

Wheat Market Outlook and Price Report: April 6, 2021

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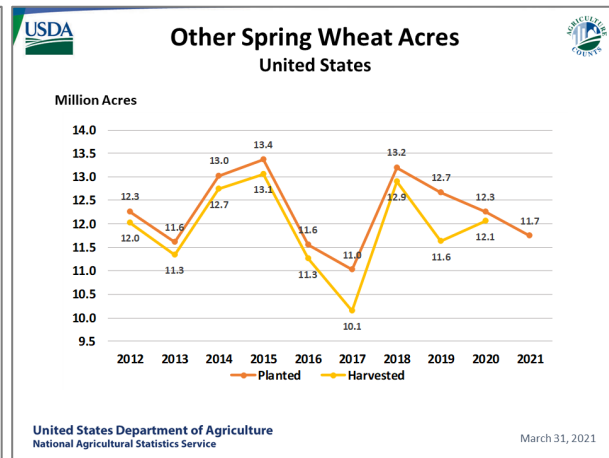
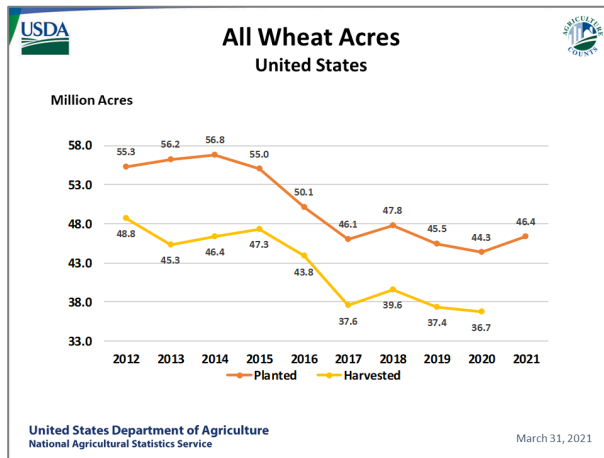
i) Background and Rationale for the Report

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 April 5, 2021

USDA Prospective Plantings Report March 31, 2021: US Wheat Acres:



- **All US wheat planted area for 2021** is estimated at 46.4 million acres, up 5 percent from 2020. This represents the fourth lowest all wheat planted area since records began in 1919.
- The **2021 winter wheat planted area**, at 33.1 million acres, is up 9 percent from last year and up 3 percent from the previous estimate. Of this total, about 23.2 million acres are Hard Red Winter, 6.42 million acres are Soft Red Winter, and 3.48 million acres are White Winter.
- Area expected to be planted to other **spring wheat for 2021** is estimated at 11.7 million acres, down 4 percent from 2020. Of this total, about 10.9 million acres are Hard Red Spring wheat.
- **Durum planted area for 2021** is expected to total 1.54 million acres, down 9 percent from the previous year.

➤ **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 611-0, down 7 cents on Thursday, *down 2-2 cents on the week.*
 May '21 contract Kansas hard red winter wheat closed at 565-0, down 10-6 cents in Thursday's trade, *down 3-2 cents on the week.*
 May '21 Minneapolis hard red spring wheat closed at 599-4, down 11-2 cents on Thursday, and *down 14-6 cents on the week.*
- **Futures market summary:** Last Wednesday, subsequent to the USDA report, wheat followed corn and soybeans up. Front month wheat futures closed well off the intraday highs, but still double digits in the black. On Thursday, wheat adjusted back down.

CBOT May 2021 Wheat (1 yr.)



