

Wheat Market Outlook and Price Report: March 22, 2021
By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

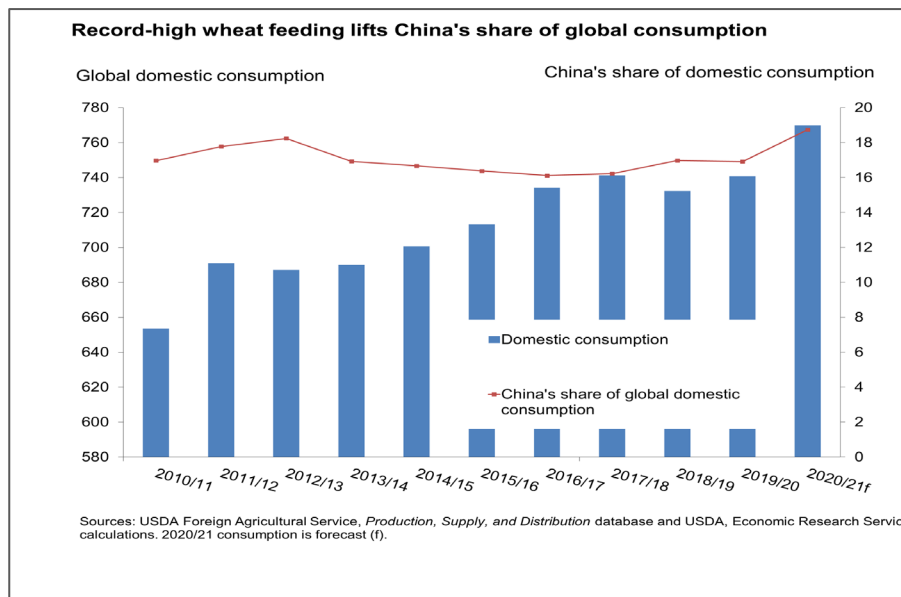
i) Background and Rationale for the Report

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 March 22, 2021

USDA March Wheat Market Analysis: Global Wheat Consumption Lifted with China’s Feed and Residual Surging to Record High



- USDA elevated total wheat consumption to nearly 776 million tons in March largely on a 5.2-million ton increase in 2020/21 global feed and residual use.
- China’s intensive use of wheat for feeding fueled much of this month’s surge and is now estimated at a record 35 million tons.
- Following the 5 million ton increase in China’s feed and residual forecast, China accounts for approximately 19 percent of total global wheat consumption up from the 5-year average of 16.5 percent.

- Active selling of old-crop wheat at Chinese government auctions combined with a continued erosion of regional wheat to corn price ratios—now pegged at 0.9 versus 1.3 a year ago—to support the escalation of China’s wheat feeding.
- *Note however, that this month the cash wheat trade has been generally limited in volume and talk of falling demand in China due renewed Asian swine flu (ASF) and negative feed margins have kept a lid on feed grain prices.*

➤ **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 627, down 3-4 cents on Friday, *down 14-6 cents on the week.*
May ‘21 contract Kansas hard red winter wheat closed at 585-4, down 1-4 cents in Friday’s trade, *down 15 cents on the week.*
- May ‘21 Minneapolis hard red spring wheat closed at 627, up 1-4 cents on Friday, and *down 6-6 cents on the week.*
- **Futures market summary:** US wheat futures extended their losses on Friday. KC (HRW) lost 50¢ in 3 weeks and headed for its lowest weekly close since mid-December. *Losses in corn and soybeans earlier last week acted as a drag, but much improved soil moisture in the US Plains was a major factor as well, along with falling cash markets in the EU and Black Sea due to lack of demand were negative to the market as well.*

CBOT May 2021 Wheat (1 yr.)



