

Wheat Market Outlook and Price Report: November 8, 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 November 8, 2021

AMIS¹ November Global Wheat Supply-Demand Outlook:

Wheat	FAO-AMIS			USDA		IGC	
	2020/21	2021/22		2020/21	2021/22	2020/21	2021/22
	est	7 Oct	4 Nov	est	f'cast 12 Oct	est	f'cast 21 Oct
Prod	776.5	776.7	770.4	774.7	775.9	773.4	780.8
Supply	642.2	639.6	633.4	640.5	639.0	639.1	643.8
Utiliz.	1,055.6	1,063.5	1,059.0	1,069.5	1,064.2	1,049.0	1,059.5
Trade	794.7	796.1	791.5	785.3	783.2	785.7	795.4
Stocks	761.9	779.1	778.8	781.2	787.1	770.4	783.5
	621.0	636.3	636.1	631.2	638.1	624.5	637.0
	189.0	188.0	192.3	198.0	201.8	190.5	194.3
	178.2	178.5	182.8	187.4	191.8	179.6	183.7
	288.5	284.3	282.1	288.4	277.2	278.6	276.0
	158.2	150.4	148.2	144.2	136.2	150.3	147.7

Data shown in the second rows refer to world aggregates without China; world trade data refer to exports and world trade without China excludes exports to China.

- **Global wheat production** in 2021 was lowered by 6.3 million mt from last month (now below last year's record) with most of the downward revision on account of a reduced output in Iran due to drought, as well as in the EU, Turkey, and the US.
- **Wheat utilization** forecast for 2021/22 remains unchanged, pointing to an increase of 2.2 percent from the 2020/21 level on strong feed demand and a steady rise in food consumption.

¹ AMIS: Agricultural Market Information System. Input comes from the ten organizations that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Group, WFP, WTO, GLAM.

- **Wheat trade** in 2021/22 (July/June) was scaled up by 4.3 million mt, mainly reflecting a higher import forecast for Iran. The Russia Federation is expected to remain the largest wheat exporter in 2021/22.
- **Wheat stocks** (ending in 2022) were trimmed further by 2.2 million mt and are projected to fall below their opening levels, driven by notable drawdowns in Canada, the Russian Federation, and the US.

Crop Condition Summary (AMIS):

Argentina: Harvesting is beginning under favourable conditions, except in the north due to prolonged dryness.

Australia: Conditions are favourable to exceptional in most areas with harvesting beginning in the northern cropping regions.

EU: Sowing of winter wheat is ongoing under favourable conditions despite some delays due to excess rainfall in the central EU countries.

UK: Sowing is ongoing under favourable conditions.

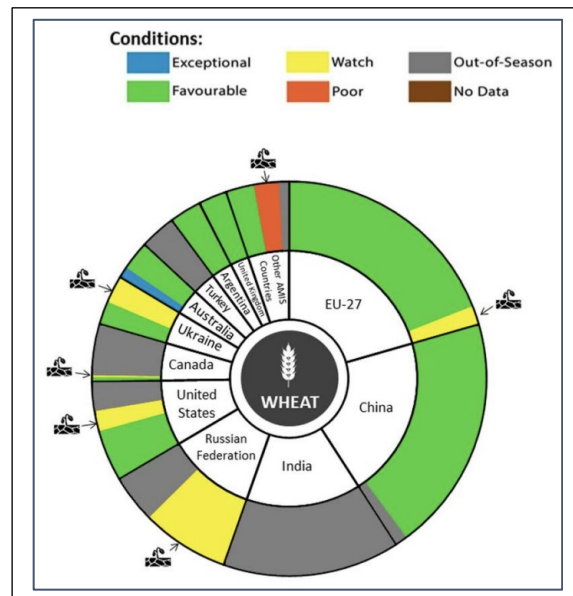
Ukraine: Conditions are mixed with soil moisture deficits in the southern and eastern regions potentially affecting crop establishment.

Russian Federation: Concerns remain for winter wheat establishing as dry conditions persist, potentially reducing total sown area.

China: Sowing of winter wheat continues under favourable conditions.

US: Most of the winter wheat crop has emerged under mixed conditions due to long-term dryness in the northern and northwest growing regions.

Canada: Winter wheat is under favourable conditions in the main producing province of Ontario, while drought continues in the Prairies.



