

Wheat Market Outlook and Price Report: April 19, 2021  
 By Marlene Boersch/ A.P. Temple/ Michael Wilton  
 Mercantile Consulting Venture Inc.

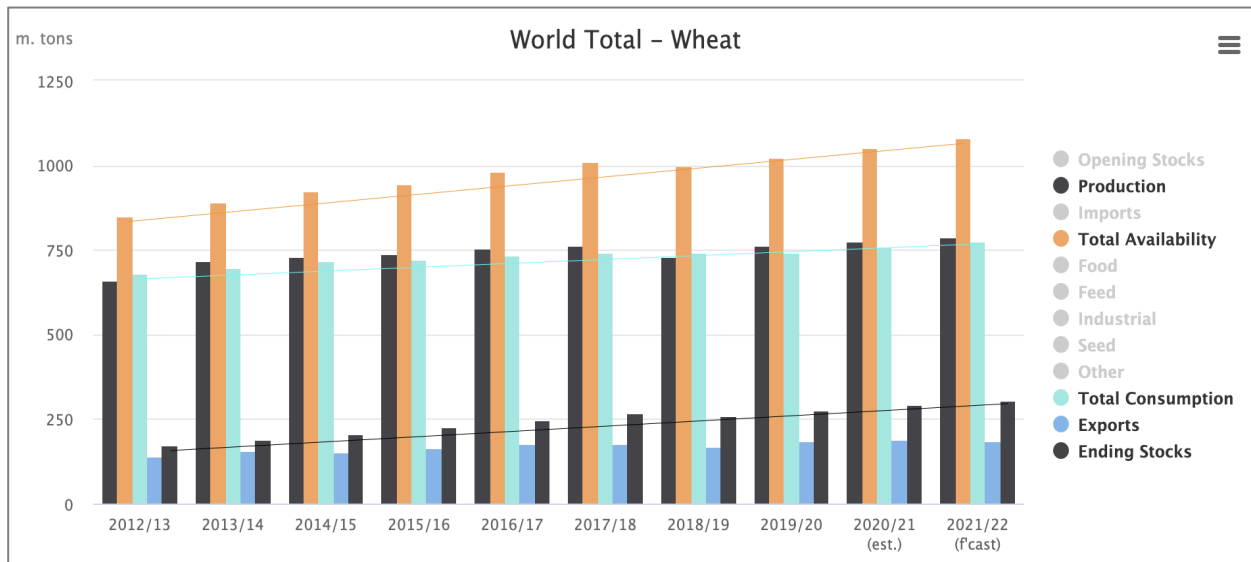
**i) Background and Rationale for the Report**

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 April 19, 2021**

**International Grains Council (IGC) – Global Wheat Market Summary:**



- The graph summarizes how the IGC currently views the **global wheat market**: Almost every element off the balance sheet represents a record, save that of exports.
- **Global 2021/22 wheat production** with a projection of 790 million mt is up 2% over last crop year. **Availability** is up 2.8% thanks to higher opening stocks than the previous year.
- **Global consumption** is estimated up 2.3%, but **exports** down slightly by 0.2%.
- **Ending stocks** are shown up 4.1%, and the **stocks use ratio** is shown up from 38.4% in '20/21 to 39.1% in '21/22.
- However, there are **weather problems** in both the northern and southern hemisphere which could impact 2021 production levels. And increased use of wheat for feed may well increase both consumption and export levels.

➤ **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 652-4, down 1-2 cents on Friday, *up 13-8 cents on the week.*  
 May '21 contract **Kansas hard red winter wheat** closed at 609-2, up 1-4 cents in Friday's trade, *up 22-8 cents on the week.*  
 May '21 **Minneapolis hard red spring wheat** closed at 664-2, up 1 cent on Friday, and *up 10-2 cents on the week.*
- Futures market summary:** KC and CBOT wheat are at their highest levels since early March, and Mpls. made its highest close for a nearby contract since 2017.  
 Weather has been increasingly important and while the current forecast is adding some short-term rain for the US Plains, the long-term update showed the return of dryness and considerably warmer temperatures. There is no sign of any relief to dryness in the Dakotas, and while Canada had some snow, soil moisture levels remain historically low.

