

Wheat Market Outlook and Price Report: April 26, 2021
By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

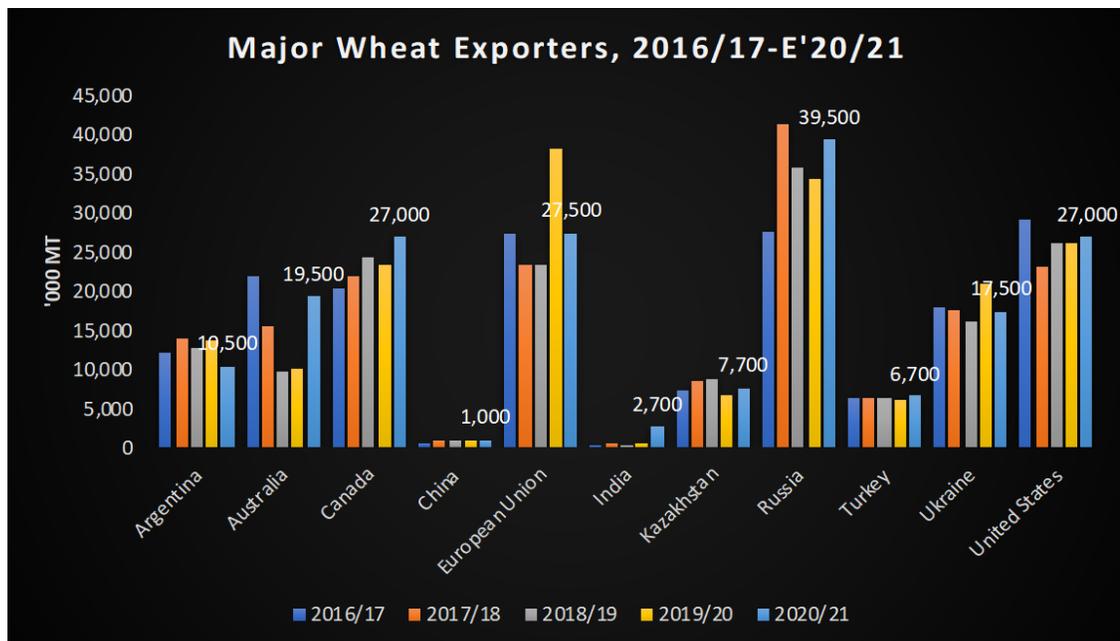
i) Background and Rationale for the Report

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 April 26, 2021

Major Wheat Exports by Origin, 2016/17 – E2020/21:



- The graph summarizes **wheat exports by origin** over the past 5 years.
- The **biggest changes** this ongoing year over last year were: An **almost 11 million mt decrease in exports by the EU**; a 9.4 million mt increase in exports by **Australia**; a 5 million mt increase in exports by **Russia**; a 3.5 million mt decrease by the **Ukraine**, and a 3.5 million mt increase by **Canada**.
- **Global wheat imports** in '20/21 are expected to increase by 4.9 million mt over the previous year.

➤ **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 710-2, unchanged on Friday, *up 57-8 cents on the week.*
 May '21 contract **Kansas hard red winter wheat** closed at 673-2, up 5-6 cents in Friday's trade, *up 64 cents on the week.*
 May '21 **Minneapolis hard red spring wheat** closed at 718-4, up 10 cents on Friday, and *up 54-2 cents on the week.*
- Futures market summary:** **Thursday was a day of huge gains across the world Ag markets and US wheat went along for the ride.** *Wheat markets were very strong as the market experienced more weather events and recognized it cannot have more wheat going into feed.* There were reports of weather damage to heading winter wheat in the Southern Plains, where there were also reports that winter wheat had suffered freeze damage. Severe dryness persisted in the spring wheat regions of the Northern Plains and Canada.
- Australian** new crop futures rallied to 5-month highs, while **Matif** futures in Europe made contract highs on all contracts through Sep 2023.