Recent Developments in Wheat Demand:

- The weekend before last, **Saudi Arabia** bought 1.27 million mt of wheat for Jan-Apr '22 arrival at prices ranging from \$371-389/mt depending on destination port and shipment position. *This purchase was double the volume initially tendered.*
- Last Tuesday the **Chinese Commerce Ministry** advised consumers in China to stock up on daily necessities "in case of emergencies". This sparked a run-on food supplies in supermarkets, and since then Agriculture officials have stated that vegetable production is "basically normal" and that China has enough wheat stocks to meet 18 months of demand.
- **Cash trade** was slow last week with several wheat tenders cancelled as consumers hope for the effects of a negative USDA-WASDE report.

➤ **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:**

Dec. '21 contract **Chicago winter wheat** closed at 766-4, down 7-2 cents on Friday, *down 6-2 cents on the week.*

Dec. '21 contract **Kansas hard red winter wheat** closed at 778-6, down 7-2 cents in Friday's trade, *down 7-0 cents on the week.*

Dec. '21 **Minneapolis hard red spring wheat** closed at 1009-4, down 7-4 cents on Friday, *down 42-6 cents on the week.*

- *Mpls. wheat took the biggest hit last week.*
- This Monday morning, wheat futures are up 2-6c/bu.

CBOT Dec. 2021 Wheat (1 yr.)

KC Dec. '21 Wheat

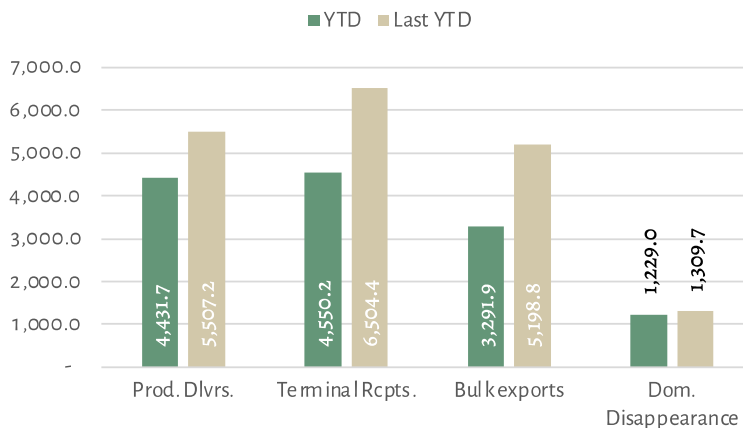
Mpls. Dec. '21 Wheat



Canadian Wheat:

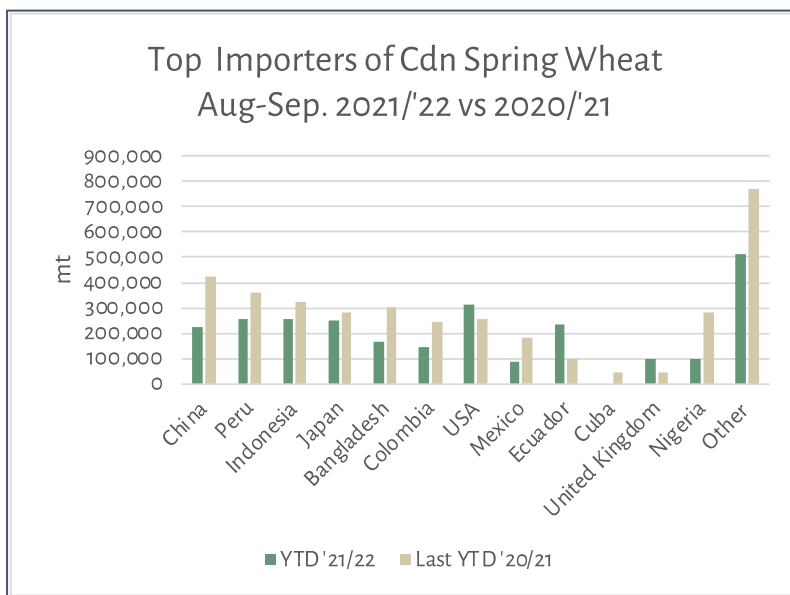
- In shipping week 13, Canadian spring wheat exports amounted to 333k mt, for a season total of 3.39 million mt. This is just 63% (-1.9 Million mt) of last year's export number. Visible supplies rose to 2.78 million mt as producer deliveries continue to outstrip exports.