KC May '21 Wheat



Minneapolis May '21 Wheat

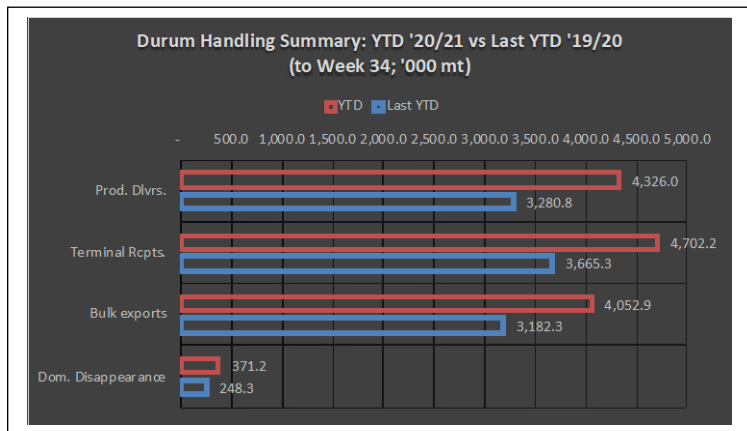
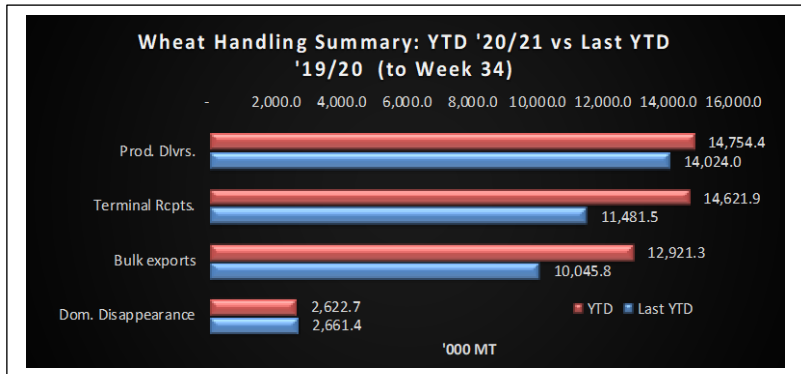


Canadian Grain Exports (CGC numbers)		Wk. 34				
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains	
Crop Year To date	7,891	16,974	2,076	667	35,969.7	
Year Ago	6,316	13,228	1,667	650	27,054.7	
Change this Cr.Yr. in MT	1,575	3,746	409	17	8,915	
Change this Cr. Yr. in Percent	125%	128%	125%	103%	133%	

Canadian Wheat:

- Overall, the USDA report implies a further decline in US stocks next year, and while wheat does not have the same dynamics as corn and soybeans with respect to needing to buy acres, prices do need to stay higher to avoid using too much in feed rations. There also is a lack of moisture prior to seeding in the US Plains and in Canada, plus the lower HRS plantings number content that Minneapolis futures are undervalued at close to level money with CBOT.
- Still, it looks like we will have more than enough wheat to satisfy milling demands next crop year. Soft wheat price should trade at normal premiums to feed grains like corn. With the reductions in spring wheat acres, we should once again see more normal premiums for spring wheat over soft wheat. But any growth in wheat consumption will come from the Middle East and third world buyers.

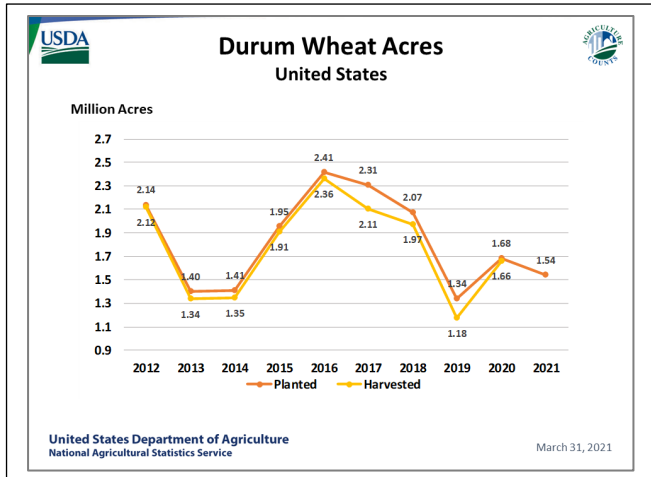
- **Canadian wheat exports** in week 34 were quite good at 386,000 mt. The season total is 12.9 million mt, a full 2.9 million mt (+29%) higher than last year to date.
- *We think that O/C wheat needs to be sold. We would suggest no additional N/C sales at this time.*
- **US durum acres** as projected by USDA last week were a bit of a surprise. USDA expects a 9% drop in acres from last year to 1.54 million acres. A lower acreage this year (2021) should tighten the US balance durum sheet further this coming year.
- **Canadian durum exports** for week 34 at 186,000 mt were quite good. We are showing a year-to-date total of 4.1 million mt, 27% higher than last year-to-date. Annualizing year-to-date exports to the end of the crop year yields 6.2 million mt, while most are using 5.6-5.8 million mt of exports. Even if 5.8 million mt can be achieved, this would lower '20/21 ending stocks to ~660,000 mt. We expect next year's Canadian durum acres to increase by ~5%.
- Old crop durum in SK is trading at \$8.60-9.10/bu delivered. We would be sold min. 70% of the crop at that. New crop durum is still bid at \$8.25-\$8.50/bu FOB farm SK.