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



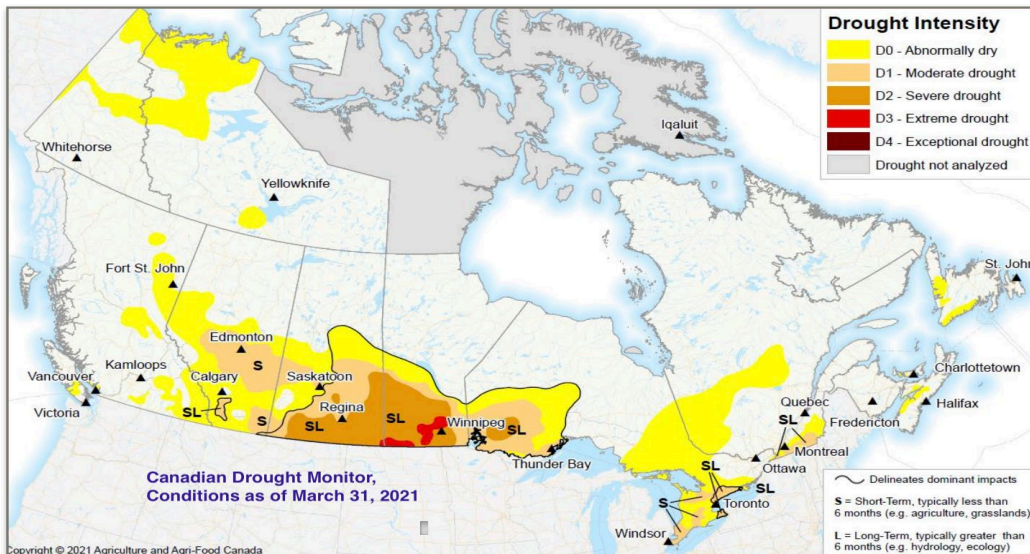
**KC May '21 Wheat**



**Mpls. May '21 Wheat**

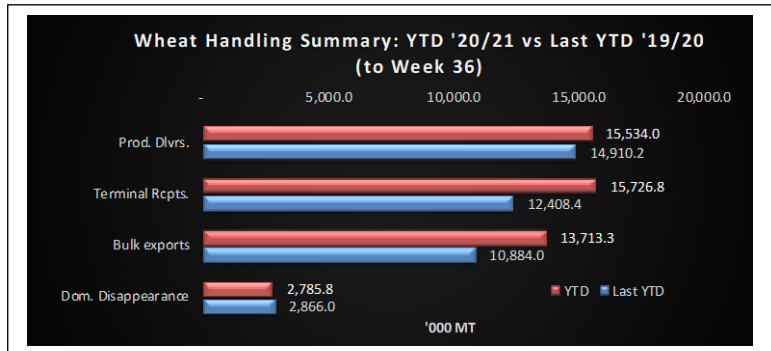


Canadian Grain Exports (CGC numbers) Wk. 36					
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains
<b>Crop Year To date</b>	8,300	17,936	2,118	714	<b>37,779.0</b>
<b>Year Ago</b>	6,882	14,218	1,756	676	<b>28,845.8</b>
<b>Change this Cr.Yr. in MT</b>	<b>1,418</b>	<b>3,718</b>	<b>362</b>	<b>38</b>	<b>8,933</b>
<b>Change this Cr. Yr. in Percent</b>	<b>121%</b>	<b>126%</b>	<b>121%</b>	<b>106%</b>	<b>131%</b>