**Wheat Handling Summary:
YTD '21/22 vs Last YTD '20/21 (to Week 13)**



- Statistics Canada released the **September '21 export numbers**. A total of 1 million mt of wheat (excl. durum) were exported during the month of September. This compares to 1.56 million mt during Sept. 2020. The top destinations this year in September were the US (191k mt) and Indonesia (177k mt). Exports to the US during Aug-Sep are 23% larger than last year. As of

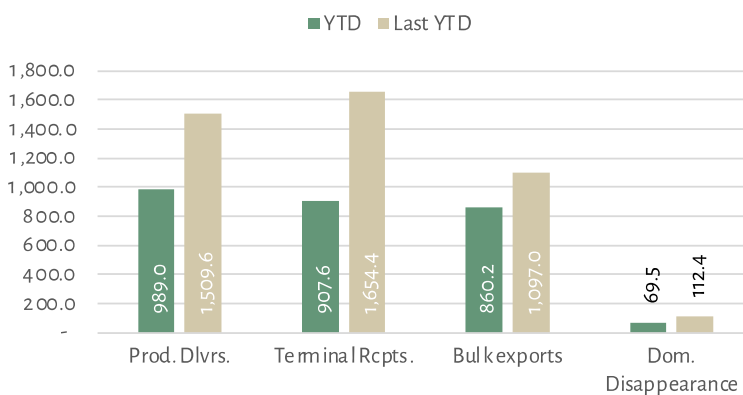
September, Canadian wheat exports are running 27% (-962k mt) behind last year. The countries with the largest decrease are China, which has imported just 53% (-198k mt) of last year's amount, and Bangladesh which has imported just 54% (-139k mt) of last year's amount.



Source: Mercantile, based on StatsCan export data

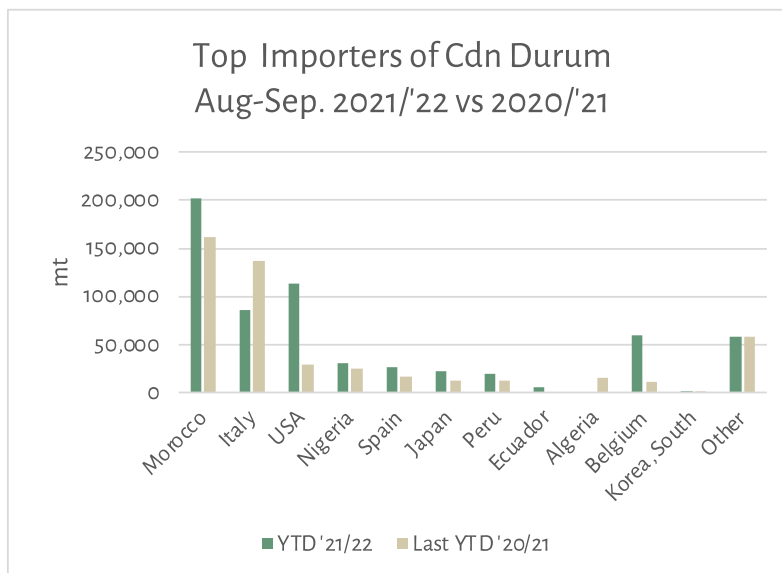
- We expect wheat to go higher, so would be in no rush to sell.
- **Durum:** Week 13 exports amounted to 121.0k mt for a season total of 860.2k mt. This is 78% (-236.8k mt) less than last year.

**Durum Handling Summary:
YTD '21/22 vs Last YTD '20/21 (to Week 13)**



- Canada exported 225k mt of durum during the month of September. This was just over half of the August volume but is 58k mt higher than what Canada shipped in Sept. '2020. Italy was the largest buyer, importing 73.2k mt of durum. Aug-Sept exports to most major destinations are higher than last years; the US has imported 84k mt more durum than last year, while exports to Belgium are 48k mt ahead of last year. After grain companies execute their post-harvest commitments, durum exports will decline as Canadian supplies are limited and demand rationing will have to take place.
- Durum values in N Italy increased by another €5/mt (~Cdn\$7.20/mt) to €543/mt (~Cdn\$783.20/mt; \$21.32/bu landed N Italy).

- We have noted new crop durum targets in SE SK being hit at \$13.00-\$13.50 per bushel for a #1 CWAD for fall 2022 delivery. These are excellent prices and show an unusually high~\$4.00 per bushel premium to spring wheat. We would consider selling some N/C production at these levels (~15-20%). We recommend trying to lock in a #3 CWAD with a premium for the higher quality. The #3 discount should be a \$0.30-\$0.50/bu right now. This would help with the quality risk inherent in making forward sales.



