

**Wheat Market Outlook and Price Report: June 14, 2021**  
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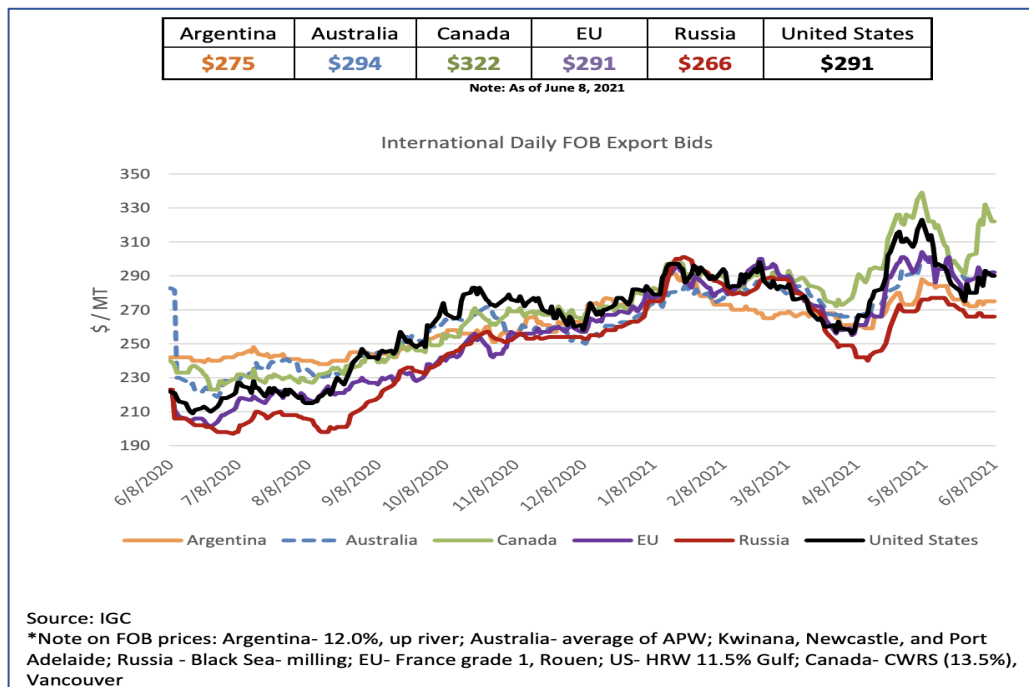
**i) Background and Rationale for the Report**

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 June 14, 2021**

**Global FOB Wheat Price Developments:**



- **Wheat prices** fell across most major exporting countries since last month's WASDE with improving winter wheat conditions in several key producing regions.

- **Russian** export quotes have declined as the winter wheat harvest nears and remained flat since the new floating taxes became effective June 2. Russian quotes are currently the most competitive.
- **Argentine** quotes have also declined slightly as planting is underway.
- **U.S.** quotes declined after the last WASDE but have rebounded partially over the past week with some rains at harvest time.
- **Australian** quotes slid only slightly as offshore demand remains robust.
- **EU** quotes are marginally lower as old crop supplies tighten but prospects are favourable for the new crop. In contrast,
- Quotes from **Canada** have risen sharply over the past couple of weeks with a smaller expected crop.

➤ **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:** July '21 contract **Chicago winter wheat** closed at 680-6, down 3 cents on Friday, down 7 cents on the week.  
July '21 contract **Kansas hard red winter wheat** closed at 638-0, down 2-2 cents in Friday's trade, and up 1-6 on the week.  
July '21 **Minneapolis hard red spring wheat** closed at 764-6, down 10-6 cents on Friday, and down 48 cents on the week.

