

## Wheat Market Outlook and Price Report: September 27, 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 27, 2021

International Grains Council (IGC) September Global Wheat Estimate:

	18/19	19/20	20/21 est.	21/22 f'cast	26.08	23.09
million tons						
<b>WHEAT</b>						
<b>Production</b>	732	761	773	782	781	
<b>Trade</b>	168	185	190	189	191	
<b>Consumption</b>	740	746	770	783	783	
<b>Carryover stocks</b>	259	275	279	278	277	
<b>year/year change</b>	-8	16	4		-2	
<b>Major exporters <sup>b)</sup></b>	69	63	61	55	54	

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

- The International Grains Council (IGC) reduced their **'21/22 world wheat production estimate** to 781 million mt in September from 782 million mt in August.
  - You may remember that the IGC May estimate was at 790 million mt.
- **Wheat trade** was increased by 2 million mt from last month back to 191 million mt.
- **Wheat consumption** stayed the same at 787 million mt, which now is 2 million mt higher than the production estimate.

➤ **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 723-6, up 6-0 cents on Friday, *up 15-0 cents on the week.*

Dec. '21 contract **Kansas hard red winter wheat** closed at 719-6, down 0-2 cents in Friday's trade, *up 6-6 cents on the week.*

Dec. '21 **Minneapolis hard red spring wheat** closed at 916-0, up 4-4 cents on Friday, *up 15-4 cents on the week.*

- *All wheat futures were up again last week. US wheat closed higher due to ongoing dryness on the Plains, discussions about potential of Russian export quotas, and 'rumours' of China buying French, Australian and US wheat.*

**CBOT Dec. 2021 Wheat (1 yr.)**

**KC Dec. '21 Wheat**

**Mpls. Dec. '21 Wheat**

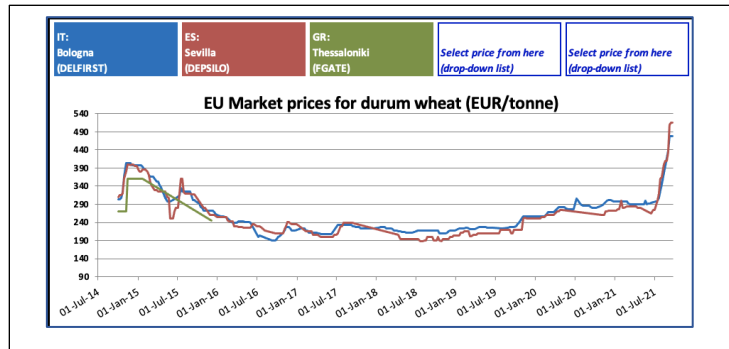


**Canadian Wheat:**

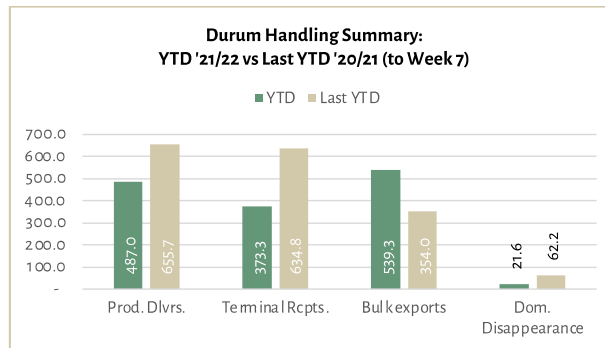
- Spring wheat harvest is essentially done in Saskatchewan (94%), while spring wheat harvest in Alberta is ~87% done.
- Average protein levels of spring wheat samples submitted to the CGC are 15.0%, well above the 13.5% average. High protein levels will keep protein spreads narrow while some mills may be willing to pay up for low protein wheat to blend with high protein wheat to make the 13.5% protein milling spec. Over 80% of the samples tested by the CGC were #1 or #2 SWRS grade.
- In **shipping week 7**, Canadian spring wheat exports were 329.4k mt for a season total of 2.08 million mt, 73% (-752.7k mt) of last year's volume.

(CGC) Grain Handling Summary Wheat	Wk. 7	(Sept 19/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 7	355.8	364.9	329.4	72.2
Week ago	385.6	332.4	218.5	78.2
YTD	2,415.7	2,817.6	2,083.5	700.8
Last YTD	2,836.7	4,052.4	2,836.2	787.3
YTD less Last YTD	-421.0	-1,234.8	-752.7	-86.5

