

Wheat Market Outlook and Price Report: February 15, 2021

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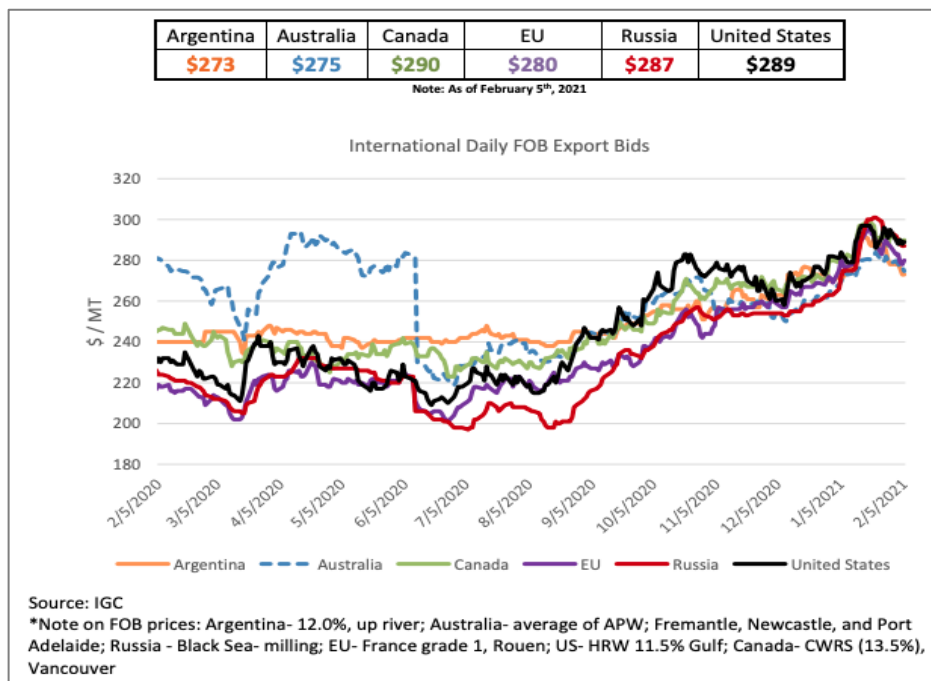
i) Background and Rationale for the Report

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 15, 2021

Feb. 9 '21 - USDA on Global Wheat Price Developments:



- Global wheat prices rose in most major exporting countries since the January WASDE report due to higher global consumption and lower ending stocks, coupled with the continued strengthening of corn and soybean prices.
- Russia witnessed the most significant climb based on policy announcements affecting grain exports.
- Canada and U.S. remain the most expensive origins, partly due to lower forecast ending stocks and strong exports.

➤ **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 636-6, up 3-2 cents on Friday, *down 4-6 cents on the week*.
Mch. '21 contract **Kansas hard red winter wheat** closed at 616-6 up 5-6 cents in Friday's trade, and *down 8-6 on the week*.
Mch. '21 **Minneapolis hard red spring wheat** closed at 616-0, down 0-2 cents on Friday, and *down 10 cents on the week*.
- **Futures market summary:** After a volatile week, technical selling following lower corn prices pressured all wheat futures prices. HRW wheat futures posted the best gains on Friday, as the large cold front continues to push south with snow and freezing temperatures pushing down into Texas.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



Mpls. Mch. '21 Wheat



Canadian Wheat:

- EU wheat exports continue to run far ahead of the USDA projection, and unless there is a major error in the crop and/or domestic demand estimates, wheat prices there will have to move to curtail the pace of sales. At the same time, a lot of uncertainty persists around Russian exports given the ongoing tax discussions, while N Hemisphere weather and the state of crops as they emerge from winter will become increasingly important. *It is tough for now to have any real conviction either way on the price direction for wheat.*
- At 481,000 mt, **weekly Canadian wheat exports** were excellent last week (wk. 27), advancing year-to-date wheat exports to 10.6 million mt, 2.5 million mt higher (+30%) than last year-to-date.
If exporters maintain the year-to-date pace of wheat exports, Canada would reach 20.4 million mt of wheat exports (excl. durum) this crop year.
- The AAFC export estimate has been raised to 21 million mt for the crop year. We can only hope that the railcar supply will hold up to allow for 21 million mt; the market is there.

