

Wheat Market Outlook and Price Report: January 25, 2021
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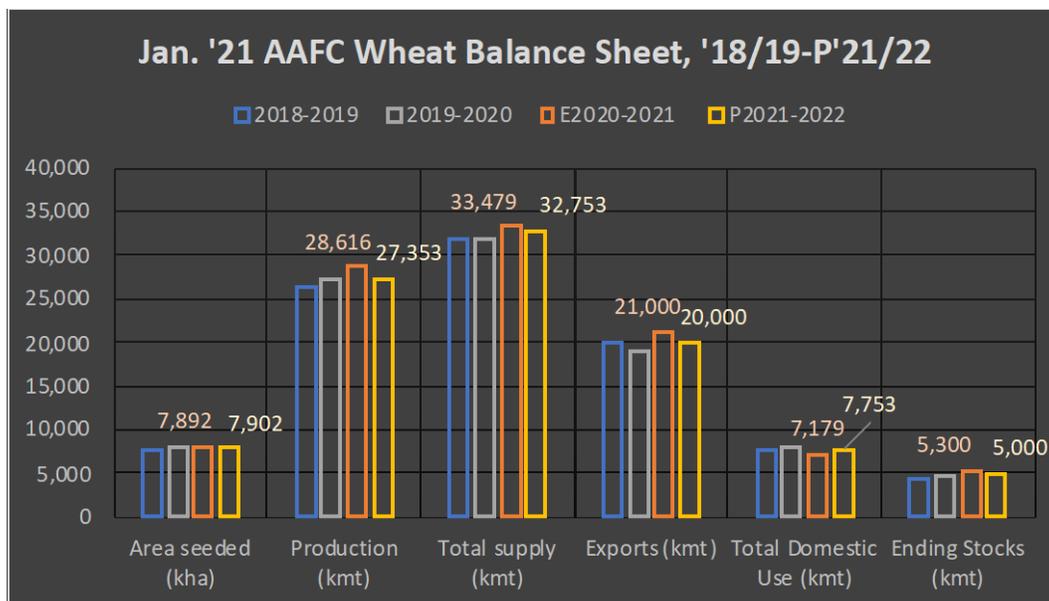
i) Background and Rationale for the Report

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 February 1, 2021

AAFC on 2020/21 Canadian Wheat (excl. Durum):



- Based on an improved 21 million mt of wheat exports for this ongoing crop year (in Dec., AAFC used 19.1 million mt), **2020/21** Canadian wheat carry-out stocks are forecast at 5.3 million mt (previously 5.7 million mt. This is up by 537,000 mt from 4.8 million mt in 2019/20).
- For **2021/22**, AAFC forecasts Canadian **area seeded to wheat** to remain relatively stable, as more acres are seeded to durum (+7% to 6 million acres).
- **Yield** is projected to decrease 4.4%, and **production** by 2% to 27.4 million mt. **Supply** (production plus carry-in) would be lower by 726,000 mt (-2%) at 32.8 million mt.
- 2021-'22 **exports** are pegged at 20 million mt, and domestic use at 7.75 million mt.
- This scenario would leave '21/22 **ending stocks** at 5 million mt.
- *Given the improved movement and returns to wheat, we expect that wheat acreage will increase somewhat instead of staying the same!*

➤ **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 - Mch. '21 contract Chicago winter wheat** closed at 663-0, up 16 cents on Friday, *up 28-6 cents on the week*.
Mch. '21 contract **Kansas hard red winter wheat** closed at 638-0 up 12 cents in Friday's trade, and *up 24-8 on the week*.
Mch. '21 **Minneapolis hard red spring wheat** closed at 633-4, up 14 cents on Friday, and *up 21 cents on the week*.
- **Futures market summary:** Overall strength in the grains complex following the news that China purchased 2.1 million mt of U.S. corn Friday, and confirmation that the Russian government increased its wheat export tax to €50/mt for Mch. 1 to June 30, supported all wheat futures last week.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



Mpls. Mch. '21 Wheat

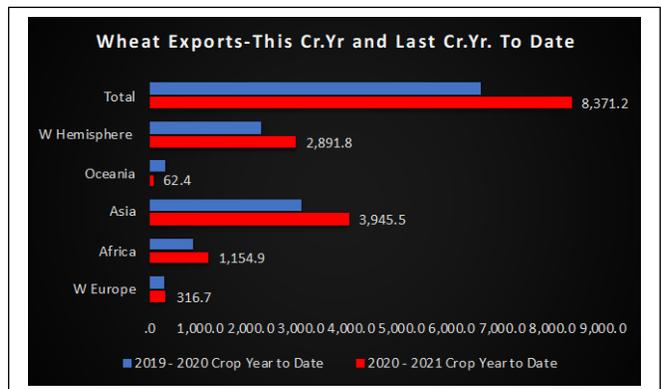


Canadian Wheat:

