

## Wheat Market Outlook and Price Report: June 28, 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 28, 2021

#### International Grains Council (IGC) June Global Wheat Estimate:

	18/19	19/20 est.	20/21 f'cast	21/22 proj.	27.05	24.06
million tons						
<b>WHEAT</b>						
<b>Production</b>	732	761	773	790	789	
<b>Trade</b>	168	185	191	188	191	
<b>Consumption</b>	740	745	769	787	787	
<b>Carryover stocks</b>	260	276	281	288	283	
<b>year/year change</b>	-8	17	4		3	
<b>Major exporters <sup>b)</sup></b>	69	64	62	59	60	

b) Argentina, Australia, Canada, EU, Kazakhstan., Russia, Ukraine, USA

- The International Grains Council (IGC) reduced their **'21/22 world wheat production estimate** to 789 million mt from 790 million mt in May.
- **Wheat trade** was increased by 3 million mt from last month to 191 million mt.
- **Wheat consumption** stayed the same at 787 million mt, which is very close to the production estimate.
- **Global wheat ending stocks for '21/22** are projected at 283 million mt. This would be 5 million mt lower than estimated in May, and 2 million mt higher than ending stocks in '20/21.

➤ **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 637-0, down 14 cents on Friday, down 26 cents on the week.
- July '21 contract **Kansas hard red winter wheat** closed at 600-2, down 6 cents in Friday's trade, and down 6 on the week.
- July '21 **Minneapolis hard red spring wheat** closed at 822-4, up 13 cents on Friday, and up 60 cents on the week.
- **Winter wheat futures** were lower last week on a combination of rain across the Midwest and pressure from the corn market. **Spring wheat futures** rose sharply on expanding drought and deteriorating crop conditions.
- Midday Monday am CBOT futures are 9 1/2 to 11 1/2 cents higher. KC HRW prices are up 15 to 18 cents at midday. Spring wheat futures are again the strongest, as the Dakotas look to miss out on the week's rains.

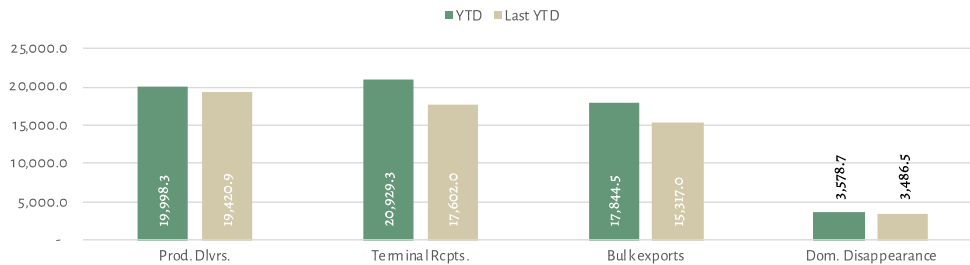


**Canadian Wheat:**

- **Spring wheat:** Spring wheat futures rallied through the week on dismal **US** spring wheat conditions. Good/Excellent ratings in the US fell from 37% last week to just 27%. This is in stark contrast to 75% Gd/Ex this time last year. The percent of the US spring wheat crop in poor or very poor condition rose 10% over the week to 37%. Topsoil moisture is rapidly deteriorating in the Northern States where time is running out.
- There are variable conditions reported across the **Western Prairies**. Conditions are promising in the northern regions of Alberta and Saskatchewan, where producers are expecting above average yields. Conditions in the southern regions of Alberta, SE Saskatchewan and S Manitoba are dry and yield expectations are being trimmed. – The heat expected to come into the Prairies from the West this week certainly heightens the threat to yields.
- For spring wheat in **E Europe/** the Black Sea countries, a Sukhovey across Russia and Kazakhstan meant heat and soil moisture losses, with growing risk to spring wheat crops.
- The **Stats Canada crop planting report** is out on Tuesday. Analysts are not expecting a significant change from the previously reported 23.26 million acres. We think this acreage is too low.
- **Canadian wheat exports** for week 46 were 432,000 for a season total of 17.8 million mt. This is 17% more than the same time last year. The bulk of last week's exports were out of Vancouver. Visible supplies are lower in the western ports, but there is 416,000 mt sitting in St. Lawrence and an additional 1.3 million mt in the elevator system. This should allow exports to remain at a steady pace.