(CGC) Grain Handling Summary Wheat				
('000 mt)	Wk. 27			(Feb. 7/'21)
	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 27	503.9	342.8	480.5	43.9
Week ago	466.6	317.5	252.4	46.8
YTD	11,811.7	12,260.8	10,606.1	2,293.5
Last YTD	11,110.6	9,539.7	8,150.8	2,154.4
YTD less Last YTD	701.1	2,721.1	2,455.3	139.1
YTD over Last YTD	106%	129%	130%	106%

Mercantile based on weekly CGC Handling Data

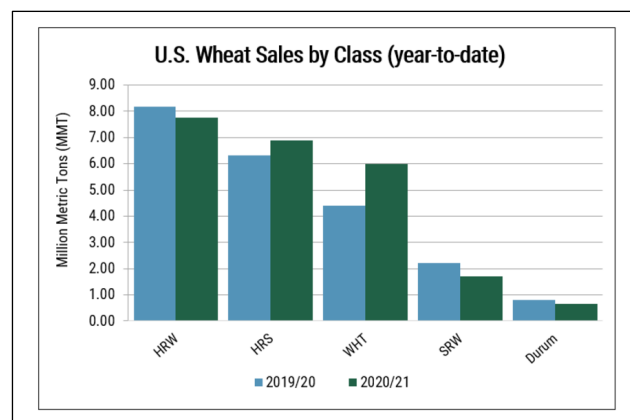
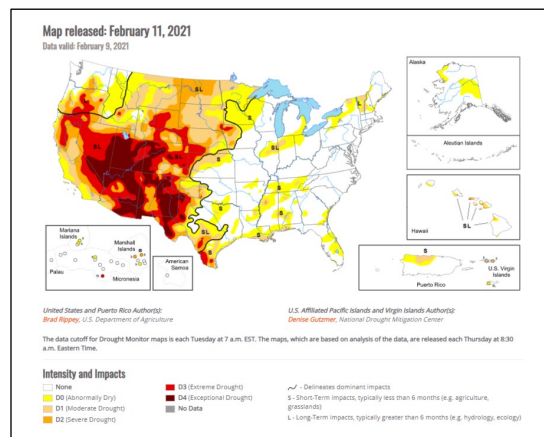
- Bids in Canada have trended up. With \$8.00/bu (+) being paid to growers for ½ CWRS 13.5. Feed wheat fetches \$7.50-7.70/bu, depending on location. These are decent levels to sell at! New crop wheat should be worth ~\$7.75bu (+).
- Durum exports** for week 27 at 84,000 mt were at the lower end, for a year-to-date total of 3 million mt, compared to 2.5 million mt last year-to-date. The export pace now is 23% ahead of last year's pace.
- We hear that \$9.25/bu is being paid for #1 CWAD in SK, which is a good price to sell additional tonnage.

(CGC) Grain Handling Summary	Durum		Wk. 27		(Feb. 7/'21)	
	{000 mt}	Terminal	Bulk exports	Dom.		
	Prod. Divrs.	Repts.		Disappearance		
Wk. 27	159.8	80.3	84.3			2.4
Week ago	103.0	110.1	218.0			25.8
YTD	3,386.6	3,871.5	3,045.6			292.2
Last YTD	2,514.9	3,118.1	2,469.9			211.9
YTD less Last YTD	871.7	753.4	575.7			80.3
YTD over Last YTD	135%	124%	123%			138%

Mercantile based on weekly CGC Handling Data

US Wheat:

