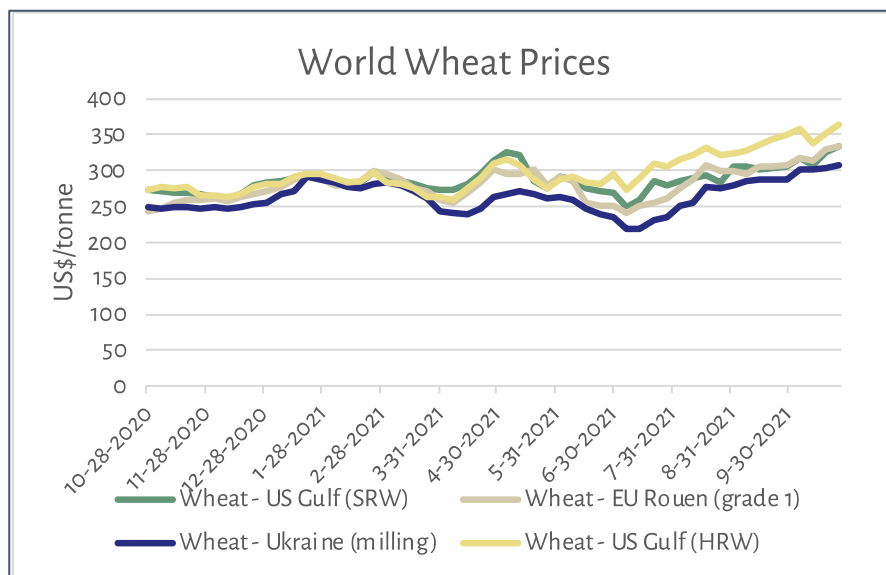


Source: Based on EU Commission data

- Demand remains strong as prices rose over the week both domestically and internationally. We have been recommending sales at \$21 per bushel or better.

US Wheat:

- Weekly US wheat sales were just 269k mt for a season total of 463 million bushels, down 22% from last year vs the USDA's projected 12% decline.
- Winter wheat planting in the US was up 10% from last week to 80% complete, in-line with the 5-year average. The first winter wheat crop rating of the season shows that the crop is 46 Gd/Ex, 5% ahead of last year's 41% Gd/Ex. Fifty-five percent of the crop has emerged.
- The five-day outlook for the PNW shows another round of moisture.
- Global wheat prices continued increase over the week: SRW in the US Gulf rose \$13/mt to \$318/mt, EU soft wheat rose \$11/mt to \$318/mt, Ukrainian milling wheat was up \$13/mt to \$301/mt, Russian 12.5% pro wheat rose \$2/mt to \$312/mt, and HRW in the US Gulf rose \$10/mt to \$351/mt.



- US HRS for Nov. '21 is valued at \$451.00/ mt FOB PNW (up \$20/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$351/mt (up \$10/mt from last week).

Australian wheat:

- Harvest in Australia is underway albeit somewhat hampered by rain. The rain is not enough to cause widespread issues.
- The Saudi Arabia tender for 655kt Jan-Apr arrival will be interesting w.r.t Australian wheat. Given current Fob and freight levels, in theory it should all go to Australian wheat. Russia will be looking at a \$90/mt export tax by January, the freight makes it tough to ship out of Germany and the Baltic, freight will be difficult for US HRW, and the Ukraine will probably be busy with its corn program. But even Australian wheat will not be easy to ship or cheap: APW reportedly traded into Asia at a \$350 Fob.
- Australian new crop FOB APW wheat for Dec.'22 was quoted at \$345.00/mt, up \$15/mt from last week.

Argentine wheat:

- Wheat ratings in Argentina are up 3% from last week to 47% Gd/Ex, well ahead of the 14% Gd/Ex of last year. BAGE increased their wheat crop estimate by 600k mt to 19.8 million mt. Harvest has started and is 7% complete.
- In theory Argentine wheat could work to Saudi Arabia, but there are some doubts about the specs.
- Nothing new on the GM wheat discussion.
- Fob values for Nov. 12% protein Argentine wheat ranged from \$290-295/million mt, down about \$3/mt from last week.

EU wheat:

- Matif wheat hit contract and 13-year highs as the market tries to slow EU shipments which are 53% above last year and the speed of which is unsustainable.
- Fob prices in the EU: Nov. French 11.5 pro closed at \$334.70/mt, up \$5.40/mt from last week. Nov. German 12.5 pro wheat closed at \$336.40, up \$5.40/mt. Nov. Baltic 12.5 pro wheat was at \$339.90/mt, up \$8.30/mt.

Black Sea wheat:

- It remains too dry in the Black Sea, while rain in Europe will stall planting progress next week.
- Russian wheat shipments are being slowed by higher domestic markets and the rising export tax, although the tax will apparently now stay unchanged through Nov 9th due to the Moscow lockdown.
- Russian 12.5 pro wheat is valued at ~\$325.00/mt, up \$5/mt from last week.