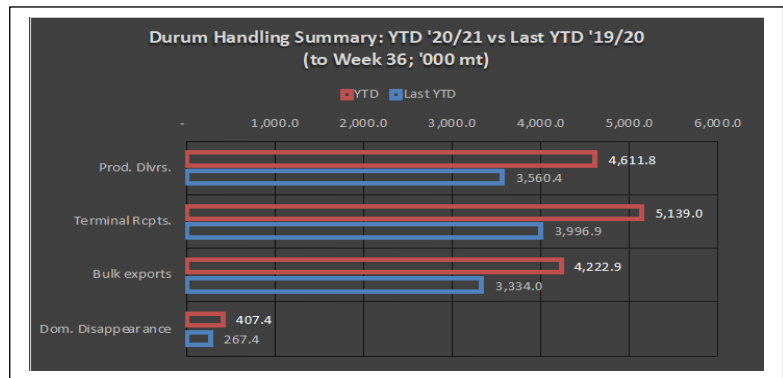
**Canadian Wheat:**

- Increased concern over dryness in key growing areas coupled with cold weather in the Midwest will rally export basis if conditions stay the same. Drought conditions in the Dakota's worsened over the week despite widespread precipitation and cooler than average temperatures. However, some eastern North and South Dakota areas and western Minnesota got enough rain to improve conditions there.
- There was not a great deal of cash trade last week although *some feed wheat was reported to trade at big discounts to corn!* There was no business reported for North American grades, although we do hear rumours of more USA wheat trading to China.
- New crop seeding in Canada has started in some southern areas (MB, AB, SK), although general seeding is likely about two weeks away, especially where we got some snow/ moisture. More moisture will be needed virtually everywhere to ensure crop development. [See drought map above.]
- **Canadian wheat deliveries and wheat exports** in week 36 were excellent. Export loadings amounted to 456k mt for the week, and 13.7 million mt year-to-date (+26% over last years). Exports will have to stay at about 460k mt per week to reach the '20/21 AAFC export target for wheat (excl. durum) of 21.1 million mt.
- Milling wheat bids in SK for #1 / #2 CWRS 13.5 range from \$8.35-8.55/bu for April-May.



• *We recommend cleaning out old stock grains and no new crop sales for the time being.*

• **Durum:** Watch how many durum acres get planted in the US; the US balance sheet looks to be tightening further in the new crop year.



• **Canadian durum exports** for week 36 at 99k mt were lower than we would like to see. However, the year-to-date total of 4.2 million mt is 27% higher than last year-to-date.

• Annualizing year-to-date exports to the end of the crop year would give us 6.1 million mt, while AAFC is using 5.6 million mt of exports. If 6 million mt of exports can be achieved, this would lower '20/21 ending stocks to ~550k mt. We expect next year's Canadian durum acres to increase by ~5%.

• Note that **Algeria bought 200,000 tonnes of May durum** at around \$350-355.00 US/mt. This should roughly equate to 9.00-9.10/bu dlvd elevator.

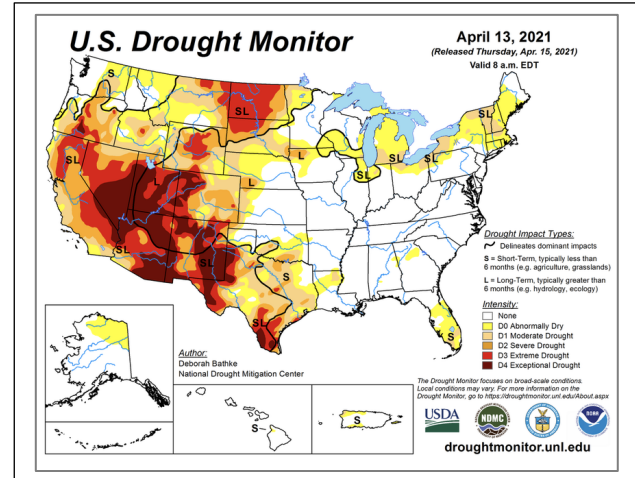
• Old crop durum in SK is trading at \$8.60-9.00/bu delivered. We would be sold ~ 70% of the crop at ~\$9.00/bu. New crop durum is still bid at \$8.25-\$8.50/bu FOB farm SK; there is no rush to sell here.