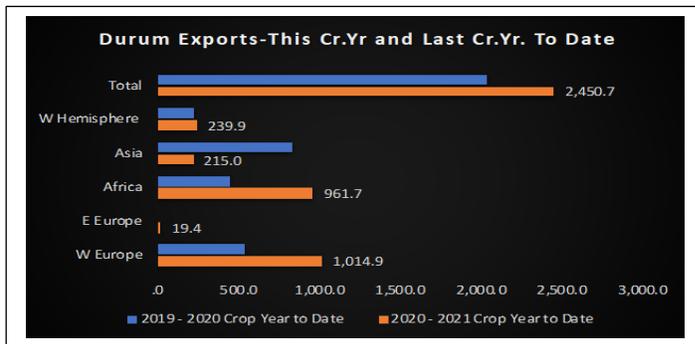
- The wheat outlook with respect to actual cash price levels will remain unclear until the Russia export tax situation is resolved on both old and new crop. *Only then will we have any idea about what export volumes to expect from Russia, and how much extra demand to expect for/allocate to N American wheat.*
- Over the weekend still more rumours emerged regarding Russian export taxes. The latest talks are of a floating rate tax to apply from June 1st rather than July 1st, but still with a tax at 70% of the difference between the export price and the reference price of \$200/mt (i.e., an export price of \$300 would pay \$70 in tax).
- At 612,000 mt, **Canadian wheat exports** were excellent last week (wk. 25), advancing year-to-date wheat exports to 9.8 million mt, 2.5 million mt higher (+33%) than last year-to-date. The biggest increases in exports this year over last year are to China and to Nigeria.
- Traders will watch continue to the weather in South America, any new developments in Russia (export tax & logistics) and whether China will continue to buy aggressively.

(CGC) Grain Handling Summary Wheat	Wk. 25		Jan. 24/'21	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 25	589.3	366.9	611.5	52.3
Week ago	487.6	343.4	281.1	44.2
YTD	10,841.0	11,591.0	9,832.0	2,202.6
Last YTD	10,198.2	9,064.2	7,372.9	2,001.4
YTD less Last YTD	642.8	2,526.8	2,459.1	201.2
YTD over Last YTD	106%	128%	133%	110%

Mercantile based on weekly CGC Handling Data



- It remains difficult to assess the outlook for world wheat when Russia, the usual leader in the cash market is out of the game for now. EU wheat remains too cheap, and we await developments in Argentina.
- In Canada, some traders have kept their bids on hold, but #1 CWRS 13.5 should definitely fetch \$7.75-8.00/bu (+) delivered Sask.
- **Durum exports** for week 25 were a big 189,000 mt, for a year-to-date total of 2.74 million mt, compared to 2.4 million mt last year-to-date. This is now 17% ahead of last year's pace.
- The biggest gains in this year's durum sales over last years were to Italy, Morocco, Algeria, and to Belgium. We did lose significant export volume to Turkey.
- AAFC expects the area seeded to durum in Canada to increase by 6% from 2020'21 thanks to strong pricing. *They expect the '21/'22 ending stocks to increase again by 350,000 mt (+36%) to 1.3 million mt!*
- Some bids are emerging at \$8.75/bu, but we would target \$9.00/bu. for additional current crop durum sales.

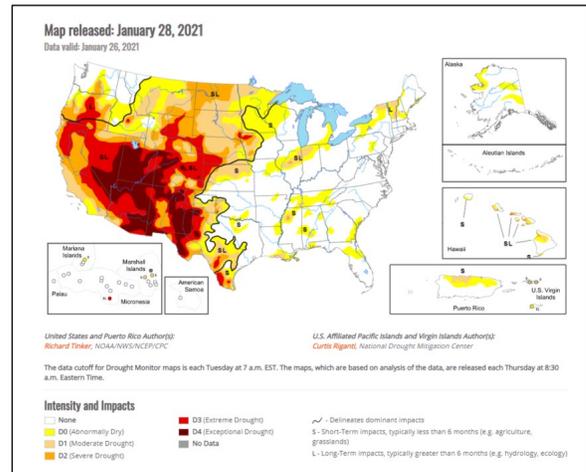


('000 mt)	Durum		Dom.	
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Disappearance
Wk. 25	151.0	134.7	189.4	13.4
Week ago	124.9	125.2	38.6	6.3
YTD	3,123.9	3,680.9	2,743.3	264.0
Last YTD	2,311.2	3,043.3	2,354.3	203.4
YTD less Last YTD	812.7	637.6	389.0	60.6
YTD over Last YTD	135%	121%	117%	130%

