

Wheat Market Outlook and Price Report: September 13, 2021

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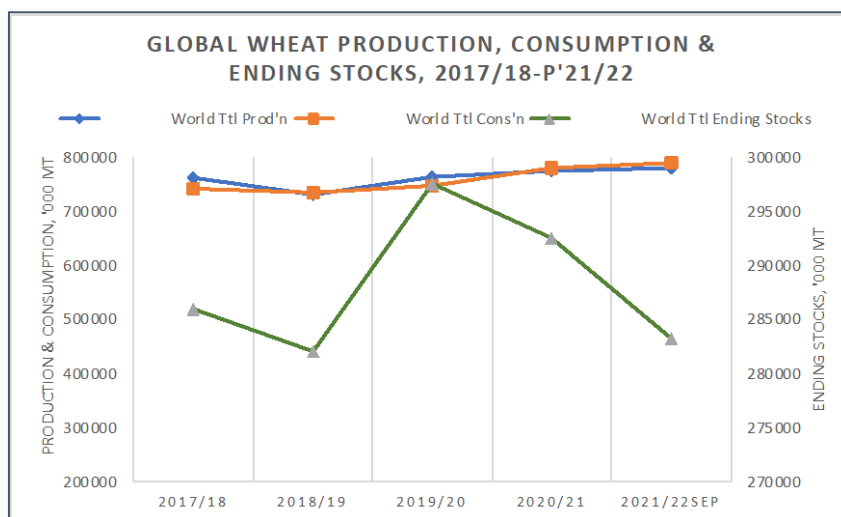
i) Background and Rationale for the Report

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 September 13, 2021

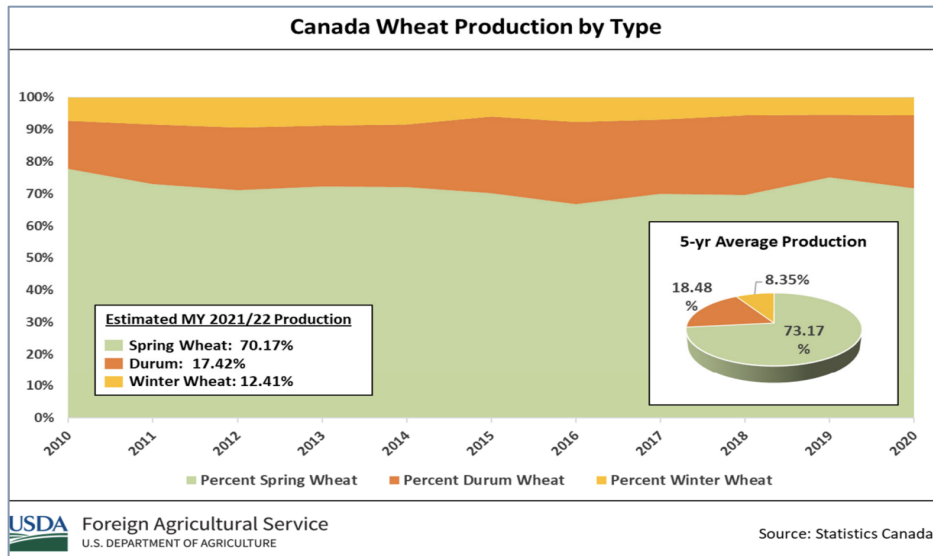
USDA on Global Wheat:



Source: Mercantile based on USDA data, Sept. 10/21 report

- In their September 10 report, USDA rated **global wheat production** higher than last month by 3.4 million mt, primarily on larger crops in Australia, China, and India.
- **Global consumption** was also up with more feed and residual use.
- **Global stocks** were adjusted higher with more supplies in the EU, Canada, and India.
- **Global trade** is forecast higher with imports raised for Bangladesh, Iran, and Kazakhstan, while exports are up for Australia and India. USDA decreased the U.S. season average farm price by 10 cents to \$6.60 per bushel.

USDA on Canadian Wheat:



- Last Friday, USDA estimated **Canadian wheat production** for 2021/22 at 23.0 million mt, down 1.0 million mt (-4%) from last month, down 12.2 million mt (-35%) from last year, and 29% below the 5-year average. This is in line with the Statistics Canada numbers.
- **Harvested area** was estimated at 9.2 million ha, unchanged from last month, but 8% below last year, and 3% below the 5-year average.
- **Yield** was estimated at 2.50 mt/ha (37.1 bu/acre), down 4% from last month, 29% from last year, and 27% below the 5-year average. The yields estimated by Sask Ag last week were even lower at 27 bu/acre for Sask spring wheat and at 19 bu/acre for Sask durum wheat.

