

Wheat Market Outlook and Price Report: May 24, 2021

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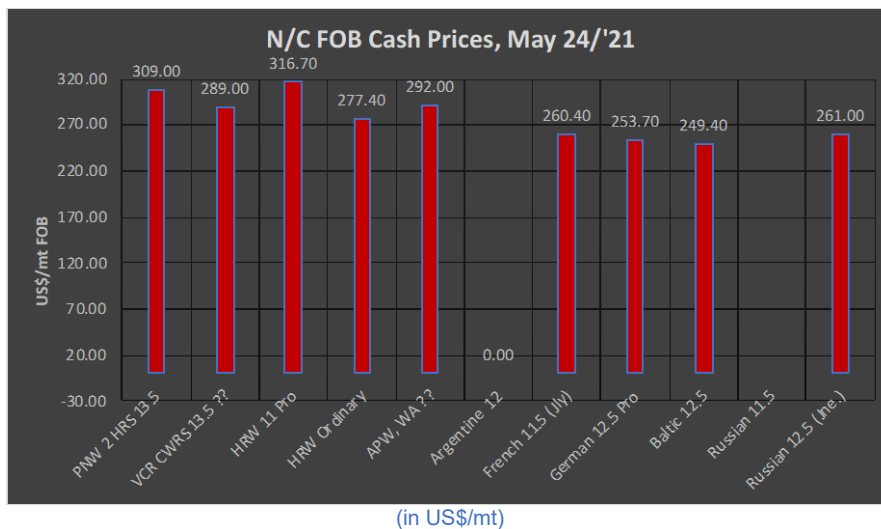
i) Background and Rationale for the Report

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 May 24, 2021

New crop (Sept.) FOB wheat prices from various origins:



- There still is considerable uncertainty about new crop wheat production levels, which is only being exacerbated by the difficulties with the calculation of the Russian wheat tax.
- HRW from the US is the least costly N American wheat, but for now, even HRW is more expensive (on a FOB basis) than EU, Baltic, or Russian wheat.
- We think that the critical months for N Hemisphere wheat production still lie ahead with June-July.

➤ **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 674-2, down 1 cent on Friday, down 33 cents on the week.
- July '21 contract **Kansas hard red winter wheat** closed at 624-0, down 1 cent in Friday's trade, and down 33-6 on the week.
- July '21 **Minneapolis hard red spring wheat** closed at 700-4, up 5 cents on Friday, and down 40-2 cents on the week.
- Futures market summary: US wheat futures ended down on improving weather prospects in both the US and Canada, reported record yield potential coming from the Kansas crop tour, and a general sell-off across the commodity and equity market spectrum.

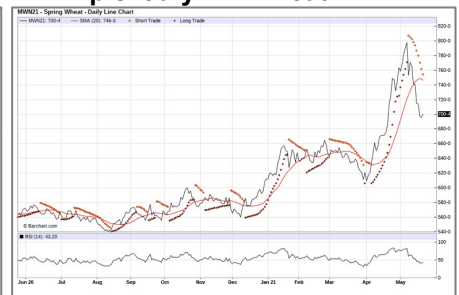
CBOT July 2021 Wheat (1 yr.)