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



**KC July '21 Wheat**



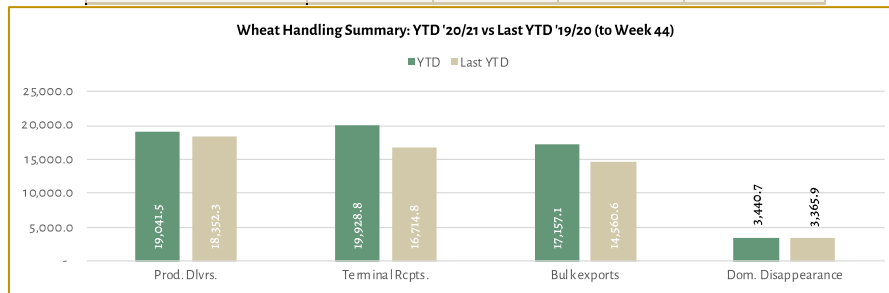
**Mpls. July '21 Wheat**



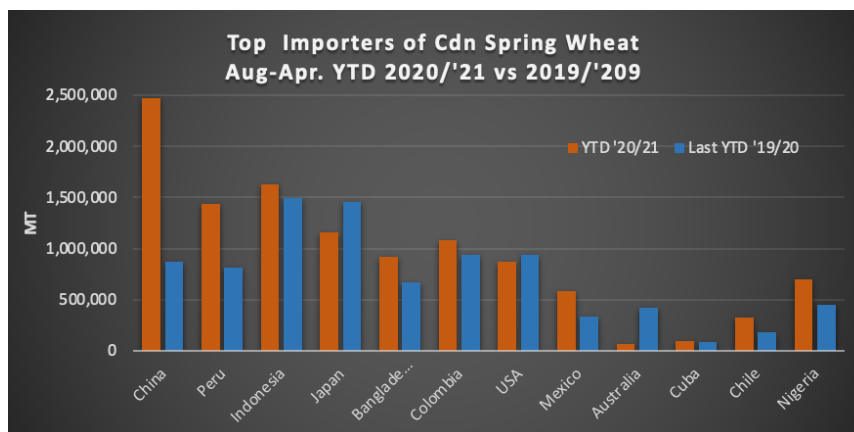
**Canadian Wheat:**

- While the **spring wheat outlook** on the Canadian Prairies is much improved, as of last Friday, US hard red spring wheat areas are still under pressure [see US section for detail]. Specifically, the North Dakota rating for spring wheat is at 29% very poor/ poor, 39% fair, and only 32% good to excellent. Russian and Kazakh spring wheat regions remain hot and dry, though some contacts in Russia feel spring crops restarting to catch up from late seeding.
- The **USDA report** seemed optimistic on wheat production estimates and ignored significant production problems in Southern Europe and the Middle East, failing to upgrade the resulting changes in export requirements. We will have to see if these get corrected in the July report. Meanwhile, this leaves the market unsure of the direction and again focusing on weather events.
- **Canadian wheat exports** for week 44 were good at 516k mt, for a year-to-date total of 17.2 million mt, compared to 14.6 million mt last year-to-date.

(CGC) Grain Handling Summary Wheat	Wk. 44			(June 6/21)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 44	635.8	409.5	516.4	79.9
Week ago	490.5	433.8	187.5	63.6
YTD	19,041.5	19,928.8	17,157.1	3,440.7
Last YTD	18,352.3	16,714.8	14,560.6	3,365.9
YTD less Last YTD	689.2	3,214.0	2,596.5	74.8
YTD over Last YTD	104%	119%	118%	102%

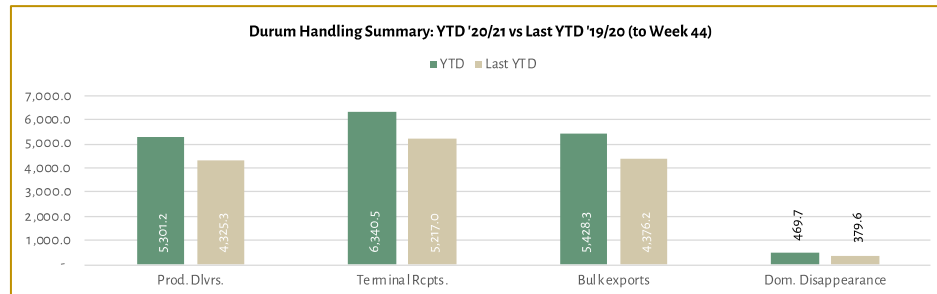


- According to StatsCan last Tuesday, **April wheat exports** amounted to 1.8 million mt. Our major wheat destinations this year are China, Indonesia, Peru, Japan, Colombia and Bangladesh.