- Beneficial precipitation alleviated some dryness in south-central Nebraska. However extreme dryness continues to plague winter wheat producers in the High and Southern Plains. Exceptional drought spread on the Kansas-Colorado border and abnormal dryness emerged in the Oklahoma and Texas Panhandles. Looking ahead, extremely cold temperatures and moderate to heavy snowfall are expected across the Southern Plains.
- Net US wheat export sales were above expectations at 591,000 mt for a season total 845 million bu, up 5% on last year's 805 million bu against the USDA's projected 2% increase.
- The USDA estimate on wheat was close to trade expectations. WASDE: Globally, stronger feed and milling demand from China and India has led to the 9 million mt decrease in world wheat stocks compared to the January estimate.
- With EU prices also closing lower, FOB spreads were little changed, and on paper US wheat is not buying any incremental demand, although much uncertainty persists over both Black Sea and EU exports for the rest of the season. And amidst ongoing concerns over weather in both the US and the EU/Black Sea, yesterday's decline in major exporters' stocks will also keep a focus on N Hemisphere weather going forward.
- US HRS for March '21 is valued at \$285/mt FOB PNW (down \$2.00/mt), PNW White wheat is valued at \$293/mt FOB PNW (up \$6.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$277.80/mt (down \$6.52/mt from last week).



Australian wheat:

- Aussie futures ended the week marginally higher, while Fob markets are little changed.
- In terms of competitiveness, Australian wheat remains on its own through June, but beyond that it all depends on if/how the Russian tax situation is resolved.

- Australian new crop FOB APW wheat values for May (first available position) closed at \$290/mt, unchanged from the previous week. *There were no offers for Jan., Feb., March, or April '21.*

Argentine wheat:

- There was no change to Argentine FOB values, but ongoing weakness in the Peso.
- CONAB raised Brazil's wheat crop by 200,000 mt to 6.44 million mt, while the USDA went the other way last Tuesday with a crop of 6.25 million mt. CONAB left imports unchanged at 6.8 million mt (USDA is using 6.7 million mt).
- 'Nominal values' for FOB 12% pro Argentine wheat are at \$264-270/mt for March delivery.

EU wheat:

- Western Europe is forecast to see a significant reversal in temperatures with readings turning much above normal following last week's freeze.
- Matif wheat managed to hold at support levels and closed up €1/mt, but other than the logistics problems across Europe due to the serious cold, there is little to say about what is happening in the wheat market.
- *March FOB prices in the EU:* French 11.5 pro closed at \$283.35/mt, up \$3.35/mt from last week. German 12.5 pro was up by \$2.21/mt to \$280.93/mt. Baltic 12.5 pro dropped by \$0.18/mt on the week to \$280.93/mt.

Black Sea wheat:

- There is significant concern for crops in southern Russia, where current temperatures of +2/+5°C will switch to a drop to -20°C from the weekend with zero/ little snow cover.
- There seems to be nothing happening on the Russian tax issue, and the authorities either do not understand or do not care about the consequences for the Russian Grain industry.
- Reports yesterday suggest that Russian farmers are no longer sellers, and even for the Feb-May positions where the tax is known, there is no Russian market.
- Black Sea wheat futures closed mixed with old crop up \$2 and new crop unchanged, and there was surprising volume in the new crop positions with 1,600 contracts (80,000 mt) trading in the July, Aug and Sep positions. - We struggle to see how Russian new crop can be priced given the total lack of progress on the tax situation, and we presume it is simply spreading against US or Matif wheat.
- The FOB offer for March Russian 12.5 pro wheat closed at \$277.93/mt, down \$2.07/mt.

➤ **Significant purchases/ trades:**

There is very little happening here:

- **Jordan** bought 120,000 tonnes of wheat
- **Japan** bought 87,000 tonnes of milling wheat this morning in their regular weekly tender as scheduled, including 51,000 from the U.S. and 36,000 from Canada
- **Japan** is looking 80,000 tonnes of feed wheat and 100,000 tonnes of feed barley in an SBS tender, closing February 16, for late May loading and July arrival.
- It is now exactly 3 months since the last **Saudi Arabian** tender (where they bought 860,000 tonnes for Feb-Mar arrival).
- **Net US wheat export sales** were above expectations at 591,000 mt for a season total 845 million bu, up 5% on last year's 805 million bu against the USDA's projected 2% increase.