CBOT May 2021 Wheat (1 yr.)



KC May '21 Wheat



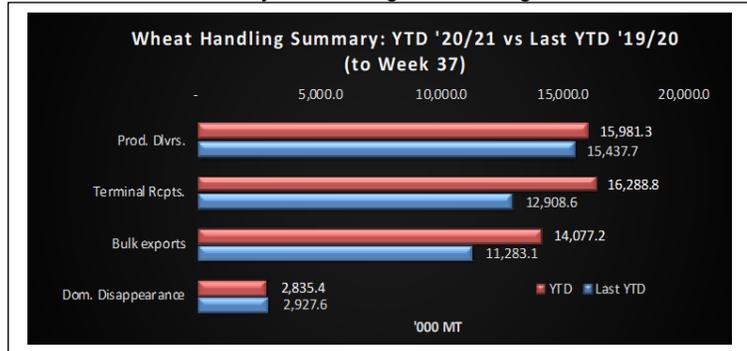
Mpls. May '21 Wheat



Canadian Grain Exports (CGC numbers) Wk. 37					
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains
Crop Year To date	8,465	18,560	2,119	766	38,895.9
Year Ago	7,050	14,726	1,788	678	29,669.4
Change this Cr.Yr. in MT	1,415	3,835	331	88	9,227
Change this Cr. Yr. in Percent	120%	126%	119%	113%	131%

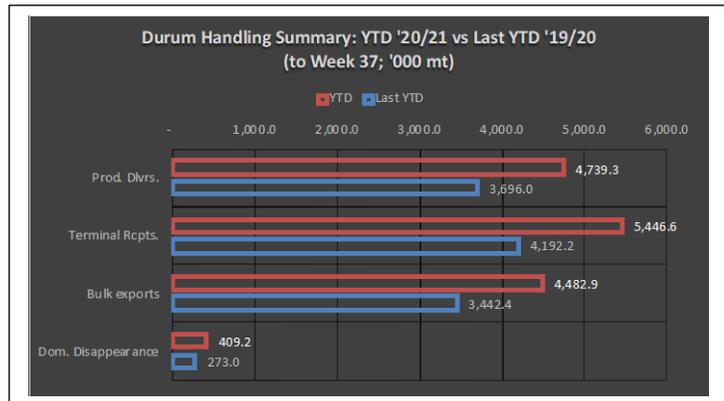
Canadian Wheat:

- Severe dryness persisted in the spring wheat regions of the Northern Plains and Canada.
- As of April 18, US farmers had planted 19% of the country's total intended spring wheat area, up from last year's 11 percent and 58 percent ahead of the 5-year average. Seeding on the Canadian Prairies is just beginning.
- There was not a great deal of cash trade reported in international markets last week.
- **Canadian wheat exports** in week 37 amounted to 364,000 mt for the week, and 14.1 million mt year-to-date (+25% over last years). However, unless exports stay at about 460,000 mt per week, we will miss the '20/21 AAFC export target for wheat (excl. durum) of 21.1 million mt.



- StatsCan comes out with their acreage intentions report on Tuesday.
- Milling wheat bids in SK for #1 CWRS 13.5 reached \$8.70/bu for April-May.
- We don't see any reason for wheat prices to go down in price over the short term.
- *We recommend no further new crop sales for the time being.*

• **Durum:** Watch how many durum acres get planted in the US; the US balance sheet looks to be tightening further in the new crop year.