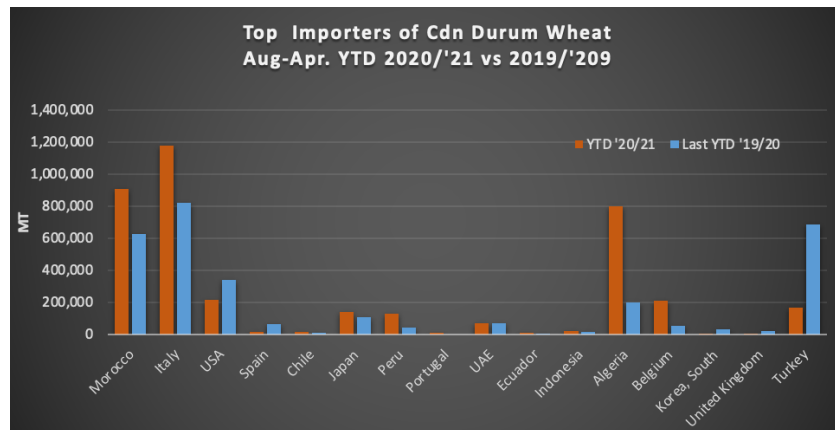


- In Canada, bids for milling wheat softened over the past week. #1 CWRS 13.5 is bid ~\$8.60-8.75/bu delivered plant Saskatchewan for June and July.
- There are still a few questions on components of the supply and demand numbers. As a staple food, wheat looks cheap to us so until the supply-demand picture is clearer, we prefer to store wheat.*
- Durum:** Soil moisture in the Canadian durum areas has clearly improved. But the N Dakota durum wheat condition still rated 15% very poor/poor, 33% fair, 52% good to excellent. Durum emergence at 65%, was behind 73% last year and 77% average. Most of the US durum acreage is located in areas experiencing drought conditions this crop year.
- Canadian durum exports** for week 25 were a small 60,000 mt, for a year-to-date total of 5.4million mt, compared to 4.4 million mt last year-to-date. This is now 24% ahead of last year's pace.

(CCC) Grain Handling Summary Durum		Wk. 44		(June 6/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 44	102.4	87.5	60.4	9.0
Weekago	57.3	61.1	143.6	20.2
YTD	5,301.2	6,340.5	5,428.3	469.7
Last YTD	4,325.3	5,217.0	4,376.2	379.6
YTD less Last YTD	975.9	1,123.5	1,052.1	90.1
YTD over Last YTD	123%	122%	124%	124%



- **April durum exports** amounted to 661,000 mt, doe a year-to-date total of 4.6 million mt (3.7 million mt last year-to-date). The biggest volume gains in this year's durum sales over last years were to Italy, followed by Algeria and Morocco. We did lose significant export volume to Turkey.



- Durum bids in Saskatchewan remained firm last week with \$9.50/bu still being paid.
- Old crop durum should be sold now, and given Mpls wheat is still at US\$7.74/bu (~Cdn\$9.40/bu), we would target \$9.50/bu for N/C durum sales.

### US Wheat:

- According to the US wheat associates, **US HRS crop conditions** decreased this week and continue to be the lowest since 1988. By state, Minnesota is 72% good to excellent, Montana 47%, South Dakota 16% and North Dakota is 32%. Topsoil moisture continues to decline; North Dakota is 84% short to very short, South Dakota is 78%, Minnesota and Montana are both 51%.
- Weather conditions in the HRS growing region are hot and dry with record high temperatures stressing the crop. Emergence is ahead of the 5-year average with Minnesota at 97%, South Dakota 93% and Montana and North Dakota each at about 75%. - However, we think that the rains/showers towards the end of the week are giving some relief in the North states as well.

- The **USDA report** last week lowered US end stocks, but production in the major exporting nations rose 6 myn tonnes and world ending 21/22 stocks were forecast to rise 6 myn tonnes.
- There is increasing belief that the ongoing heat and dryness in the Dakotas is significantly cutting into spring wheat potential. Russian and Kazakh spring wheat regions are still hot and dry and crops are far from assured, so we still could have problems before the USDA wheat production estimates are in the bin.
- US HRS for July '21 is valued at \$337.00/mt FOB PNW (down \$4/mt from last week), PNW White wheat is valued at \$322/mt FOB PNW (up \$2mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$277.20/mt (up \$4/mt from last week).