**US Wheat:**

- Drought conditions in the Dakota's worsened over the week despite widespread precipitation and cooler than average temperatures. However, some eastern North and South Dakota areas and western Minnesota got enough rain to improve conditions there. In much of Texas and Oklahoma,

warm, dry weather increased long-term moisture deficits and further dried out soils. Dry conditions expanded in the western U.S., with drought conditions reported to worsen in all states. Only north-central Wyoming and southern Montana saw relief following snowfall last week.

- As of April 12, US farmers had planted 11% of the country's total intended spring wheat area, up from last year's 5% and well ahead of the 5-year average of 6%.
- We note it rained in spots of very dry E MT/ND over the weekend. Some spots received as much as 2". They remain in a growing drought situation despite this, and trade is now watching the two weeks forecasts to see if another perceived chance of big rains follows through, or not.
- There was no business reported for North American grades, although we do hear rumors of more US wheat trading to China. *Wheat at discount to corn is a real bargain.*
- Weekly U.S. wheat sales of 57k mt were down 31% from last week's 82k mt and in line with trade expectations of 50-200k mt. Year-to-date commercial sales for delivery in '20/21 total 25.1 million mt, 1% lower than last year. USDA expects total '20/21 U.S. wheat exports will reach 26.8 million mt, 2% higher than last year.
- US HRS for May '21 is valued at \$298/mt FOB PNW (up \$10.00/mt from last week), PNW White wheat is valued at \$276/mt FOB PNW (down \$2.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$272.90/mt (up \$13.30/mt from last week).



#### Australian wheat:

- Australian wheat futures made a 5-week high weekly close on both old and new crop, while the debate goes on about wheat feeding in China.
- Australian new crop FOB APW wheat for May was offered at \$270/mt, unchanged from the previous week.

#### Argentine wheat:

- Argentine FOB values followed the other markets higher, and while current crop domestic wheat markets were unchanged, new crop traded \$3-5/mt higher.
- FOB values for May 12% protein Argentine wheat ranged from \$254-260/mt, up ~\$10-/mt from last week.

#### EU wheat:

- Matif wheat traded in a €5/mt range, and while old crop ended slightly lower, new crop wheat hit new contract highs.
- Strength in international markets plus dryness across W Europe is driving prices higher, although many see the European concerns as being far too early.
- The condition of wheat and barley crops in France only fell slightly during the week when France was hit by a **severe cold snap**. For soft wheat an estimated 86% of crops were in good or excellent condition in the week to April 12, nearly stable from 87% the previous week.
- May FOB prices in the EU: French 11.5 pro closed at \$269.20/mt, up \$7.20/mt from last week. German 12.5 pro was up \$10.20/mt to \$268.80/mt. Baltic 12.5 pro increased by \$8.20/mt on the week to \$267.40/mt.

**Black Sea wheat:**

- Black Sea new crop wheat jumped \$10/mt on the offered side with Russian 12.5 pro wheat for August at \$245/mt, against a reported but unconfirmed bid at \$242/mt. This still looks cheap against corn but is now much more in line with the new crop Baltic market for wheat.

**China:**

- The debate goes on about wheat feeding levels in China for the coming year. The USDA has feed use this season at 40 million mt compared to just 19 million mt last year. Local sources confirm large-scale substitution of wheat for corn at current prices. China has sold 26 million mt of wheat from its reserves so far in 2021, but demand dropped sharply at the last auction as the Govt raised the floor price and excluded traders from the bidding process, so that only end users were allowed to bid.

**➤ Significant purchases/ trades:**

- **Algeria** bought 200,000 mt of **May durum** at around \$350-355.00 US/mt
- **The Philippines** bought around 380k mt of wheat, including 240k mt of milling and 140k mt of feed wheat, for June-Sept, but they also passed on another tender for 165k mt of feed wheat; they will retender next week.
- **S Korea** bought 65,000 mt of feed wheat at a discount to corn.
- **Japan** bought 90k mt of milling wheat in their regular weekly tender as scheduled, including 63k mt from the U.S. and 27k mt from Canada.