➤ **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:

- Sept. '21 contract **Chicago winter wheat** closed at 688-4, down 3-6 cents on Friday, down 37-8 cents on the week.
- Sept. '21 contract **Kansas hard red winter wheat** closed at 682-4, down 0-2 cents in Friday's trade, down 32.8 cents on the week.
- Sept. '21 **Minneapolis hard red spring wheat** closed at 878-6, up 6-2 cents on Friday, down 36-8 cents on the week.
- US wheat futures were much lower on the week, but cash markets were quite active with a number of tenders for wheat.

CBOT Dec. 2021 Wheat (1 yr.)



KC Dec. '21 Wheat



Mpls. Dec. '21 Wheat



Canadian Wheat:

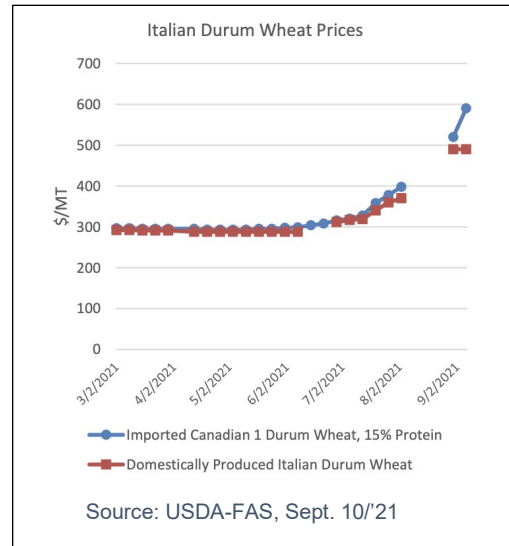
- USDA last week estimated 2021/22 Canadian all wheat production at 23.0 million mt, down 1.0 million mt (-4%) from last month. Wheat production is down 12.2 mmt (35 %) from last year, and 29% below the 5-year average.
- SK Ag came out with their Sept. yield numbers last Friday using 27 bu/acre for HRS wheat. This is down 15% from the Aug. 30 StatsCan number, with durum at 19 bu/ac, a massive 33% below the StatsCan estimate! - The USDA did not use these low yields on Friday, although they did align with StatsCan at 23 million mt.
- *The Canadian crop is not getting any bigger. We expect spring wheat and durum to be tight this year and I see no reason for farmers to sell here.*
- At 143k mt, **Canadian wheat exports** were small last week (wk. 5), advancing year-to-date wheat exports to 1.5 million mt, compared to 1.6 million mt last year-to-date.

(CGC) Grain Handling Summary Wheat		Week 5	(Sept. 5/'21)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Week 5	578.3	286.5	143.0	163.2
Week ago	360.6	426.3	413.0	99.4
Year-to-date	1,671.0	2,045.6	1,535.5	539.3
Last year-to-date	1,316.8	1,895.4	1,628.8	349.0
Year-to-date less Last year-to-date	354.2	150.2	-93.3	190.3
Year-to-date over Last year-to-date	127%	108%	94%	155%

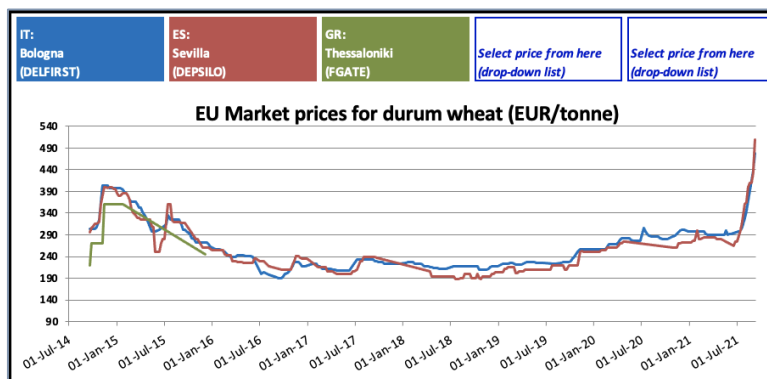
- **Durum:** Last Friday, SK Ag assessed the Sept. yield number for durum at only 19 bu/ac for durum, compared to 42.6 bu/acre last year. StatsCan used 27.2 bu/acre on Aug. 30th. If SK Ag is correct and if this yield applied to the whole crop, this would translate into a 3 million mt Canadian durum crop, down from 6.6 million mt last year! We think the yield number is a little too low, but it is safe to say yield losses were quite substantial.
- US '21/22 durum production is pegged at 953k mt, down 1.88 million mt last year. *This means that the N American durum crop could be as much as 3.6 million mt (or 43%) smaller than last year's.*
- Durum bids have slipped a bit from the lofty heights seen earlier which serves as a warning to make sure to take some cover at the record levels as we had advised. Nevertheless, this market will remain tight. Importer prices are lower than those seen in Canada, but they will have to come up, though it is hard to say how much. We know that large pasta manufacturers overseas are

faced with increased shortages and higher production costs. In Italy, both domestic and imported durum wheat prices have climbed to ~\$600/mt. These prices are lower than what we see in N America, but are approaching the record levels reached in 2008, and will likely have to climb higher.