#### **Australian wheat:**

- The USDA left the Australian S&D unchanged, but ABARES had earlier raised the Australian wheat crop to 27.8 million mt (USDA 27 million mt).
- Australian new crop FOB APW wheat for July was quoted at \$295.00/mt, unchanged from the previous week.

#### **Argentine wheat:**

- The USDA left the Argentine wheat '21/22 S&D unchanged at 20.5 million mt production and 3.1 million t ending stocks.
- BAGE put plantings at 37% complete against 42% last year. Delays are much greater in the north due to water shortages, where the ideal planting window is about to close, which could lead to some acreage losses.
- FOB values for June 12% protein Argentine wheat ranged from \$270-275/mt, unchanged from last week.

#### **EU wheat:**

- The big changes in the USDA report came in Europe with the EU crop up 3.5 million mt with ending stocks growing by 2.3 million mt, (plus Russia up 1 million mt at a record 86 million mt), which sent futures lower on the week.
- The USDA crop assessment is seen by many as optimistic, but the trade is probably more concerned by the potential quality issues and prospective late harvest.
- FOB prices in the EU: July French 11.5 pro closed at \$266.30/mt (new crop), down 2.40/mt from last week. *August German 12.5 pro was at to \$261.000/mt. August Baltic 12.5 pro wheat was at \$257.30/mt.*

#### **Black Sea wheat:**

- Black Sea futures ended little changed and FOB markets were largely non-existent.
- The USDA had been expected to move closer to the 79-80 million mt for the Russian crop, which is about the average of trade guesses, but they went the other way and raised production by 1 million mt to what would be a record 86 million mt.
- Russian and Kazak spring wheat regions remain hot and dry.
- Russian 12.5 pro wheat for July is at \$264/mt (Marmara port), unchanged from last week.

#### ➤ **Significant purchases/ trades:**

- **Tunisia** bought 50,000 tonnes of wheat for July 1-25 at \$297.75/mt.
- The **Philippines** bought 50,000 tonnes of Aug feed wheat at \$320-325/mt, expected to be Australian execution.
- **Thailand** earlier last week bought Black Sea feed wheat at around \$300/mt.

- **Korea** is tendering for 60,000 tonnes of feed wheat.
  - **USA export sales** at 326,000 tonnes were as expected for a season total 203 million bushels (214 million bushels last year).
- These are good feed wheat values.

➤ **Wheat Market Outlook:**

**Significant events:**

- The **USDA report** last week slightly lowered US ending stocks, but production in the major exporting nations rose by 6 million mt and '21/22 world stocks (excluding China and India) were forecast to rise 6 million mt!
  - We think the USDA number for the EU is quite optimistic, and the Russian crop seems to be 5 million mt above even the highest trade ideas.
  - The USDA left the Russian & Kazakh production numbers unchanged from last month, but Russian spring wheat still is under threat from heat and dryness, and the Kazakh crop even more so.
  - The USDA did not account for the crop losses from N Africa, with problems in Turkey and the Middle East, as far as Pakistan. And as a result, their import demand seems significantly understated.
- **US HRS crop conditions** decreased this week and continue to be the lowest since 1988.
  - The latest forecasts from NOAA today. have excellent chances for rain in many of the problem areas for the 8-14-day window, and a decent chance in the 2-7-day window. Rain makes grain.
  - The PNW is in very rough shape, second only to California.
- The **spring wheat outlook** on the Canadian Prairies is much improved.
- Demand for **durum** remains good.

➤ **Outlook:**

We think that the USDA numbers for EU and Russian numbers are significantly above trade estimates. But while there is still time for the USDA to be proven correct with respect to exporter numbers, the importer nation's crops are a fait accompli, which should show up in trade numbers over the coming months. On the importer side, Iran likely is the biggest omission, with the USDA at 15 million mt against commercial estimates of just 5 million mt.

On the other hand, there are worrisome developments in the freight markets, where rates are soaring, and vessels are hard to find/ fix while harvest pressure is still more than a month away.