- *Cash wheat bids have returned to their peak levels. Although some of the momentum has come out of the market due to harvest in the US, we do not see much reason for the market to fall. We are content to wait before selling additional tonnage.*
- *As discussed below, it was an active week for global wheat trade, and we expect buying will continue as consumers rush to extend their coverage. - Prices will go higher.*
- **Durum:** With 97% of the Saskatchewan durum crop harvested, the Saskatchewan Ministry of Agriculture says that 89% of the crop is a #3 CWAD or better.
- Prices for durum in the EU are still rising/adjusting to the shortfall of durum production in N America, but they are still below the levels paid in North America. Current Saskatchewan bids of \$18/bu work into the Italian market at roughly US\$620/mt CIF. The price for durum in Italy is at ~US530/mt, so sales to Europe from Canada are not possible right now.
- However, Algeria reportedly bought 300-500,000 mt of Mexican/Canadian durum on Thursday at \$620-650. We do not know how much Canadian wheat was involved, but the price works to ~\$19.00/bu Saskatchewan and is supportive to the market.
- Durum production in Morocco has been pegged at 2.48 million mt. This is more than 3 times last year's amount and well above the 5-year average of 1.53 million mt. Morocco has been a strong buyer of Canadian durum in past years, but the strong domestic crop in Morocco and poor and expensive production in Canada will likely curb this.
- *The durum wheat traded into Algeria backs off to ~19.00/bu in Saskatchewan. - Canadian supplies are estimated at only around 3.0 million mt and demand rationing will be necessary. We think local bids will return to \$19.00 - \$20.00/bu levels, although it may be difficult to return to the earlier (all-time) of \$22/bu. We are min 70% (+) sold at the earlier record high levels.*
- Shipping week 7 durum exports were 63.6k mt for a season total of 536.3k mt, 52% (185.3k mt) more than last year.



(CGC) Grain Handling Summary Durum	Wk. 7	(Sept 19/'21)		
('000 mt)	Prod. Divrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 7	105.3	47.1	63.6	3.4
Week ago	114.5	71.1	63.3	2.3
YTD	487.0	373.3	<b>539.3</b>	21.6
Last YTD	655.7	634.8	<b>354.0</b>	62.2
YTD less Last YTD	-168.7	-261.5	<b>185.3</b>	-40.6
YTD over Last YTD	74%	59%	<b>152%</b>	35%



### US Wheat:

- Weekly US wheat sales were at the high end of expectations at 355,900 mt for a total of 10.5 million mt. This is 20% less than last year vs the projected 12% decline in sales. There were rumours of China buying US SRW.
- Despite the small US sales, there continues to be a large volume of global wheat tenders. USDA is underestimating the import demand of several countries (Iran, Turkey and Pakistan), and these countries have been showing their appetite.
- Some port facilities hurt by hurricane Ida are still out of commission making the freight and basis markets in the Midwest edgy. Only so much grain can go elsewhere and still make shipments, and it's not like facilities on other coasts are looking for work.
- Winter wheat planting in the US is 21% complete, while abnormally dry conditions continue to expand across the US.
- US HRS for Oct. '21 is valued at \$413.00/ mt FOB PNW (unchanged from last week), FOB Gulf HRW 11/12.5 pro is valued at \$343.60/mt (down \$.20/mt from last week).

### Australian wheat:

- There were reports that China was a large buyer of Australian wheat (purchase estimates to date add to ~2 million mt), but this story may have been filed before the AUKUS nuclear deal with the US and the UK. China still is extremely unhappy with Australian policies, and sources suggest that further Australian sales may be very difficult to conclude.
- Australian new crop FOB APW wheat for December was quoted at \$320.00/mt, unchanged from last week.

### Argentine wheat:

- The north and north-west of Argentina remain very dry, and with crops filling/ripening, it is taking reducing the Argentine crop potential.
- BAGE left their production estimate at 19.2 million mt (USDA is using 20 million mt).
- BAGE also left the national crop ratings unchanged at 50% Gd/Exc.
- Argentina may have done part of the Pakistan business.
- FOB values for Oct. 12% protein Argentine wheat ranged from \$290-295/million mt, up \$5/mt from last week.

## EU wheat:

- Matif wheat rose another €2.50/mt and got within €2/mt of the contract high close.
- There has been no confirmation of China buying French wheat, but if China does, this could change the EU balance sheet in a major way.
- FOB prices in the EU: October French 11.5 pro closed at \$310.70/mt, up \$3.70/mt from last week. N/C October German 12.5 pro wheat closed at \$315.80, up 1.30/mt. October Baltic 12.5 pro wheat (N/C) was at \$314.60/mt, up \$3.20/mt.



## Black Sea wheat:

- Cash values were again ill defined with wide bid-offer spreads. However, Russian wheat still remains very competitive, despite the rising level of the export tax (forecast at \$53.50 next week).
- The rumours about a Russian wheat quota have not gone away, but the quota volumes will not be decided until more is known about July-December shipments, and we are told any quota will be for the balance of the season, not a monthly quote.
- Meanwhile, the sales to Pakistan will help to eliminate the Ukraine surplus. - The reported lowest price of \$383.50/mt to Pakistan for November-December compares with a FOB parity of around \$310/mt.
- Russian 12.5 pro wheat for October is offered at ~\$300.00/mt, down \$10.00/mt from last week.