KC July '21 Wheat

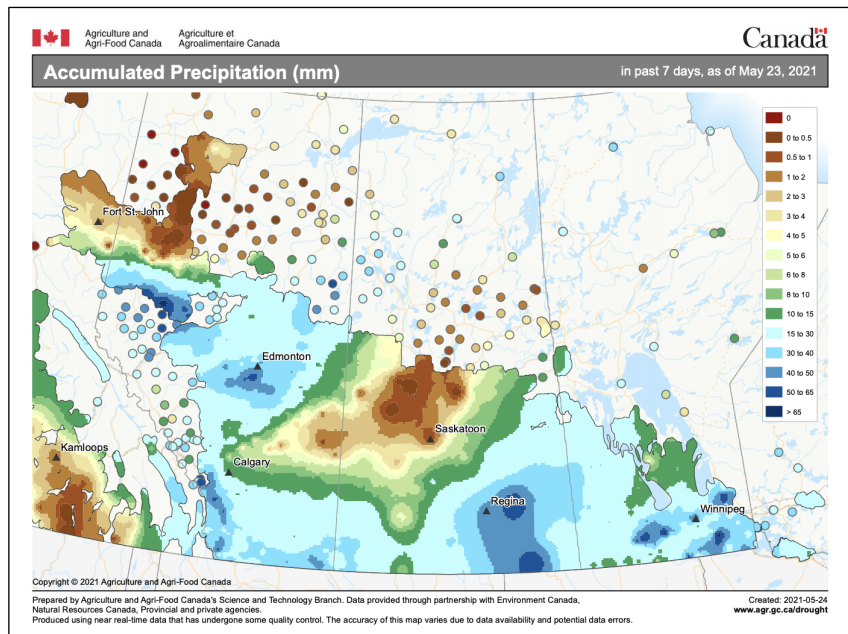


Mpls. July '21 Wheat



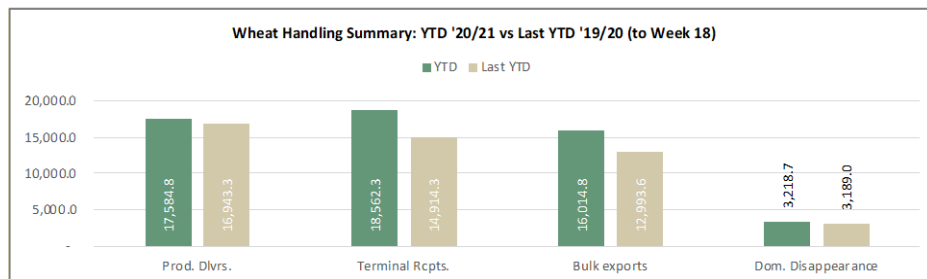
Canadian Wheat:

- We had widespread precipitation on the Canadian Prairies on Friday to Sat. and some on Sunday. The map below showing precipitation for the past 7 days as of May 23rd gives a fair idea. This does not mean the drought has broken as there is very little subsoil moisture, but (-other than the NW of SK quadrant and central AB, and part of the Peace River area-) this should ensure decent germination in most other areas and a start to the crops. - We'll need more later but should be off to the races.



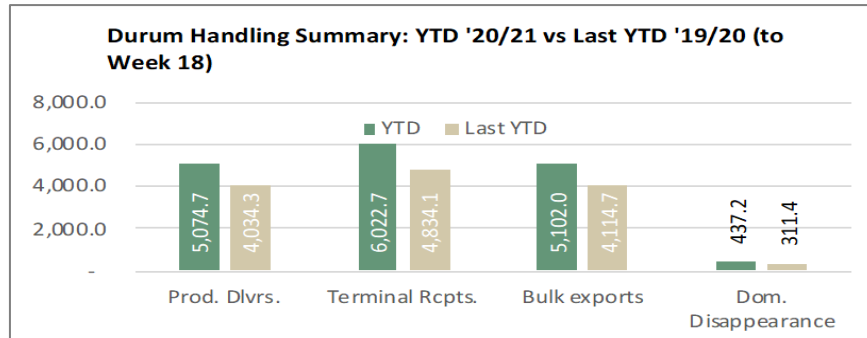
- US wheat futures were pressured by improving weather prospects in both the US and Canada and a record yield potential reported by the Kansas crop tour. However, there is some concern that such a high yield will lead to lower protein levels, which combined with a struggling HRS crop, will bring issues for millers. Crop prospects in the Dakotas as well as the Canadian Prairies are much less clear; despite the recent rains soil moisture remains very poor. Soil moisture across much of the Canadian Prairies is put at 5-year lows.
- The U.S. spring wheat crop is 85% planted, far ahead of last year on this date. The spring wheat crop is 47% emerged.
- Russian wheat stocks data last week again raised questions about the size of the 2020 wheat crop, with discussions Friday that the real number is probably closer to 80 million mt than 85 million mt. Price reporting to set the export tax starts for real on Monday.
- **AAFC** issued their May balance sheet last Friday. For 2021/22 wheat excl. durum, AAFC lowered their acreage estimate by ~1 million acres. Production was lowered to 25 million mt and supply to 29.1 million mt. AAFC lowered their export projection by a big 2.1 million mt to 17.1 million mt. Ending stocks are at 4.1 million mt compared to 4 million mt this ongoing year.
- **Week 41 exports: Canadian wheat exports** at 382,000 mt were a bit lower last week, for a YEAR-TO-DATE total of 16 million mt, 3 million mt more than what had been shipped last week. Grower deliveries to elevators are also down, which probably is a function of seeding and lower prices.
- Milling wheat (CWRS 13.5) is now bid at ~\$8.60/bu delivered plant. Discounts for lower quality/protein are relatively small.
- The critical months for the EU, Black Sea and N Hemisphere spring wheat crops still lie ahead. *We prefer to make no sales at this time.*

(CGC) Grain Handling Summary Wheat		Wk. 41		(May 21/'21)
(⁰⁰⁰ mt)	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
Wk. 41	275.4	543.1	381.9	88.0
Week ago	329.2	592.7	554.1	94.3
YTD	17,584.8	18,562.3	16,014.8	3,218.7
Last YTD	16,943.3	14,914.3	12,993.6	3,189.0
YTD less Last YTD	641.5	3,648.0	3,021.2	29.7
YTD over Last YTD	104%	124%	123%	101%



- **Durum exports** for week 41 amounted to 118 mt, for a year-to-date total of 5.1 million mt, compared to 4.1 million mt last year-to-date. This is now 24% ahead of last year's pace.
- The durum market has continued to be strong despite falling wheat futures. Values of ~\$9.50/bu are being paid in SE SK as movement into the US has picked up. We would sell out old crop durum at these levels.