Mercantile based on weekly CGC Handling Data

US Wheat:

- Weekly **US wheat export sales** at 381,000 mt were within expectations of 300-500,000 mt. Increases were primarily for Japan (696,000 mt) and Mexico (146,000 mt).
- Last week beneficial precipitation alleviated some dryness from north-central Kansas to south-central Nebraska, and in western Oklahoma and the Texas Panhandle. However, extreme dryness continues to plague winter wheat producers in the High and Southern Plains. *Severe drought spread in western South Dakota, eastern Wyoming, western North Dakota and eastern Montana.* Some precipitation is forecast for this week in the Southern Plains while dryness is expected to persist in the Northern Plains.
- *Additional export tax rumours from both Russia and Argentina were discussed in the market, which along with Black Sea logistic problems seem to point towards additional demand for the US/ N America at some point, especially since the discount of US FOB values against the EU continues to widen.*
- US HRS for February '21 is valued at \$288/mt FOB PNW (down \$5.00/mt), PNW White wheat is valued at \$282/mt FOB PNW (down \$3.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$284.04/mt (down \$4.69/mt from last week).



Australian wheat:

- Australian futures finished the week down A\$6/mt. The FOB market seems little changed, but business has turned very quiet.
- Australian new crop FOB APW wheat values for April (first available position) closed at \$295/mt, unchanged from the previous week. *There were no offers for Jan., Feb., or March '21.*

Argentine wheat:

- Argentine FOB wheat was again nominally little changed, but there is considerable uncertainty about possible export taxes.
- Argentina again talked of export caps as volume shipments continued to Africa and to Asia, and export licences hit 9 million mt against an export surplus of 11 million mt, with the season just 2 months old.
- The official FOB price of \$285/mt for January is back to a sizeable premium to the nominal FOB market.
- 'Nominal values' for FOB 12% pro Argentine wheat are at \$265-275/mt for Feb. delivery.

EU wheat:

- Matif wheat rose €4/mt, and premiums remained very strong following the Algerian tender.
- Brussels took 3 million mt out of wheat feeding from last month, which makes no sense while Matif wheat is ~€20/mt below the cost of imported corn!
- EU shipments are still running at an annualised 6 million mt above the USDA's number.
- *Feb. FOB prices in the EU:* French 11.5 pro closed at \$290.90/mt, up \$1.37/mt from last week. German 12.5 pro was down by \$3.52/mt to \$290.21/mt. Baltic 12.5 pro increased by \$4.38/mt on the week to \$290.21/mt.

Black Sea wheat:

- Sovecon raised their 2020/21 **Russian wheat export projection** 1.6 MMT to 37.9 MMT today. The consultancy cited active shipping ahead of the higher tax rate beginning March 1.
- *Russia confirmed old crop export taxes of €25 from Feb 15th and €50 from March 1st but gave no news on new crop, Russian domestic prices did not go down, and major truck/vessel line-ups seriously hampered Russian logistics.*
- *Russia logistics were hit hard by various events (high winds, low drafts, 20,000m of truck line-ups and 70 vessels waiting to load), but Russian farmers held out for Rb18,000/mt (~US\$237/mt), while waiting for the new crop tax measures to be made known. However, it seems unavoidable that if Moscow/ Putin wants prices to go lower, one way or another they will get what they want.*
- The direction of cash wheat prices will remain obscure and struggle for direction until Russia is back on track. However, it likely will be the EU leading the market higher in the coming weeks.
- The FOB offer for Feb. Russian 12.5 pro wheat closed at \$294.21/mt, down \$7.79/mt.

China:

- China sold 2.187 million mt of wheat from state reserves last week.

➤ **Significant purchases/ trades:**

- **Algeria** purchased 600,000 mt of EU wheat for March at \$314.00/mt delivered Algiers.
- **Jordan** bought 60,000 mt at \$273.30 which we thought was cheap.
- **Taiwan** purchased 85,340 mt of US wheat in a tender, but we don't have the price.
- **Jordan** is expected to tender for an additional 120,000 mt of wheat.
- The **Commitment of Traders report** showed managed money was 21,275 contracts net long in SRW as of Jan. 26th. That was a 657 contract increase on the week, with lighter spec open Interest. HRW speculative traders were 2,146 contracts more net long to 60,239 contracts on new buying interest. Managed money also extended their net long in HRS futures and options, up 1,337 contracts to 14,659 contracts total.
- Weekly **US wheat export sales** at 381,000 mt were within expectations of 300-500,000 mt.
- **Egypt** (GASC), **Saudi Arabia** (SAGO) and **Turkey** (TMO) all expected back in the market in the near future.