## ➤ Significant purchases/ trades:

There was a big trade in cash wheat last week.

- **Pakistan** confirmed they bought 575,000 mt of wheat and announced another 640,000 mt tender for the current week. The price reported was \$383.50/mt CIF.
- **Algeria** reportedly bought 300-500,000 mt of Mexican/Canadian durum at \$620-650.
- **Jordan** returns Sep 29 for 120,000 for Jan-Mar milling wheat.
- There were also rumours of **Chinese buying**,
- and the expectation of another **Saudi Arabian** tender.
- **US export sales** of 356,000 mt took the season total to 397 myn bushels, still down 20% on last year. However, the volume was lower due to the damage done by the hurricane to Gulf grain elevators.
- Newswires are reporting **China** as a large buyer of Australian wheat, which we believe are correct. China is not telling the truth on their wheat production.
- → *It was an active week for wheat, and we expect buying will continue as consumers rush to extend their coverage.*

➤ **Wheat Market Outlook:**

**Significant events:**

- All **wheat futures** were up again last week. US wheat closed higher due to ongoing dryness on the Plains, discussions about potential of Russian export quotas, and 'rumours' of China buying French, Australian and US wheat.
- There has been no confirmation of **China** buying French wheat, but if China does, this could change the EU balance sheet in a major way. Ditto for US SRW.
- The **big wheat sales to Pakistan** will help to eliminate the Ukraine surplus.
- **Wheat stocks** are estimated at 1.855 byn bushels ahead of the September Grain Stocks report. If realized that would be down 303 myn bushels compared to the previous year. Spring wheat spec traders were 258 contracts less net long to 12,672.
- **Winter wheat planting in the US** is 21% complete, while abnormally dry conditions continue to expand across the US.
- The north and north-west of **Argentina** remain very dry, and with crops filling/ripening, it is taking reducing the Argentine crop potential.

➤ **Outlook:**

*It was an active week for wheat, and we expect buying will continue as consumers rush to expand their coverage. We think that China is not telling the truth on the size of their wheat production.*

*- Prices will go higher.*

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 27-09-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '21 (bu.)	Dec. '21 (mt)
<b>1 CWRS 13.5</b>	\$10.90	\$400.51	<b>1 CWRS 13.5</b>	\$10.96	\$402.71
<b>1 CWAD 13.0</b>	\$16.88	\$620.24	<b>1 CWAD 13.0</b>	\$16.92	\$621.71
<b>1 CPSR 11.5</b>	\$9.73	\$357.52	<b>1 CPSR 11.5</b>	\$9.78	\$359.36
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$10.76	\$395.37	<b>1 CWRS 13.5</b>	\$10.81	\$397.20
<b>1 CWAD 13.0</b>	\$16.97	\$623.55	<b>1 CWAD 13.0</b>	\$17.03	\$625.75
<b>1 CPSR 11.5</b>	\$9.63	\$353.84	<b>1 CPSR 11.5</b>	\$9.67	\$355.31
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$10.65	\$391.32	<b>1 CWRS 13.5</b>	\$10.74	\$394.63
<b>1 CWAD 13.0</b>	\$17.59	\$646.33	<b>1 CWAD 13.0</b>	\$17.68	\$649.63
<b>1 CPSR 11.5</b>	n/a		<b>1 CPSR 11.5</b>	n/a	
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$10.54	\$387.28	<b>1 CWRS 13.5</b>	\$10.60	\$389.49
<b>1 CWAD 13.0</b>	\$17.28	\$634.94	<b>1 CWAD 13.0</b>	\$17.43	\$640.45
<b>1 CPSR 11.5</b>	\$9.65	\$354.58	<b>1 CPSR 11.5</b>	\$9.65	\$354.58

Data source: PDQ, Sept. 13/21

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

<b>Avg. Grade Spread/ Pro Discounts</b>	<b>Cdn\$/bu.</b>	<b>Cdn./mt</b>
<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)

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 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.

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)
    - 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.

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“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.”



**Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT**

Relevant FOB Prices and Export Basis				27-09-2021
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	\$495.64	\$751.36		
HRS	\$486.36			
HRW 11.5	\$415.36			
SWW 12.0	\$482.19			
1 CWRS 13.5 <sup>3</sup>	\$495.64		\$399.04	\$96.60
2 CWRS 13.0 <sup>3</sup>	\$486.36		\$391.69	\$94.67
3 CWRS <sup>3</sup>	\$415.36		\$371.48	\$43.88
CPS <sup>3</sup>	\$475.69		\$355.31	\$120.37
1 CWAD <sup>4</sup>		\$744.86	\$645.59	\$99.27
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$300.00	October		
French 11.5 (Rouen)	\$310.70	October		
ASW 10.5 (W Coast)	\$300.00	December		
Argentine 12.0	\$292.50	October		

<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