(CCG) Grain Handling Summary Wheat		Wk. 46			(June 20/21)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 46	494.1	493.0	432.2	58.3	
Week ago	458.2	477.9	255.1	79.3	
YTD	19,998.3	20,929.3	17,844.5	3,578.7	
Last YTD	19,420.9	17,602.0	15,317.0	3,486.5	
YTD less Last YTD	577.4	3,327.3	2,527.5	92.2	
YTD over Last YTD	103%	119%	117%	103%	

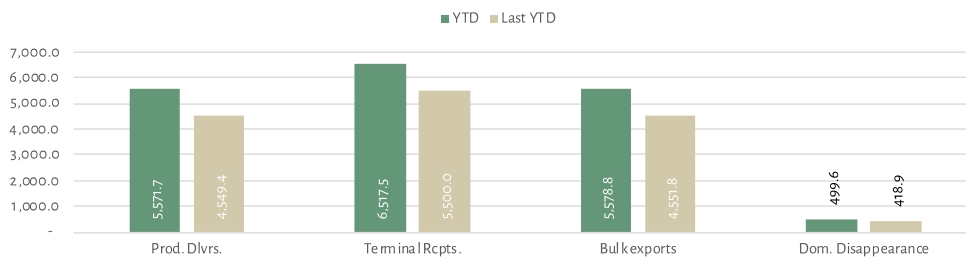
Wheat Handling Summary: YTD '20/21 vs Last YTD '19/20 (to Week 46)



- In Canada, old crop HRS should be able to fetch \$9.40 or better. New crop #1 CWRS 13.5 is worth \$9.25 delivered SK.
- **The trade will continue watching the wheat harvest progress in the US and in Russia, while also keeping an eye on weather in the Northern Plains and Canada. We expect CBOT/Kansas futures to struggle while Mpls wheat will remain firm.**
- **Durum wheat:** Many of the durum producing areas of Canada and the US are experiencing low moisture/drought conditions. Soil moisture in S AB is low, SE SK (Swift Current) has low soil moisture. In the US, just 80% of Montana's crop and 89% of North Dakota's crop has emerged because of the dry weather and delayed planting. Durum conditions in Montana and North Dakota are 81% and 48% respectively. There is no rain in the forecast for the Northern States.
- We expect USDA to leave **US durum acreage** at ~1.54 million acres. In **Canada**, analysts are expecting a slight (200,000 acre) decline in the STC durum area to 5.5 million acres. **MARS in Europe** raised EU durum yield prospects to 3.57 t/ha, now 2.2% higher than average.
- **Canadian durum exports** for week 46 were strong at 103.9,000 mt for a YEAR-TO-DATE total of 5.6 million mt. This is over 1 million mt (23%) more than week 46 of last year.

(CCG) Grain Handling Summary Durum		Wk. 46			(June 20/21)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 46	159.6	80.6	103.9	27.3	
Week ago	100.9	90.8	46.5	2.8	
YTD	5,571.7	6,517.5	5,578.8	499.6	
Last YTD	4,549.4	5,500.0	4,551.8	418.9	
YTD less Last YTD	1,022.3	1,017.5	1,027.0	80.7	
YTD over Last YTD	122%	119%	123%	119%	

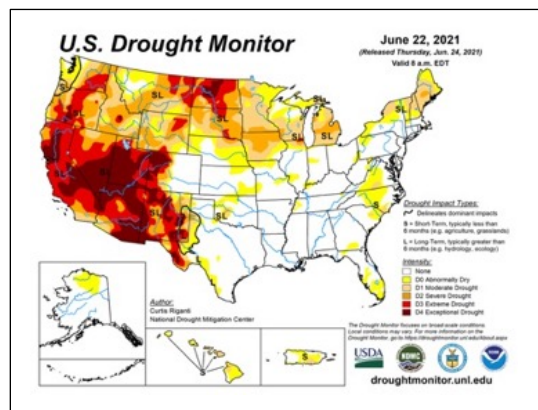
Durum Handling Summary: YTD '20/21 vs Last YTD '19/20 (to Week 46)



- We continue to be optimistic about the durum market. Ending stocks in N America will be tight with average yields, and the crop is far from made yet.