- **Canadian durum exports** for week 5 were much better than last week at 134k mt, for a year-to-date total of 412 mt, compared to 496k mt last year-to-date.



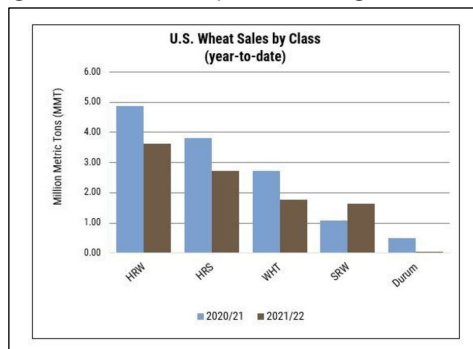
(CGC) Grain Handling Summary Durum		Week 5	(Sept. 5/21)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Week 5	114.9	24.6	133.9	2.1
Week ago	54.0	33.5	20.0	2.2
Year-to-date	267.3	247.0	412.4	15.7
Last year-to-date	309.3	581.8	495.5	26.1
Year-to-date less Last year-to-date	-42.0	-334.8	-83.1	-10.4
Year-to-date over Last year-to-date	86%	42%	83%	60%



Source: EU Commission data

US Wheat:

- All US futures were down last week. SRW futures were down 39 c/bu, HRW futures were down 39 c/bu, hard red spring futures lost 32 c/bu. CBOT corn futures were down 6 cents, and CBOT soybean futures were down 8 cents. A robust export program for row crops is limiting elevator capacity, and the effects of Hurricane Ida last week are still causing logistical challenges, especially for SRW.
- US wheat sales of 388k mt for '21/22, were up 32% from last week and in line with trade expectations of 150k – 525k mt. Year-to-date sales for '21/22 total 9.8 million mt, 24% lower than last year.
- US HRS for Oct. '21 is valued at \$410.00/ mt FOB PNW (unchanged from last week), FOB Gulf HRW 11/12.5 pro is valued at \$317.00/mt (down \$3.80/mt from last week).



Australian wheat:

- Australian wheat futures are at 1-month lows last Friday.
- USDA raised the Australian crop at close to 31.5 million mt from 30 million mt previously (33 million mt last year). Exports were increased by 1 million mt on the bigger crop.
- There are some early estimates of recent frost damage starting to come in at 1-2 million mt.
- Australian new crop FOB APW wheat for Dec. was quoted at \$300.00/mt, down \$5/mt from last week.

Argentine wheat:

- USDA lowered the Argentine wheat crop by 500k mt to 20 million mt (17.75 million mt last year).
- BAGE (Buenos Aires Grain exchange) maintained their 19 million mt estimate last Friday, although crop ratings rose sharply from 31% Gd/Exc to 46%, and well above last year's 22%). Soil moisture rose from 59% to 68%; this was somewhat surprising.
- FOB values for Oct. 12% protein Argentine wheat ranged from \$285-295/million mt, mostly unchanged from last week. The increase in global wheat prices have allowed Argentine wheat to be competitive with Australian wheat into the Southeast Asian markets.

EU wheat:

- Matif wheat fell to 1-month lows following the US futures losses.
- The big news in the market was the announcement of a Saudi Arabian tender, *which will allow test weights down to 76kg against the usual 77kg*. Algeria made a similar move 10 days ago, and there is also talk of Morocco further relaxing their specs. These moves by importers are designed to accommodate lower grading EU shipments into their tenders.
- FOB prices in the EU: Oct. French 11.5 pro closed at \$297.10/mt, down \$3.00/mt from last week. N/C Oct. German 12.5 pro wheat closed at \$302.30, down 2.90/mt. Oct. Baltic 12.5 pro wheat (N/C) was at \$300.00/mt, own \$2.90/mt.

Black Sea wheat:

- USDA left the Russian wheat export number intact at 35 million mt despite the complication of the rising export tax.
- Russian 12.5 pro wheat for Oct. is offered at ~\$314.00/mt, up \$14.00/mt from last week, at an implied export tax of \$80/mt.

➤ **Significant purchases/ trades:**

The cash trade volume was solid.

- **The Philippines** bought 56,000 tonnes of feed wheat from India for Sept at around \$345/mt, plus 56,000 tonnes of Australian for Oct at over \$350/mt.
- **Saudi Arabia** is due to tender for 360,000 tonnes for Nov arrival with a relaxed test weight requirement of 76kg test weight.
- **Tunisia** was also in the market for 100,000 tonnes of wheat for Oct-Nov. 15.
- **Nigeria** bought 330,000 tonnes of USA HRW.
- There were stories that **China** also bought Hard Red Wheat.