US Wheat:

- The **USDA** reported **wheat inventory** as of March 1st at 1.314 billion bu, up from the 1.271 billion bu average pre-report estimate. The number implies Q3 demand of 360 million bu. Last year's implied Q3 demand was 426 million bu. Wheat stocks were below last year but slightly above trade guesses and had little impact.

- The **March USDA Intentions report** showed 46.4 million acres intended for wheat production. Of that 33.078 million ac of winter wheat has already been planted. Spring wheat intentions were 11.74 million acres, which is above the average of estimates going into the report, but lower than last year. Although winter wheat acres came in a surprising 1 million acres above the USDA's Dec. number, it was largely ignored by the market.
- **US durum acres** as projected by USDA last week were a bit of a surprise. USDA expects a 9% drop in acres from last year to 1.54 million acres. The big drop is expected in N Dakota, where acres are expected to drop from 910,000 acres last year to 750,000 acres this year.
- **US durum ending stocks** this year are expected at ~980,000 mt, down from 1.2 million mt in '19/20. A lower acreage this year (2021) should tighten the US balance sheet further this coming year.
- USDA's weekly **wheat Export Sales** report confirmed 331,091 MT of wheat sold. That was split 250,000 for old crop and 81,000 for 2021/22 delivery. For old crop, white wheat was the top seller on the week with 40% of the total, but for new crop HRS made up 72% of the total.
- US HRS for April '21 is valued at \$280/mt FOB PNW (down \$2.00/mt from last week), PNW White wheat is valued at \$278/mt FOB PNW (down \$7.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$258.60/mt (down \$12.40/mt from last week).



Australian wheat:

- Australia is forecast to remain entirely dry at least for the coming week.
- Australian new crop FOB APW wheat values for May was offered at \$270/mt, down \$5/mt from the previous week.

Argentine wheat:

- Dryness is expanding in Argentina and the debate continues about the size of the reduction in planted acres in Argentina due to the weather, the threats to exports and to the better margins from barley.
- FOB values for April 12% protein wheat ranged from \$245-250/mt, down ~\$2/mt.

EU wheat:

- Matif closed €5/mt higher on Thursday before going into the Friday-Monday Easter weekend.
- EU markets were closed for the holidays today (Monday).
- Last Friday, an EU private analyst group rated the wheat crop in France at 87% good-to-excellent condition. That is a very good start for the biggest wheat producer in the EU. As a whole, the crop conditions of the EU/UK/Black Sea that have been reported are very good.
- The first sales were confirmed to Algeria, which was not welcome news. Given the French replacement at \$255/mt FOB, the reported C&F price of \$279/mt already looked like a serious discount of the freight market (around \$29 against \$40 at the last tender). The sales were reportedly out of German/Baltic longs, although there were late reports that offers had been pulled following the USDA report.
- *April FOB prices in the EU:* French 11.5 pro closed at \$261.30/mt, down another \$2.50/mt from last week. German 12.5 pro was up by \$0.90/mt to \$260.00/mt. Baltic 12.5 pro increased by \$2.90/mt on the week to \$259.10/mt.

Black Sea wheat:

- *The April Russian 12.5 pro wheat bid-offer is at \$245-\$250/mt, while June dropped to \$225-\$230/mt.*
- The June bid offer for Russian wheat clearly showed that June is the new "first month" of the Russian crop year due to the tax structure, which is putting big pressure on EU old crop values.

➤ **Significant purchases/ trades:**

- Three major wheat buyers re-emerged this week:
- **Algeria** is reported as buying bought 500,000 mt of wheat for May shipment at around \$279/mt C&F, most of which is expected to come from the northern EU.
- **Saudi Arabia (SAGO)** surprised the market with a wheat tender for May-June arrival, although the volume is a fairly small 295,000 mt.
- **Egypt (GASC)** returns Tuesday for wheat for August1-10 shipment.
- It seems Russian taxes have been sorted as we heard Russian origin was offered to all these cash markets.