➤ **Wheat Market Outlook:**

Significant events:

- **Logistic issues in Russia** are increasingly a discussion point (high winds, low draft, 20 km of trucks and 70 vessels waiting to load), which all adds to the uncertainty caused by the tax rumours.
- **Additional export tax rumours** from both Russia and Argentina were discussed in the market, which along with Black Sea logistic problems seem to point towards additional demand for the US/ N America at some point, especially since the discount of US FOB values against the EU continues to widen.
- **Russian farmers seem to be holding out for Rb18,000/mt (~US\$237/mt) for their remaining wheat, while waiting for the new crop tax measures to be made known. However, it seems unavoidable that if Moscow/ Putin wants prices to go lower, one way or another they will get what they want.**
- **EU shipments** are still running at an annualised 6 million mt above the USDA's number. Meanwhile, Brussels took 3 million mt out of wheat feeding from last month, which makes no sense while Matif wheat is ~€20/mt below the cost of imported corn! We expect the EU leading the market higher in the coming weeks.
- **US conditions:** Some precipitation is forecast for this week in the Southern Plains while dryness is expected to persist in the Northern Plains.
- We are entering the critical period where we will start getting forecasts for **spring emergence** in the important winter wheat areas of the world; markets will be watching intently.

➤ **Outlook:**

Russia confirmed old crop export taxes of €25 from Feb 15th and €50 from March 1st but gave no definitive news on new crop. Russian domestic prices did not fall, and in addition, major truck/vessel line-ups seriously hampered Russian logistics. Russian farmers seem to be holding out for Rb18,000/mt (~US\$237/mt), while waiting for the new crop tax measures to be made known. However, it seems unavoidable that if Moscow/ Putin wants prices to go lower, one way or another, they will get what they want in the end.

But until there is a final decision taken in Russia for both old and new crop which allows their farmers to determine their sales strategy, the direction of the wheat market will remain unclear!

In Canada, some traders have kept their bids on hold, but #1 CWRS 13.5 should definitely fetch \$7.75-8.00/bu (+) delivered Sask.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 01-02-2021					
NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		May '21 {bu.}	May '21 {mt}
1 CWRS 13.5	\$7.49	\$275.21	1 CWRS 13.5	7.77	\$285.50
1 CWAD 13.0	\$8.27	\$303.87	1 CWAD 13.0	8.33	\$306.08
1 CPSR 11.5	\$7.10	\$260.88	1 CPSR 11.5	7.34	\$269.70
SW Sask			SW Sask		
1 CWRS 13.5	\$7.37	\$270.80	1 CWRS 13.5	7.57	\$278.15
1 CWAD 13.0	\$8.32	\$305.71	1 CWAD 13.0	8.36	\$307.18
1 CPSR 11.5	\$7.03	\$258.31	1 CPSR 11.5	7.28	\$267.50
NE Sask			NE Sask		
1 CWRS 13.5	\$7.27	\$267.13	1 CWRS 13.5	7.50	\$275.58
1 CWAD 13.0	\$8.45	\$310.49	1 CWAD 13.0	8.67	\$318.57
1 CPSR 11.5	\$6.87	\$252.43	1 CPSR 11.5	7.08	\$260.15
SE Sask			SE Sask		
1 CWRS 13.5	\$7.13	\$261.98	1 CWRS 13.5	7.41	\$272.27
1 CWAD 13.0	\$8.43	\$309.75	1 CWAD 13.0	8.58	\$315.26
1 CPSR 11.5	\$6.84	\$251.33	1 CPSR 11.5	7.06	\$259.41

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). 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.

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.”

- 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				01-02-2021
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	\$352.95	\$384.99		
HRS	\$345.88			
HRW 11.5	\$362.85			
SWW 12.0	\$350.59			
1 CWRS 13.5 ³	\$352.95		\$271.91	\$81.04
2 CWRS 13.0 ³	\$345.88		\$259.41	\$86.47
3 CWRS ³	\$362.85		\$253.90	\$108.94
CPS ³	\$344.00		\$256.47	\$87.52
1 CWAD ⁴		\$378.40	\$301.30	\$77.10
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$294.21	February		
French 11.5 (Rouen)	\$290.90	February		
ASW 10.5 (W Coast)	\$291.00	April		
Argentine 12.0	\$270.00	February		

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CWRS 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				01-02-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.23	\$9.70	\$7.30	\$7.30
Parity Track Rosetown	\$7.74	\$8.20	\$7.87	\$7.87
Track Bid Rosetown Area	\$7.06	\$6.91	\$6.98	\$6.98
Gross Margin at Elevator (\$/bu)*	\$0.68	\$1.29	\$0.89	\$0.89
Gross Margin at Elevator (\$/mt)*	\$24.89	\$47.36	\$32.54	\$32.54

* to cover elevation, elevator market risk, margin