➤ **Wheat Market Outlook:**

Significant events:

- **USDA/ WASDE:** The USDA estimate on wheat was close to trade expectations. WASDE: Globally, stronger feed and milling demand from China and India has led to the 9 million mt decrease in world wheat stocks compared to the January estimate. The USDA lowered production by 500,000 mt in Argentina, while adding 500,000 mt each to the EU, India and Kazakhstan. Russia and Ukraine were left unchanged. The USDA's EU exports remain far below what the current pace suggests.
- There seems to be nothing happening on the **Russian tax issue**, and the authorities either do not understand or do not care about the consequences for the Russian Grain industry. - Reports yesterday suggest that Russian farmers are no longer sellers, and even for the Feb-May positions where the tax is known, there is no Russian market.
- Fresh wheat specific news was limited and **most of the weakness was from spillover selling from the slump in corn and soybeans**. And while the FOB line-up suggests US wheat is becoming more competitive against EU and Black Sea origins, *freight spreads continue to prevent any real buying of incremental demand*.

➤ **Outlook:**

While we are not bullish on wheat due to the Russian unknowns, we see little reason for wheat to go lower, especially as current weather is putting increased emphasis on the state of N Hemisphere winter crops and the potential for spring planting.

It is a holiday in the USA and Canada on Monday, China is out all next week, it's carnival in Brazil, much of Europe has school holidays, and the Russian tax situation is far from being resolved. None of which will make for a liquid or transparent market. Next week's USDA Outlook Conference (Thursday and Friday) will be of interest as it brings the first early look at USA new crop prospects.

We expect stronger markets.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 15-02-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '21 (bu.)	May '21 (mt)
1 CWRS 13.5	\$7.54	\$277.05	1 CWRS 13.5	7.73	\$284.03
1 CWAD 13.0	\$8.36	\$307.18	1 CWAD 13.0	8.43	\$309.75
1 CPSR 11.5	\$7.00	\$257.21	1 CPSR 11.5	7.22	\$265.29
SW Sask			SW Sask		
1 CWRS 13.5	\$7.34	\$269.70	1 CWRS 13.5	7.56	\$277.78
1 CWAD 13.0	\$8.20	\$301.30	1 CWAD 13.0	8.44	\$310.12
1 CPSR 11.5	\$6.96	\$255.74	1 CPSR 11.5	7.20	\$264.56
NE Sask			NE Sask		
1 CWRS 13.5	\$7.29	\$267.86	1 CWRS 13.5	7.45	\$273.74
1 CWAD 13.0	\$8.42	\$309.38	1 CWAD 13.0	8.56	\$314.53
1 CPSR 11.5	\$6.74	\$247.65	1 CPSR 11.5	6.92	\$254.27
SE Sask			SE Sask		
1 CWRS 13.5	\$7.19	\$264.19	1 CWRS 13.5	7.37	\$270.80
1 CWAD 13.0	\$8.36	\$307.18	1 CWAD 13.0	8.48	\$311.59
1 CPSR 11.5	\$6.74	\$247.65	1 CPSR 11.5	6.94	\$255.00

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.

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.”

- 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				15-02-2021
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	\$344.76	\$378.08		
HRS	\$336.90			
HRW 11.5	\$352.17			
SWW 12.0	\$346.62			
1 CWRS 13.5 ³	\$344.76		\$268.23	\$76.53
2 CWRS 13.0 ³	\$336.90		\$257.21	\$79.69
3 CWRS ³	\$352.17		\$251.70	\$100.47
CPS ³	\$340.14		\$245.08	\$95.05
1 CWAD ⁴		\$371.60	\$301.67	\$69.94
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$277.93	March		
French 11.5 (Rouen)	\$283.35	March		
ASW 10.5 (W Coast)	\$286.00	May		
Argentine 12.0	\$270.00	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				15-02-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$8.99	\$9.41	\$7.35	\$7.35
Parity Track Rosetown	\$7.50	\$7.91	\$7.76	\$7.76
Track Bid Rosetown Area	\$7.00	\$6.85	\$6.67	\$6.67
Gross Margin at Elevator (\$/bu)*	\$0.50	\$1.06	\$1.09	\$1.09
Gross Margin at Elevator (\$/mt)*	\$18.23	\$39.01	\$40.07	\$40.07

* to cover elevation, elevator market risk, margin