Source: Mercantile, based on StatsCan export data

US Wheat:

- Winter wheat planting in the US increased 7% from last week to 87% complete, in-line with average. Crop conditions fell 1% from last week to 45% Gd/Ex, up 2% from last year.
- Drought conditions in parts of the Northern Plains and Midwest subsided last week as widespread rain covered the region.
- As one US company put it: 'On-and-off rain for our PNW wheat country over the next 8-days. The drought is not over, but many areas have transitioned from "extreme drought" to "exceptional" which is the upgrade from an "F" on your term paper to a "D".'
- Weekly US export sales were 400k mt for a season total of 478 million bushels, 22% less than last year vs the USDA's projected 12% decline. North American wheat prices continue to be at a steep premium to other origins and will not attract additional demand until the second half of the marketing year.
- Wheat markets sold off last Friday as CBOT soybeans got hit by a 25¢ drop due to increasing pessimism over US export potential.
- Having said that, the trends remain intact in all three major markets (corn, soybeans, wheat); the RSI's (Relative Strength Indices) are now down to much more reasonable levels, and US Fob prices become much more competitive in 2022. This will be further helped by the decreasing freight market.
- We do not expect any significant revisions to wheat on Tuesday's USDA report. While global demand and trade might be pushed higher, we do not see this significantly affecting export demand for US wheat which has been too expensive for additional demand. Year-to-date total commitments for US wheat are the 2nd lowest on record. The trade expects that USDA will put ending stocks 1 million bushels lower than last month at 579 million bushels. (845 million bushels last year). World ending stocks are expected to decrease an additional 0.5 million mt from last month to 276.7 million mt (288.4 million mt last year).

- US HRS for Dec. '21 is valued at \$444.00/ mt FOB PNW (down \$7/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$347.60/mt (down \$3.40/mt from last week).

Australian wheat:

- The trade is watching the Australian forecast closely. There are 2-4 inches of rain falling in the Eastern areas next week, which may cause some quality concerns. Quality issues could push demand back to N America, but we will have to see how this plays out. Minimum deliverable quality against Australian futures is APW, and we are told that APW in WA is increasingly hard to find, so the Australian crop seems to be at risk of providing low quality, which the world market does not need.
- Canadian wheat currently is too expensive in the markets as Australian wheat delivered into Southeast Asia is worth roughly the same as Canadian wheat FOB Vancouver.
- Australian new crop FOB APW wheat for Dec.'22 was quoted at \$340.00/mt, down \$5/mt from last week.

Argentine wheat:

- BAGE in Argentina put the Argentine harvest at 11% complete compared to 9% last year and 8% average. BAGE kept the crop estimate unchanged at 19.8 million mt, but there were no reports on yields or quality. Crop ratings dropped 1% to 46% Gd/Exc.
- The weather forecast remains wet through at least the 3rd week of November; this is not ideal.
- The Government of Brazil has scheduled a decision on imports of Argentine GM wheat for next Thursday. We are told that Brazilian flour millers remain opposed.
- Fob values for Dec. 12% protein Argentine wheat ranged from \$300-305/Million mt, up about \$10/mt from last week.

EU wheat:

- Matif wheat ended lower on Friday, but futures were still up on the week and headed for their 6th straight contract high weekly close. The market is trying to slow the export pace.
- Fob prices in the EU: Dec. French 11.5 pro closed at \$340.10/mt, up \$5.40/mt from last week. Dec. German 12.5 pro wheat closed at \$331.50, down \$4.90/mt. Dec. Baltic 12.5 pro wheat was at \$335.00/mt, down \$4.90/mt.

Black Sea wheat:

- Black Sea soil moisture remains in deficit, and despite the lockdown, Russia recorded a record number of Covid deaths last Thursday.
- Oct. 1 Russian wheat stocks were put at 6-year lows and 14% below last years, but the figures inspire little bullish confidence. Given the ever-increasing tax rate, Russia's major problem lies in their exporters' difficulty to compete with the domestic market. The current export tax is \$70/mt, while the Dec. Black Sea futures contract implies an export tax of over \$101.50/mt for 2022.
- Russian Dec. 12.5 pro wheat is valued at ~\$335.00/mt, up \$10/mt from last week.

➤ **Significant purchases/ trades:**

Major decreases in ocean freight values made prices to destination markets very volatile and consumers were reluctant to make any commitments until the freight market calms down.