➤ **Wheat Market Outlook:**

Significant events:

- USDA raised **global wheat production** this month primarily on larger crops in Australia, China, and India. Global consumption is also up with more feed and residual use. *However, in our opinion, the WSASDE report underestimated demand by at least 5 myn tonnes. We also will need a big crop planted in 2022.*
- **SK Ag came out with their Sept. yield numbers** last Friday using 27 bu/acre for HRS wheat. This is down 15% from the Aug. 30 StatsCan number, with durum at 19 bu/ac, a massive 33% below the StatsCan estimate! - The USDA did not use these low yields last Friday, although they did align with StatsCan at 23 million mt. – These crops may become smaller yet.
- Especially for **durum**, if SK Ag is correct and if this yield applied to the whole crop, this would translate into a 3 million mt Canadian durum crop, down from 6.6 million mt last year! We think the yield number is a little too low, but it is safe to say that yield losses were quite substantial.
- US '21/22 durum production is pegged at 953k mt, down 1.88 million mt last year. *This means that the N American durum crop could be as much as 3.6 million mt (or 43%) smaller than last year's.*
- **Durum prices** in Europe are clearly lower than in N America but are increasing indicating shortage there.
- **World wheat prices** seem to be creeping up further with Russian wheat now being offered at ~\$314/MT (\$8.55/bu) FOB. Freight costs to Egypt/ M east were around \$0.80/bu when last checked.

➤ **Outlook:**

Most of the wheat market focus so far has been on the supply side of the equation, but demand is equally important. We see no sign that higher prices have reduced demand in that major exporter shipments are above last years. And the vast bulk of the demand has been for nearby positions, showing that importers have limited forward cover. - We think that world demand is understated, N Hemisphere farmers are planting into dry soils, and price must work to buy additional acres in order to pull stocks/use ratios away from lows.

We see no reason to see Canadian grain at this time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 13-09-2021

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$10.33	\$379.57	1 CWRS 13.5	\$10.41	\$382.51
1 CWAD 13.0	\$17.68	\$649.63	1 CWAD 13.0	\$17.72	\$651.10
1 CPSR 11.5	\$9.06	\$332.90	1 CPSR 11.5	\$9.12	\$335.11
SW Sask			SW Sask		
1 CWRS 13.5	\$10.25	\$376.63	1 CWRS 13.5	\$10.32	\$379.20
1 CWAD 13.0	\$17.77	\$652.94	1 CWAD 13.0	\$17.82	\$654.78
1 CPSR 11.5	\$8.97	\$329.59	1 CPSR 11.5	\$8.99	
NE Sask			NE Sask		
1 CWRS 13.5	\$10.08	\$370.38	1 CWRS 13.5	\$10.17	\$373.69
1 CWAD 13.0	\$18.17	\$667.64	1 CWAD 13.0	\$18.23	\$669.84
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.01	\$367.81	1 CWRS 13.5	\$10.10	\$371.11
1 CWAD 13.0	\$18.10	\$665.07	1 CWAD 13.0	\$18.20	\$668.74
1 CPSR 11.5	\$8.97	\$329.59	1 CPSR 11.5	\$8.94	\$328.49

Data source: PDQ, Sept. 13/21

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	(0.15)	(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)

Data source: PDQ, Sept. 13/21

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 Basis¹ (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)
 - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)

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.”

- 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				13-09-2021
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	\$475.75	\$892.44		
HRS	\$468.31			
HRW 11.5	\$400.41			
SWW 12.0	\$511.10			
1 CWRS 13.5 ³	\$475.75		\$372.22	\$103.53
2 CWRS 13.0 ³	\$468.31		\$369.28	\$99.03
3 CWRS ³	\$400.41		\$349.07	\$51.34
CPS ³	\$504.58		\$333.64	\$170.95
1 CWAD ⁴		\$885.93	\$643.39	\$242.54
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$314.00	October		
French 11.5 (Rouen)	\$297.10	October		
ASW 10.5 (W Coast)	\$300.00	December		
Argentine 12.0	\$290.00	October		

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CWRS 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				13-09-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$12.57	\$10.72	\$10.85	\$10.85
Parity Track Rosetown	\$11.07	\$9.22	\$12.24	\$12.24
Track Bid Rosetown Area	\$10.05	\$9.50	\$9.08	\$9.08
Gross Margin at Elevator (\$/bu)*	\$1.02	-\$0.28	\$3.16	\$3.16
Gross Margin at Elevator (\$/mt)*	\$37.54	-\$10.15	\$115.96	\$115.96
* to cover elevation, elevator market risk, margin				