KC May ‘21 Wheat



Mpls. May ‘21 Wheat



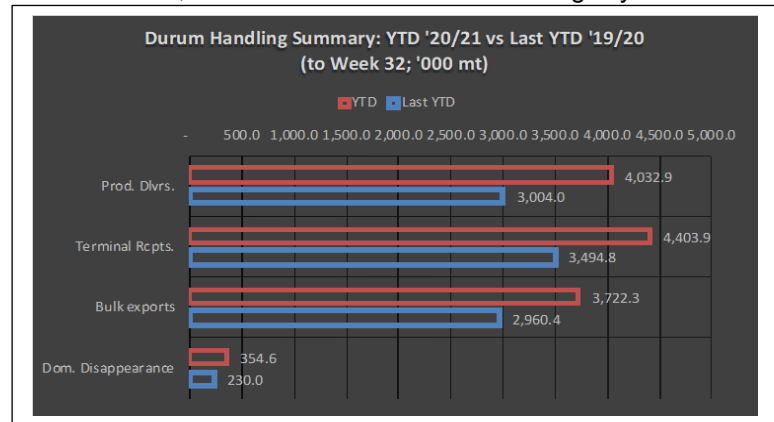
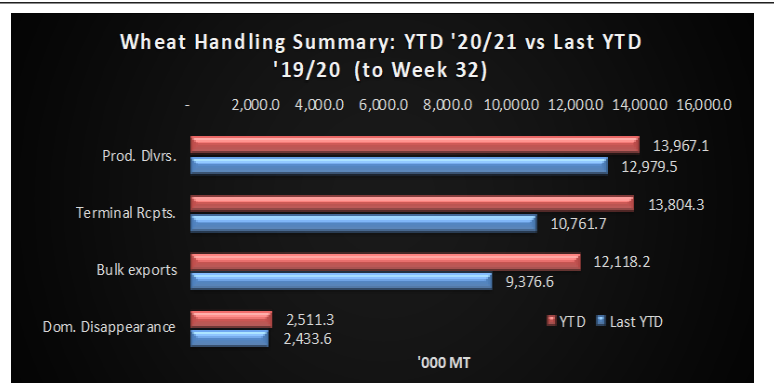
Canadian Grain Exports (CGC numbers)	Wk. 32				
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains
Crop Year To date	7,551	15,841	1,950	648	34,096.0
Year Ago	5,778	12,337	1,591	547	25,331.0
Change this Cr.Yr. in MT	1,773	3,504	359	101	8,765
Change this Cr. Yr. in Percent	131%	128%	123%	118%	135%

Canadian Wheat:

- Despite the heavy rain and snowfall, much of South Dakota and North Dakota did not receive drought relief, and some areas of North Dakota are now experiencing extreme drought.
- *Nevertheless, much improved soil moisture in the US Plains was a factor pressuring futures, along with falling cash markets in the EU and Black Sea due to an ongoing lack of demand.* US export sales show that the USDA is on target, while poor winter crop conditions or spring planting conditions are still too far from a fait accompli to be a factor in the market.
- **Canadian. wheat exports** in week 32 were good at 351,000 mt. The season total is 12.1 million mt, a full 2.7 million mt (+29%) higher than last year to date.
- Wheat prices in the country have held up well given the developments in futures and international cash markets. The Canadian. wheat pipeline is flowing, and as canola and peas get harder to

source, wheat is next in line to fill the gap to keep elevators turning over. 1 CWRS 13.5 fetch ~\$8.10/bu for Apr./May; 2 CWRS 12.5 (readily exportable product) fetches ~\$7.90-8.00/bu, and feed wheat up to \$7.75/bu, depending on location. *We would sell spring wheat above \$8.10/bu.*

- Again, farmers need to make sure they get as much old crop sold as they can. The objective is to catch the cash inverse and have as much storage space available for new crop as is possible. We expect Europeans to be very aggressive sellers July through Dec, leaving little room for North American origins. Demand for Canadian stocks will be greatest after January.
- Overall, the lack in nearby consumptive demand in cash wheat markets makes the market look a little bearish in our view.
- **Canadian durum exports** for week 32 at 126,000 mt were ok. We are showing a year-to-date total of 3.7 million mt, 26% higher than last year-to-date.
- Tunisia bought 425,000 mt 11.5 pro wheat at \$298.50/mt and 17,000 mt at \$302.19/mt last week, *along with 42,000 mt durum at \$374.68/mt, which should work back to at least \$9.50/bu.*
- Old crop durum in SK is trading at up to ~\$9.00/bu delivered. We would be sold min. 50% of the crop at that. New crop durum is bid at \$8.25-\$8.50/bu FOB farm SK.