➤ **Wheat Market Outlook:**

Significant events:

- **USDA stocks and planting reports:** The combined reports say that the US corn and soybean markets need major price increases in order to buy the necessary acres and/or to reduce demand. This will drag non-US origins higher and will highlight that this is a structural multi-year issue, and there is no room for any 2021 weather problem either in the N or S Hemisphere. *But it looks like we will have more than enough wheat to satisfy milling demand. Soft wheat price will trade at normal premiums to feed grains like corn. We expect reductions in spring wheat planting, so we should once again see more normal premiums for spring wheat over soft wheat.*
- **Dryness in the Plains and Canada** plus the low HRS plantings number argue that MGE futures are significantly undervalued at close to level money with CBOT.
- **US durum acres** as projected by USDA last week were a bit of a surprise. USDA expects a 9% drop in acres from last year to 1.54 million acres. A lower acreage this year (2021) should tighten the US balance sheet further this coming year.
- **Crop conditions in France** were rated as very good (87% Gd/Exc.). This should help increase exports from last year.
- **Three major wheat buyers re-emerged last week:** Algeria bought a reported 450-500,000 mt of May wheat at ~\$279 C&F, most of which is now expected to come from the northern EU. The price discounted replacement even before the market rally. Saudi Arabia tendered over the weekend and Egypt (GASC) returns Tuesday for 1-10 August., However, it seems the Russian taxes have been sorted out as we heard Russian origin was again offered to these cash markets

➤ **Outlook:**

Given the USDA reports, it looks like we will have more than enough wheat to satisfy milling demands next crop year. Soft wheat price should trade at normal premiums to feed grains like corn. With the reductions in spring wheat acres, we should once again see more normal premiums for spring wheat over soft wheat. But any growth in wheat consumption will come from the Middle East and third world buyers.

We were happy to see that three major wheat buyers (Algeria, Egypt & Saudi Arabia) re-emerged last week. However, Russian origin was again offered to all these cash markets.

We think that O/C wheat needs to be sold. We would suggest no additional N/C sales at this time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 05-04-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Aug. '21 (bu.)	Aug. '21 (mt)
1 CWRS 13.5	\$7.40	\$271.91	1 CWRS 13.5	6.98	\$256.47
1 CWAD 13.0	\$8.36	\$307.18	1 CWAD 13.0	7.75	\$284.77
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$7.17	\$263.45	1 CWRS 13.5	6.79	\$249.49
1 CWAD 13.0	\$8.28	\$304.24	1 CWAD 13.0	7.75	\$284.77
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
NE Sask			NE Sask		
1 CWRS 13.5	\$7.16	\$263.09	1 CWRS 13.5	6.77	\$248.76
1 CWAD 13.0	\$8.24	\$302.77	1 CWAD 13.0	7.80	\$286.60
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5		
SE Sask			SE Sask		
1 CWRS 13.5	\$7.03	\$258.31	1 CWRS 13.5	6.63	\$243.61
1 CWAD 13.0	\$8.27	\$303.87	1 CWAD 13.0	7.87	\$289.18
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a

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 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)
 - 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:

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.”

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				05-04-2021
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	\$331.32	\$375.95		
HRS	\$324.41			
HRW 11.5	\$320.73			
SWW 12.0	\$314.75			
1 CWRS 13.5 ³	\$331.32		\$282.19	\$49.12
2 CWRS 13.0 ³	\$324.41		\$268.23	\$56.18
3 CWRS ³	\$320.73		\$265.66	\$55.07
CPS ³	\$308.31		\$255.00	\$53.31
1 CWAD ⁴		\$369.51	\$308.65	\$60.86
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$250.00	April		
French 11.5 (Rouen)	\$261.30	April		
ASW 10.5 (W Coast)	\$266.00	May		
Argentine 12.0	\$247.50	April		

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				05-04-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$8.65	\$8.55	\$6.70	\$6.70
Parity Track Rosetown	\$7.16	\$7.06	\$6.89	\$6.89
Track Bid Rosetown Area	\$7.30	\$7.23	\$6.94	\$6.94
Gross Margin at Elevator (\$/bu)*	-\$0.14	-\$0.17	-\$0.05	-\$0.05
Gross Margin at Elevator (\$/mt)*	-\$5.24	-\$6.35	-\$1.68	-\$1.68

* to cover elevation, elevator market risk, margin