## US Wheat:

- **Winter wheat futures** were lower last week on a combination of rain across the Midwest and pressure from the corn market. But spring wheat futures rose sharply on expanding drought and deteriorating crop conditions.
- Severe drought conditions expanded in parts of Idaho, Washington, and Montana. Drought stress throughout the Northern States and PNW are causing yield and variable protein concerns to rise.
- Weather conditions have caused the US winter wheat harvest to progress rapidly. HRW harvest is 64% complete in Texas, 67% complete in Oklahoma and 30% complete in Kansas.
- Ongoing rain across the SRW crops is raising vomitoxin concerns.
- Weekly **US export sales** were 374,000 mt for a season total of 6.1 million mt. This is 10% less than last year and in-line with the USDA's expected 9% decline to a total of 24.5 million mt.
- **June 1 stocks** are going to rely heavily on how much wheat was used to substitute corn in feed rations. USDA generally decreases wheat feeding in the 3<sup>rd</sup> quarter report. Even during previous years when the wheat/corn spread was negative during March-May, wheat feeding was decreased in the June report. We expect this will be the case this year. *Overall, June 1 stocks are expected to be 840 million bu vs USDA's 852 million bu.*
- US HRS for July '21 is valued at \$352.00/ mt FOB PNW (up \$21/mt from last week), *PNW White wheat (for July) is valued at \$380/million mt FOB PNW (up \$20/mt from last week)*, FOB Gulf HRW 11/12.5 pro is valued at \$270.40/mt (up \$7.60/mt from last week).



## Australian wheat:

- Australian wheat futures will end the week at 10-week lows on both old and new crop.
- Australian wheat is cheap compared to US and Black Sea wheat, and China reportedly bought 250,000 mt Australian wheat last week, despite their ongoing trade dispute.
- Australian new crop FOB APW wheat for Sept. was quoted at \$285.00/million mt, unchanged from the previous week.

#### Argentine wheat:

- In Argentina, BAGE put plantings at 71% complete and equal to last year, although the Govt's monthly update had plantings at just 47% complete as of June 17th compared to 53% a year ago.
- The Govt. kept the crop at 17.6 million mt against BAGE's 19 million mt.
- Crop ratings were 55% Gd/Exc., down 4% on the week, but well above last year's 21%. Soil moisture levels are seen as generally adequate.
- FOB values for July 12% protein Argentine wheat ranged from \$270-275/million mt, up ~5/mt from last week.

#### EU wheat:

- Matif wheat fell through support to 11-week lows last week, but there is little origination selling because of quality concerns in France and the Balkans due to ongoing rain.
- MARS raised EU all wheat yield to 5.79t/ha. This is in line with the USDA's number. Soft wheat yield was raised 0.10 t/ha to 6.01 t/ha. Yields in most regions are above average.
- FOB prices in the EU: July French 11.5 pro closed at \$250.10/million mt (new crop), upn 0.40/mt from last week. July German 12.5 pro is unavailable: N/C Aug. German 12.5 pro (N/C) at \$249.60, up \$1.00/mt. August Baltic 12.5 pro wheat (N/C) was at \$244.90/mt, up \$2.20/mt.

#### Black Sea wheat:

- There are reports from the Ukraine that recent cool wet weather brought an increase in disease levels. There are also reports of lodging due to hail.
- Regarding Russia, the Sukhovey that had been forecast for some time seems to be taking place: Winds are strong and very dry, daytime high temperatures in Russia are above 40°C, with nighttime lows of 25°C, and the event is expected to last at least through next week.
- Temperatures in Kazakhstan are less severe, but existing soil moisture levels were much lower following an extended dry period.
- The **Russian export tax** is increasing again. According to the Russian AgMin, the tax is increasing \$3.20/mt to \$41.30/mt. The tax will run from June 30<sup>th</sup> to July 6<sup>th</sup>.
- Black Sea values seem ~ unchanged, but there were really no markets to monitor.
- Russian 12.5 pro wheat for July is at ~\$250/million mt, unchanged from last week.

#### ➤ Significant purchases/ trades:

- **Taiwan** purchased 55,000 mt wheat of U.S. origin in a tender last Thursday.
- **Ethiopia** has issued an international tender for 400,000 tonnes of milling wheat.
- **Jordan** cancelled their tender for 120,000 tonnes of milling wheat for December shipment, after getting three participants; they then reissued a new tender for 120,000 mt closing on July 6.
- According to AgriCensus, **Australia** sold wheat to China for Aug/Sept shipment.
- For the first time in 4 years, there is a **Russian wheat cargo bound for Algeria**.
- **US export sales** of 375,000 mt took the season total to 227 million bu against 249 million bu a year ago.

#### ➤ Wheat Market Outlook:

##### Significant events:

- There is a **Russian wheat cargo bound for Algeria**. The relaxed restrictions on insect damage gives Russia access to the major wheat importer. Historically France has been the main supplier of wheat to Algeria.