US Wheat:

- The US forecast continues to push the rainfall further east, leaving the western Midwest and most of the Plains dry. Temperatures remain above average in the northern half of the country but cooler in the south.
- Much of South Dakota and North Dakota did not receive drought relief, and some areas of North Dakota are now experiencing extreme drought.
- **US weekly export sales** at 390,000 mt were in line with expectations of 150-500,000 mt, and the season total 901 million bu remains 2% above last year and right in line with the USDA's annual projection.
- KC (HRW) lost 50¢ in 3 weeks and headed for its lowest weekly close last Friday since mid-December.
- US HRS for April '21 is valued at \$288/mt FOB PNW (unchanged from last week), PNW White wheat is valued at \$292/mt FOB PNW (up \$2.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$271.60/mt (*down \$7.40/mt from last week*).

Australian wheat:

- There were reports that contrary to the ABARES projection of fewer wheat acres, farmers will again maximise plantings. Australian wheat farmers were seen to be "scouring the market" for crop-planting machinery, fertiliser and other farm products.
- Australian new crop FOB APW wheat values for June closed at \$285/mt, down \$5/mt from the previous week.

Argentine wheat:

- Argentine FOB values were again nominally unchanged, but the return to a drier outlook for the next two weeks will not be welcome with the start of plantings just a few weeks away.
- FOB values for April 12% protein wheat ranged from \$256-266/mt.

EU wheat:

- Matif wheat fell to 5-week lows on the growing perception of a lack of demand due to still rising freight rates and more talk of considerable "front-end loading" this ongoing crop year by importers.
- The Tunisia purchase was covered in the Black Sea, not by EU wheat.
- *April FOB prices in the EU:* French 11.5 pro closed at \$274.80/mt, down another \$19.10/mt from last week. German 12.5 pro was down by \$6.60/mt to \$271.20/mt. Baltic 12.5 pro dropped by \$7.80/mt on the week to \$267.60/mt.

Black Sea wheat:

- Temperatures in **Russia** are creeping above average, but **Ukraine** remains cool, whilst both should see increased precipitation over the coming week.
- Russian Poor/Very Poor ratings of winter crops were as high as 25%, much greater than average, with weak plants and widespread reports of ice sheets.
- The **Russian export tax situation** is going from bad to worse and this is making it impossible to predict how much Russian wheat will flow into the markets during the summer and fall. Two of the appointed members of the committee that will assess exporters' sales contracts in order to set the tax work for a major state-owned trader, and as such will have access to all the commercial activity detail of their competitors! But if companies refuse to report their sales contracts, the penalty is loss of quota. – All of this adds to the uncertainty about how this will unravel.
- Some say that twenty years of progress, which turned Russia into the world's biggest wheat exporter, are in danger of being wiped out in a few short months. - To what degree Russian new crop wheat will be offered in the market in Jul-Sep remains an unknown. It seems that the role of *price setter* may now be in the hands of the Balkans (Romania, Ukraine) and the Baltic.
- **Ukrainian wheat export prices** have lost around \$10 a tonne so far this week due to restrained demand from importers and an increase in the attractiveness of European grain
- April Russian 12.5 pro wheat closed at \$270.00/mt, down another \$10.00/mt from last week.

➤ **Significant purchases/ trades:**

- **Tunisia** bought 4x25,000 tonnes of 11.5 pro wheat at \$298.50/mt and 17,000 tonnes at \$302.19/mt from the Black Sea, along *with 42,000 mt of durum at \$374.68.*
- **US export sales** at 390,000 mt were in line with expectations and the season total 901 million bushels remains 2% above last year and right in line with the USDA's annual projection.