(CGC) Grain Handling Summary Durum		Wk. 41		(May 21/'21)
(⁰⁰⁰ mt)	Prod. Dlvsr.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 41	43.3	111.0	117.9	1.9
Week ago	50.3	154.7	105.7	9.4
YTD	5,074.7	6,022.7	5,102.0	437.2
Last YTD	4,034.3	4,834.1	4,114.7	311.4
YTD less Last YTD	1,040.4	1,188.6	987.3	125.8
YTD over Last YTD	126%	125%	124%	140%



Canadian Grain Exports (CGC numbers)		Wk. 41			
(⁰⁰⁰ MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains
Crop Year To date	9,176	21,117	2,378	856	43,366.0
Year Ago	7,840	17,108	2,093	861	33,838.0
Change this Cr. Yr. in MT	1,336	4,009	285	(6)	9,528
Change this Cr. Yr. in Percent	117%	123%	114%	99%	128%

US Wheat:

- US wheat futures ended down on improving weather prospects in both the US and Canada, reported record yield potential coming from the Kansas crop tour, and a general sell-off across the commodity and equity market spectrum.
- Importantly, the Kansas crop tour came up with a record final yield estimate of 58.1 bu/ac, surpassing the USDA's May estimate of 48 bu/ac by 21%, and a crop estimate of 365 million bu compares to last year's 284 million bu (+29%).
- Overall, the US HRW crop looks more like a done deal, at least in terms of size, but there is still plenty of weather to get through elsewhere in the N Hemisphere before the crop is in.
- US HRS for June '21 is valued at \$312.00/mt FOB PNW (down \$16.00/mt from last week), PNW White wheat is valued at \$302/mt FOB PNW (down \$13.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$277.40/mt (down \$29.60/mt from last week).

Australian wheat:

- Australian wheat futures made their lowest weekly close in five weeks, shedding around A\$10/mt due to weak international markets and favourable weather.
- Australian FOB APW wheat for Aug. was quoted at \$292.00/mt, unchanged from the previous week.

Argentine wheat:

- In Argentina, BAGE put plantings at 3.5% complete against 5% a year ago, with northern farmers reportedly unwilling to plant in the dry soils.
- BAGE maintained their acreage (6.5 million Ha) and crop estimates (19 million mt), and the monthly Govt update made no changes to the 20/21 balance sheet.

- FOB and domestic values were unchanged, Parana river drafts continue to decline with no improvement expected until October, and port workers are planning another 48-hour strike next week.
- FOB values for June 12% protein Argentine wheat ranged from \$270-280/mt, down ~\$5/mt from last week.

EU wheat:

- Matif ended €3-4/mt lower.
- Given US FOB values, there is no reason for EU wheat markets to break, but there is also increasing focus on the total lack of domestic corn supplies. EU wheat stocks are already expected to be at a record low, the wheat harvest will not be early, and the corn harvest is still over 3 months away.
- FOB prices in the EU: July French 11.5 pro closed at \$258.10/mt (new crop), down \$5.20/mt from last week. June German 12.5 pro was unchanged at \$274.10/mt (up \$0.20/mt). Baltic 12.5 pro was unchanged on the week at \$271.80/mt.

Black Sea wheat:

- Russian wheat stocks data last week again raised questions about the size of the 2020 wheat crop, with discussions Friday that the real number is probably closer to 80 million mt than 85 million mt. Price reporting to set the export tax starts for real on Monday.
- Note that the Moscow Exchange once again lowered the wheat price for tax calculation purposes to \$240.10/mt. (Remember, this is the first day of actual tax consequences of the price fix). So, who is giving prices to the exchange at \$20 under the market? Or put another way, where were all the Russian offers to Egypt at \$240? [The tax the tax is calculated at 70% of difference between the published price and \$200/mt.]
- Russian 12.5 pro wheat for June is at \$272/mt, down \$6/mt from last week. Black Sea new crop wheat (July) is said to be available at \$262/mt (down \$11/mt from last week).

➤ Significant purchases/ trades:

There was not much to report here:

- Algeria did buy 400,000 mt of wheat for July 16-31 at ~\$295/mt but were unable to buy anything for 1-15 July. This might have been durum wheat!
- *Egypt (GASC) received over 1 million mt of offers over the weekend* and bought 240,000 mt Romanian wheat at \$273-277.80/mt. The bulk of today's Romanian sale to GASC was done at a significant premium to the Baltic (\$8/mt), while at the same time being an \$/mt discount to Russian offers.