**➤ Wheat Market Outlook:****Significant events:**

- Some **feed wheat** was reported to trade *at a significant discount to corn*.
- There are rumors of more US wheat trading to **China** as wheat at discount to corn is a real bargain.
- There is a debate about **wheat feeding levels in China** for the coming year: The USDA has feed use this season at 40 million mt compared to just 19 million mt last year.
- **Algeria** bought 200,000 mt of **May durum wheat**.

**➤ Outlook:**

Wheat closed sharply higher last Friday with nearby MGE making its highest weekly close in almost 4 years as dryness in the Dakotas and Canada was called some of the worst ever. In some markets, feed wheat traded below corn. This is making wheat the most attractive feed grain when we have high protein markets, and it makes wheat by far the most attractive grain for poultry markets. In our view, this can happen short term, but it cannot last, otherwise wheat will become in short supply.

***Our recommendations stay the same: Clean out old crop stocks ensuring storage space for new crop where we see an opportunity for prices to go higher.***

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

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

Date: 19-04-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '21 (bu.)	Sept. '21 (mt)
1 CWRS 13.5	\$8.05	\$295.79	1 CWRS 13.5	7.54	\$277.05
1 CWAD 13.0	\$8.35	\$306.81	1 CWAD 13.0	7.55	\$277.42
1 CPSR 11.5	\$7.63	\$280.36	1 CPSR 11.5	\$6.83	\$250.96
SW Sask			SW Sask		
1 CWRS 13.5	\$7.84	\$288.07	1 CWRS 13.5	7.40	\$271.91
1 CWAD 13.0	\$8.35	\$306.81	1 CWAD 13.0	7.64	\$280.72
1 CPSR 11.5	\$7.55	\$277.42	1 CPSR 11.5	\$6.77	\$248.76
NE Sask			NE Sask		
1 CWRS 13.5	\$7.78	\$285.87	1 CWRS 13.5	7.30	\$268.23
1 CWAD 13.0	\$8.33	\$306.08	1 CWAD 13.0	7.60	\$279.25
1 CPSR 11.5	\$7.50	\$275.58	1 CPSR 11.5	6.69	\$245.82
SE Sask			SE Sask		
1 CWRS 13.5	\$7.70	\$282.93	1 CWRS 13.5	7.28	\$267.50
1 CWAD 13.0	\$8.34	\$306.44	1 CWAD 13.0	7.64	\$280.72
1 CPSR 11.5	\$7.30	\$268.23	1 CPSR 11.5	\$6.48	\$238.10

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>1</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)
- 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.

---

<sup>1</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				19-04-2021
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	\$359.20	\$376.24		
HRS	\$352.29			
HRW 11.5	\$344.00			
SWW 12.0	\$338.01			
1 CWRS 13.5 <sup>3</sup>	\$359.20		\$292.11	\$67.08
2 CWRS 13.0 <sup>3</sup>	\$352.29		\$279.25	\$73.03
3 CWRS <sup>3</sup>	\$344.00		\$275.95	\$68.05
CPS <sup>3</sup>	\$331.57		\$276.68	\$54.88
1 CWAD <sup>4</sup>		\$369.79	\$308.65	\$61.14
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$242.00	May		
French 11.5 (Rouen)	\$269.20	May		
ASW 10.5 (W Coast)	\$266.00	May		
Argentine 12.0	\$257.00	May		

<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				19-04-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.41	\$9.19	\$7.20	\$7.20
Parity Track Rosetown	\$7.92	\$7.69	\$7.53	\$7.53
Track Bid Rosetown Area	\$7.60	\$7.51	\$7.53	\$7.53
Gross Margin at Elevator (\$/bu)*	\$0.32	\$0.18	\$0.00	\$0.00
Gross Margin at Elevator (\$/mt)*	\$11.60	\$6.62	-\$0.10	-\$0.10
* to cover elevation, elevator market risk, margin				