➤ **Wheat Market Outlook:**

Significant events:

- KC (HRW) lost 50¢ in 3 weeks and headed for its lowest weekly close since mid-December. *Losses in corn and soybeans earlier last week acted as a drag, but much improved soil moisture in the US Plains was a major factor as well, along with falling cash markets in the EU and Black Sea due to lack of demand were negative to the market as well.*
- In Europe, Matif wheat fell to 5-week lows on the growing perception of a lack of demand due to still rising freight rates and *more talk of considerable "front-end loading" this ongoing crop year by importers.*
- In Australia, there were reports that contrary to the ABARES projection of fewer wheat acres, Australian wheat farmers will again maximise plantings.
- The **Russian export tax situation** is going from bad to worse and this is making it impossible to predict how much Russian wheat will flow into the markets during the summer and fall. Trading new crop Russian wheat will be difficult, and importers will struggle to find offers.

➤ **Outlook:**

The tax situation in Russia is distorting the export trade. How much Russian new crop wheat will be available to the market in the Jul-Sep period is questionable. If the tax is in place to keep Russian domestic prices down prior to elections and then will be reduced, it will bring Russian wheat back into the picture. Otherwise, the markets are in the hands of the EU, Balkans and the Baltic.
The lack in nearby consumptive demand in cash markets makes the wheat market look a little bearish in our view.

Canadian growers now need to compete to minimize carry-in stocks and collect the cash market inverses.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 22-03-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Aug. '21 (bu.)	Aug. '21 (mt)
1 CWRS 13.5	\$7.55	\$277.42	1 CWRS 13.5	7.12	\$261.62
1 CWAD 13.0	\$8.46	\$310.85	1 CWAD 13.0	7.94	\$291.75
1 CPSR 11.5	\$6.96	\$255.74	1 CPSR 11.5		
SW Sask			SW Sask		
1 CWRS 13.5	\$7.43	\$273.01	1 CWRS 13.5	6.98	\$256.47
1 CWAD 13.0	\$8.47	\$311.22	1 CWAD 13.0	8.09	\$297.26
1 CPSR 11.5	\$6.93	\$254.64	1 CPSR 11.5		
NE Sask			NE Sask		
1 CWRS 13.5	\$7.30	\$268.23	1 CWRS 13.5	6.94	\$255.00
1 CWAD 13.0	\$8.28	\$304.24	1 CWAD 13.0		
1 CPSR 11.5	\$6.72	\$246.92	1 CPSR 11.5		
SE Sask			SE Sask		
1 CWRS 13.5	\$7.21	\$264.92	1 CWRS 13.5	6.85	\$251.70
1 CWAD 13.0	\$8.31	\$305.34	1 CWAD 13.0	7.67	\$281.83
1 CPSR 11.5	\$6.72	\$246.92	1 CPSR 11.5		

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

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.”

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.
- 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			22-03-2021	
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	\$340.24	\$375.65		
HRS	\$333.35			
HRW 11.5	\$329.21			
SWW 12.0	\$346.68			
1 CWRS 13.5 ³	\$340.24		\$275.58	\$64.66
2 CWRS 13.0 ³	\$333.35		\$257.21	\$76.14
3 CWRS ³	\$329.21		\$253.53	\$75.67
CPS ³	\$340.24		\$243.25	\$97.00
1 CWAD ⁴		\$369.21	\$301.67	\$67.54
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$270.00	April		
French 11.5 (Rouen)	\$274.80	April		
ASW 10.5 (W Coast)	\$281.00	June		
Argentine 12.0	\$261.00	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				22-03-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$8.90	\$8.78	\$7.40	\$7.40
Parity Track Rosetown	\$7.40	\$7.29	\$7.76	\$7.76
Track Bid Rosetown Area	\$7.00	\$6.90	\$6.62	\$6.62
Gross Margin at Elevator (\$/bu)*	\$0.40	\$0.39	\$1.14	\$1.14
Gross Margin at Elevator (\$/mt)*	\$14.72	\$14.25	\$42.01	\$42.01

* to cover elevation, elevator market risk, margin