- **Chinese wheat imports** for May were 784.5,000 mt for a Jan-May total of 4.59 million mt. This is nearly double last year's number and almost the amount they would normally import in an entire year.
- **June 1 US wheat stocks** are going to rely heavily on how much wheat was used to substitute corn in feed rations.
- **The Parana River in Argentina is very low.** For the second year in a row the main export waterway for the country has become unpassable. It is estimated there are 60 barges and some vessels trapped until September.
- **Spring wheat production** is under pressure from adverse weather in the US, in Canada, and in Russia and Kazakhstan. Heat, wind, lack of moisture and increasing soil moisture deficits are the problem in all these regions.
- **Mpls. spring wheat futures** are reflecting the production problems for the 2021/22 crop.

➤ **Outlook:**

While Matif wheat fell through support to 11-week lows last week, there was little origination selling because of quality concerns in France and the Balkans due to the ongoing rain. Black Sea FOB wheat was ill-defined, but the quality spreads continued to widen, as rain, hail and cold is impacting the Ukrainian crop. On spring wheat, a Sukhovey across Russia and Kazakhstan brought heat and soil moisture losses, adding to spring wheat problems experienced in N America.

We think that world wheat supplies are dwindling. - Canadian sellers can afford to wait.

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

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

Date: 28-06-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$9.16	\$336.58	1 CWRS 13.5	\$8.97	\$329.59
1 CWAD 13.0	\$8.76	\$321.88	1 CWAD 13.0	\$8.42	\$309.38
1 CPSR 11.5	\$8.21	\$301.67	1 CPSR 11.5	\$7.68	\$282.19
SW Sask			SW Sask		
1 CWRS 13.5	\$8.94	\$328.49	1 CWRS 13.5	\$8.81	\$323.71
1 CWAD 13.0	\$8.91	\$327.39	1 CWAD 13.0	\$8.54	\$313.79
1 CPSR 11.5	\$8.15	\$299.46	1 CPSR 11.5	\$7.65	\$281.09
NE Sask			NE Sask		
1 CWRS 13.5	\$8.90	\$327.02	1 CWRS 13.5	\$8.70	\$319.67
1 CWAD 13.0	\$9.09	\$334.00	1 CWAD 13.0	\$8.88	n/a
1 CPSR 11.5	\$8.03	\$295.05	1 CPSR 11.5	\$7.54	\$277.05
SE Sask			SE Sask		
1 CWRS 13.5	\$8.84	\$324.82	1 CWRS 13.5	\$8.68	\$318.94
1 CWAD 13.0	\$9.06	\$332.90	1 CWAD 13.0	\$8.89	\$326.65
1 CPSR 11.5	\$7.97	\$292.85	1 CPSR 11.5	\$7.46	\$274.11

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION 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/million mt. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/million 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*

<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.”

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/million 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)  $\approx$  1 CWRS 13.5% in Vancouver
  - HRS in the Pacific North West (PNW)  $\approx$  2 CWRS 13.0% in Vancouver
  - HRW in the Pacific North West (PNW)  $\approx$  3 CWRS in Vancouver
  - SW (lowest price wheat)  $\approx$  CPS red (mostly fed domestically)
  - HAD (Lakes)  $\approx$  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.
  - 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			28-06-2021	
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)
DNS 14.0	\$427.33	\$416.52		
HRS	\$416.07			
HRW 11.5	\$343.57			
SWW 12.0	\$389.05			
1 CWRS 13.5 <sup>3</sup>	\$427.33		\$349.80	\$77.53
2 CWRS 13.0 <sup>3</sup>	\$416.07		\$336.94	\$79.13
3 CWRS <sup>3</sup>	\$343.57		\$333.64	\$9.94
CPS <sup>3</sup>	\$382.75		\$286.60	\$96.15
1 CWAD <sup>4</sup>		\$410.22	\$317.84	\$92.38
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$250.00	July		
French 11.5 (Rouen)	\$250.10	July		
ASW 10.5 (W Coast)	\$280.00	July		
Argentine 12.0	\$270.00	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				28-06-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$11.15	\$9.18	\$8.50	\$8.50
Parity Track Rosetown	\$9.66	\$7.68	\$8.92	\$8.92
Track Bid Rosetown Area	\$9.17	\$9.08	\$7.80	\$7.80
Gross Margin at Elevator (\$/bu)*	\$0.49	-\$1.40	\$1.12	\$1.12
Gross Margin at Elevator (\$/mt)*	\$17.84	-\$51.35	\$41.16	\$41.16

\* to cover elevation, elevator market risk, margin