➤ **Significant purchases/ trades:**

- Saudi Arabia shocked the market by buying almost double the tender amount of 655kt and at prices which looked very aggressive.
- With 55% of the total sold in the Jan 10-20 position, it looked like the bulk was aimed at December execution from the Black Sea, even though the tax will be near \$80/mt by then.
- There was also the tender by Egypt for 360k mt of wheat. In this tender, Russian/Romanian offers to GASC hit new highs at US\$364-373/mt C&F. There were no offers from the Ukraine, and GASC bought just the cheapest 3 Russian cargoes.
- As a result, Matif soared €10 to 13-year highs on the Saudi Arabia/ Egyptian tender results, 13-year high inflation in the eurozone and thoughts that the EU is not rationing demand.
- Jordan passed on a tender for 120k mt of wheat last week.

➤ **Wheat Market Outlook:**

Significant events:

- **US wheat futures** continued to be very strong. Last week MPLS wheat added double digits to the rally, setting new life of contract highs and closing out the month \$1.42 per bushel higher.
- **Matif wheat** hit contract and 13-year highs as the market tries to slow EU shipments which are 53% above last year and the speed of which is unsustainable.
- It is early to spend too much attention to new crop in in the Northern Hemisphere, but **soil moisture levels** continue to be low in many of the major producing regions. The US Plains, the Volga Region of Russia, much of Ukraine, and Western Canada all have below average levels of soil moisture. Areas of Russia have received just 30-60% of normal precipitation and reports indicate that some winter wheat in Ukraine has not germinated due to dry conditions.
- **Harvest in Australia** is underway.
- **Argentina:** Harvest has started and is 7% complete. BAGE increased their wheat crop estimate by 600k mt to 19.8 million mt (USDA is using 20 million mt).
- **Russian wheat shipments** are being slowed by higher domestic markets and the rising export tax.

Outlook:

There is little that has changed in the support of wheat prices. Consumers are paying up and remain under-covered. Supply in the traditional exporting countries remains tight and expensive. Futures remain in the hands of net buyers as they sell cash and buy short future hedges. Fixed prices for new inputs are hard to find and the very high fertilizer prices are not encouraging new grower sales of cash grain.

We think futures will remain strong, especially if Saudi Arabia buys HRW wheat. We see no reason to sell additional old crop or new crop grain at this stage.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 01-11-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Jan. '22 (bu.)	Jan. '22 (mt)
1 CWRS 13.5	\$12.22	\$449.01	1 CWRS 13.5	\$12.32	\$452.69
1 CWAD 13.0	\$19.70	\$723.86	1 CWAD 13.0	\$20.13	\$739.66
1 CPSR 11.5	\$10.72	\$393.90	1 CPSR 11.5	\$10.79	\$396.47
SW Sask			SW Sask		
1 CWRS 13.5	\$12.06	\$443.13	1 CWRS 13.5	\$12.18	\$447.54
1 CWAD 13.0	\$19.78	\$726.80	1 CWAD 13.0	\$20.24	\$743.70
1 CPSR 11.5	\$10.41	\$382.51	1 CPSR 11.5	\$10.47	\$384.71
NE Sask			NE Sask		
1 CWRS 13.5	\$11.97	\$439.83	1 CWRS 13.5	\$12.06	\$443.13
1 CWAD 13.0	\$20.26	\$744.43	1 CWAD 13.0	\$20.64	\$758.40
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$11.91	\$437.62	1 CWRS 13.5	\$12.00	\$440.93
1 CWAD 13.0	\$20.10	\$738.55	1 CWAD 13.0	\$20.60	\$756.93
1 CPSR 11.5	\$10.78	\$396.10	1 CPSR 11.5	\$10.82	\$397.57

Data source: PDQ, Nov. 1/21

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
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	0.00	0.00
2 CWAD 13.5	(0.10)	(3.67)
2 CWAD 12.5	(0.30)	(11.02)

Data source: PDQ, Nov. 1/21

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/million mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/million 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/million 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)

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.”

- 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).
- 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				01-11-2021
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	\$538.67	\$840.71		
HRS	\$529.59			
HRW 11.5	\$441.93			
SWW 12.0	\$487.80			
1 CWRS 13.5³	\$538.67		\$454.16	\$84.51
2 CWRS 13.0³	\$529.59		\$448.64	\$80.94
3 CWRS³	\$441.93		\$433.95	\$7.98
CPS³	\$481.44		\$398.67	\$82.77
1 CWAD⁴		\$834.35	\$723.86	\$110.49
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$325.00	November		
French 11.5 (Rouen)	\$334.70	November		
ASW 10.5 (W Coast)	\$335.00	December		
Argentine 12.0	\$292.50	November		

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