➤ Wheat Market Outlook:

Significant events:

- **US wheat futures** were pressured by improving weather prospects in both the US and Canada and a record yield potential reported by the Kansas crop tour.
- Importantly, the **Kansas crop tour** came up with a record final yield estimate of 58.1 bu/ac, surpassing the USDA's May estimate of 48 bu/ac by 21%, and a crop estimate of 365 million bu compares to last year's 284 million bu (+29%).
- There was **widespread precipitation** on the Canadian Prairies on Friday to Sat. and some on Sunday.
- S America: **BAGE in Argentina** maintained their acreage (6.5 million Ha) and crop estimates (19 million mt), and the monthly Govt update made no changes to the 20/21 balance sheet.
- EU: Given US FOB values, there is no reason for **EU wheat markets** to break, but there is also increasing focus on the total lack of domestic corn supplies. EU wheat stocks are already expected

to be at a record low, the wheat harvest will not be early, and the corn harvest is still over 3 months away.

- Black Sea: The **Moscow Exchange** once again lowered the wheat price for tax calculation purposes to \$240.10/mt. This is confusing as there were no Russian wheat offers to Egypt at this level.
- **Egypt** (GASC) received over 1 million mt of offers on their tender over the weekend and bought 240,000 mt Romanian wheat at \$273-277.80/mt.

➤ **Outlook:**

US wheat fell to 1-month lows as much needed rain fell in the Dakotas and in Canada, spring plantings advanced to 85% complete, but above all the Kansas crop tour produced a record yield estimate of 58.1 bu/ac, although the tour did flag the potential for higher disease levels and lower protein. And with HRS crops still needing much more rain plus PNW ratings falling sharply again as drought in the region persists, the US crop is not a done deal. – June/July will be important for wheat, and we expect more volatility to come.

We prefer to make no sales at this time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 24-05-2021

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '21 (bu.)	Oct. '21 (mt)
1 CWRS 13.5	\$7.78	\$285.87	1 CWRS 13.5	\$7.55	\$277.42
1 CWAD 13.0	\$8.16	\$299.83	1 CWAD 13.0	\$7.81	\$286.97
1 CPSR 11.5	\$7.59	\$278.89	1 CPSR 11.5	\$6.81	\$250.23
SW Sask			SW Sask		
1 CWRS 13.5	\$7.59	\$278.89	1 CWRS 13.5	\$7.44	\$273.38
1 CWAD 13.0	\$8.24	\$302.77	1 CWAD 13.0	\$7.93	\$291.38
1 CPSR 11.5	\$7.35	\$270.07	1 CPSR 11.5	\$6.79	\$249.49
NE Sask			NE Sask		
1 CWRS 13.5	\$7.52	\$276.31	1 CWRS 13.5	\$7.27	\$267.13
1 CWAD 13.0	\$8.40	\$308.65	1 CWAD 13.0	\$7.98	\$293.22
1 CPSR 11.5	\$7.46	\$274.11	1 CPSR 11.5	\$6.57	\$241.41
SE Sask			SE Sask		
1 CWRS 13.5	\$7.47	\$274.48	1 CWRS 13.5	\$7.29	\$267.86
1 CWAD 13.0	\$8.34	\$306.44	1 CWAD 13.0	\$8.04	\$295.42
1 CPSR 11.5	\$7.21	\$264.92	1 CPSR 11.5	\$6.47	\$237.73

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				24-05-2021
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	\$354.44	\$416.55		
HRS	\$347.79			
HRW 11.5	\$330.04			
SWW 12.0	\$363.31			
1 CWRS 13.5³	\$354.44		\$284.77	\$69.68
2 CWRS 13.0³	\$347.79		\$271.91	\$75.88
3 CWRS³	\$330.04		\$268.23	\$61.81
CPS³	\$357.10		\$274.11	\$82.99
1 CWAD⁴		\$410.34	\$290.28	\$120.06
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$273.00	June		
French 11.5 (Rouen)	\$258.10	July		
ASW 10.5 (W Coast)	\$286.00	July		
Argentina 12.0	\$275.00	June		

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				24-05-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.30	\$8.81	\$8.05	\$8.05
Parity Track Rosetown	\$7.80	\$7.32	\$8.22	\$8.22
Track Bid Rosetown Area	\$7.40	\$7.30	\$7.46	\$7.46
Gross Margin at Elevator (\$/bu)*	\$0.40	\$0.02	\$0.76	\$0.76
Gross Margin at Elevator (\$/mt)*	\$14.69	\$0.62	\$28.01	\$28.01
* to cover elevation, elevator market risk, margin				