- The **Philippines** purchased 1 cargo of Australian feed wheat for early Feb.'22 shipment at a reported \$325-330/mt Fob parity basis W Australia.
- There are still no results from the **Pakistan** tender but offers were reported at \$407-\$412/mt.
- **Japan** bought a total of 81k mt of food-quality wheat from the US and Canada last Thursday in their regular tender.
- **US export sales** of 400k mt left the season total 478 million bu down 22% on last year against the USDA's projected 12% decline.
- *The **ocean freight market** continued its decline with the Baltic indexes down 13%, 27% and 70% respectively for Handies, Panamax and Cape size vessels.*

➤ **Wheat Market Outlook:**

Significant events:

- **Wheat markets** sold off last Friday as CBOT soybeans got hit by a 25¢ drop due to increasing pessimism over US export potential; Mpls. wheat took the biggest hit last week.
- **Cash trade** was slow last week with several wheat tenders cancelled as consumers hope for the effects of a negative USDA-WASDE report.
- We noted **new crop '22 durum targets** in SE SK were being hit at \$13.00-\$13.50 per bushel for a #1 CWAD for fall 2022 delivery.
- **Drought conditions** in parts of the US Northern Plains and Midwest subsided last week as widespread rain covered the region.
- We do not expect any significant revisions to wheat on **Tuesday's USDA report**.
- The trade is watching the **Australian forecast** closely. Quality issues could push demand back to N America, but we will have to see how this plays out.
- The Gvmt. of Brazil has scheduled a decision on imports of **Argentine GM wheat** for next Thursday. We are told that Brazilian flour millers remain opposed.
- **Matif wheat** in Europe ended lower on Friday, but futures were still up on the week and headed for their 6th straight contract high weekly close. The market is trying to slow the export pace.
- **Oct. 1 Russian wheat stocks** were put at 6-year lows and 14% below last years.

Outlook:

The ocean freight markets continued their decline, with the Baltic indices down 13%, 27% and 70% respectively for Handies, Panamax and Cape size vessels. This made prices to destination markets very volatile, and consumers are reluctant to make any commitments until the freight market calms down. However, consumers remain poorly covered and finding good quality milling wheat is getting more difficult. *We expect lower wheat futures nearby, but in the longer term the trend remains higher.*

We expect wheat to go higher so would be in no rush to sell.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	08-11-2021
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Jan. '22 (bu.)	Jan. '22 (mt)	
1 CWRS 13.5	\$11.91	\$437.62	1 CWRS 13.5	\$11.97	\$439.83	
1 CWAD 13.0	\$19.93	\$732.31	1 CWAD 13.0	\$20.14	\$740.02	
1 CPSR 11.5	\$10.60	\$389.49	1 CPSR 11.5	\$10.67	\$392.06	
SW Sask			SW Sask			
1 CWRS 13.5	\$11.75	\$431.74	1 CWRS 13.5	\$11.83	\$434.68	
1 CWAD 13.0	\$20.05	\$736.72	1 CWAD 13.0	\$20.25	\$744.07	
1 CPSR 11.5	\$10.31	\$378.83	1 CPSR 11.5	\$10.37	\$381.04	
NE Sask			NE Sask			
1 CWRS 13.5	\$11.62	\$426.97	1 CWRS 13.5	\$11.68	\$429.17	
1 CWAD 13.0	\$20.54	\$754.72	1 CWAD 13.0	\$20.65	\$758.76	
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a		
SE Sask			SE Sask			
1 CWRS 13.5	\$11.57	\$425.13	1 CWRS 13.5	\$11.64	\$427.70	
1 CWAD 13.0	\$20.51	\$753.62	1 CWAD 13.0	\$20.62	\$757.66	
1 CPSR 11.5	\$10.64	\$390.96	1 CPSR 11.5	\$10.69	\$392.79	

Data source: PDQ, Nov. 8/21

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
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	0.00	0.00
2 CWAD 13.5	(0.10)	(3.67)
2 CWAD 12.5	(0.30)	(11.02)

Data source: PDQ, Nov. 8/21

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 Basis² (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/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) ≈ 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)

² 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.”

- 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 YTD (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				08-11-2021
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	\$514.20	\$846.78		
HRS	\$459.30			
HRW 11.5	\$435.05			
SWW 12.0	\$491.32			
1 CWRS 13.5 ³	\$514.20		\$430.27	\$83.92
2 CWRS 13.0 ³	\$459.30		\$425.13	\$34.17
3 CWRS ³	\$435.05		\$417.78	\$17.27
CPS ³	\$484.92		\$391.69	\$93.23
1 CWAD ⁴		\$840.37	\$716.88	\$123.50
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$335.00	December		
French 11.5 (Rouen)	\$340.10	December		
ASW 10.5 (W Coast)	\$330.00	December		
Argentine 12.0	\$302.50	December		

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