**In our view, there are still several big questions in elements of the supply and demand numbers. As a staple food, wheat looks cheap to us so until the supply-demand picture is clearer, we prefer to store wheat.**

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

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

					Date:	14-06-2021
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Oct. '21 (bu.)	Oct. '21 (mt)	
<b>1 CWRS 13.5</b>	\$8.69	\$319.31	<b>1 CWRS 13.5</b>	\$8.52	\$313.06	
<b>1 CWAD 13.0</b>	\$8.55	\$314.16	<b>1 CWAD 13.0</b>	\$8.13	\$298.73	
<b>1 CPSR 11.5</b>	\$8.17	\$300.20	<b>1 CPSR 11.5</b>	\$7.49	\$275.21	
<b>SW Sask</b>			<b>SW Sask</b>			
<b>1 CWRS 13.5</b>	\$8.50	\$312.32	<b>1 CWRS 13.5</b>	\$8.41	\$309.02	
<b>1 CWAD 13.0</b>	\$8.64	\$317.47	<b>1 CWAD 13.0</b>	\$8.27	\$303.87	
<b>1 CPSR 11.5</b>	\$8.06	\$296.16	<b>1 CPSR 11.5</b>	\$7.44	\$273.38	
<b>NE Sask</b>			<b>NE Sask</b>			
<b>1 CWRS 13.5</b>	\$8.45	\$310.49	<b>1 CWRS 13.5</b>	\$8.28	\$304.24	
<b>1 CWAD 13.0</b>	\$8.69	\$319.31	<b>1 CWAD 13.0</b>	\$8.41	\$309.02	
<b>1 CPSR 11.5</b>	\$8.07	\$296.52	<b>1 CPSR 11.5</b>	\$7.35	\$270.07	
<b>SE Sask</b>			<b>SE Sask</b>			
<b>1 CWRS 13.5</b>	\$8.38	\$307.91	<b>1 CWRS 13.5</b>	\$8.27	\$303.87	
<b>1 CWAD 13.0</b>	\$8.67	\$318.57	<b>1 CWAD 13.0</b>	\$8.43	\$309.75	
<b>1 CPSR 11.5</b>	\$7.91	\$290.65	<b>1 CPSR 11.5</b>	\$7.23	\$265.66	

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.15)	(5.51)
<b>1 CWRS 12.5</b>	(0.30)	(11.02)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.00	0.00
<b>2 CWAD 13.5</b>	(0.10)	(3.67)
<b>2 CWAD 12.5</b>	(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)

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<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.”



- 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 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				14-06-2021
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)
<b>DNS 14.0</b>	\$385.68	\$418.67		
<b>HRS</b>	\$378.99			
<b>HRW 11.5</b>	\$339.75			
<b>SWW 12.0</b>	\$385.23			
<b>1 CWRS 13.5<sup>3</sup></b>	\$385.68		\$309.02	\$76.66
<b>2 CWRS 13.0<sup>3</sup></b>	\$378.99		\$296.16	\$82.83
<b>3 CWRS<sup>3</sup></b>	\$339.75		\$292.85	\$46.90
<b>CPS<sup>3</sup></b>	\$378.99		\$283.66	\$95.32
<b>1 CWAD<sup>4</sup></b>		\$412.43	\$317.84	\$94.59
<b>Competing wheat:</b>	<b>US\$/mt</b>			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	\$264.00	July		
<b>French 11.5 (Rouen)</b>	\$266.30	July		
<b>ASW 10.5 (W Coast)</b>	\$295.00	July		
<b>Argentine 12.0</b>	\$280.00	July		

<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				14-06-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$10.14	\$9.08	\$8.50	\$8.50
Parity Track Rosetown	\$8.65	\$7.58	\$8.82	\$8.82
Track Bid Rosetown Area	\$8.06	\$7.97	\$7.72	\$7.72
<b>Gross Margin at Elevator (\$/bu)*</b>	\$0.59	-\$0.39	\$1.10	\$1.10
<b>Gross Margin at Elevator (\$/mt)*</b>	\$21.60	-\$14.33	\$40.34	\$40.34

\* to cover elevation, elevator market risk, margin