- **Canadian durum exports** for week 37 amounted to a good 249,000 mt, for a year-to-date total of 4.5 million mt, 30% higher than last year-to-date.
- Annualizing year-to-date exports to the end of the crop year would give us 6.3 million mt, while AAFC is using 5.6 million mt of exports. If 6 million mt of exports can be achieved, this would lower '20/21 ending stocks to ~550,000 mt. We expect next year's Canadian durum acres to increase by ~5%.
- The last major durum trade in the international markets was the 200,000 mt sale to Algeria for of May shipment at around \$350-355.00 US/mt. We don't see any reason for wheat to go down in price over the short term.
- Old crop durum in SK is trading at \$8.60-9.00/bu delivered. We would be sold ~ 70% of the crop at ~\$9.00/bu. New crop durum is still bid at \$8.25-\$8.50/bu fob farm SK; there is no rush to sell here.

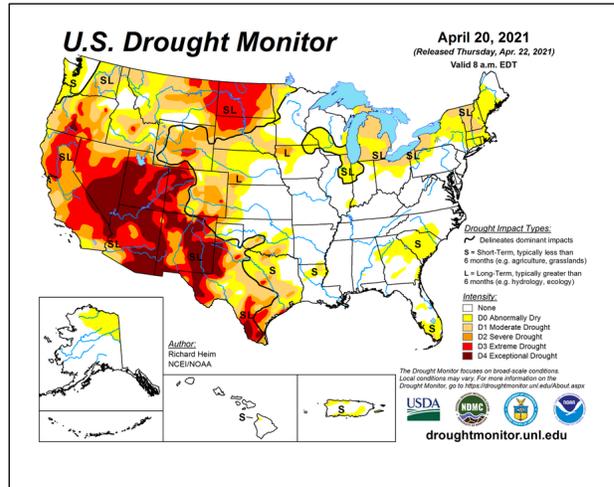
US Wheat:

- A cold front brought snow to Kansas this week, while bringing rainfall to parts of Oklahoma and northern Texas. *Even with the rain, the USDA reports 60% of Texas and 26% of Oklahoma's topsoil moisture short or very short.*

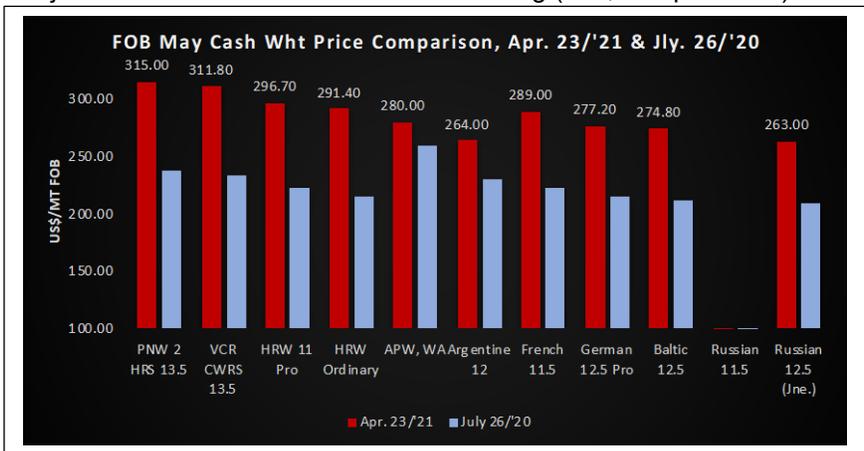
The Plains states were cooler with areas of snow, but precipitation was still below normal in much of the Dakota's and Montana.

According to the USDA, 65% of Oregon and 60% of Washington are short or very short of topsoil moisture.

- USDA reported total U.S. winter wheat conditions unchanged from last week. Winter wheat reported as good or excellent was 53 percent. Freezing temperature this week are a concern, but in areas where it snowed, notably Kansas, Nebraska and Colorado, the snow provided some protection against potential crop damage.
- US export sales of 240,000t were within expectation and the season total of 932 Mbu is 53 Mbu short of the USDA total with just over 6 weeks of the season remaining (220,000t per week).



- As the Fob price line-up from the various wheat origins shows, US/ Canadian wheat has become very expensive on the export market compared to nominal EU and Black Sea prices, with Black Sea wheat representing cheaper execution than US wheat into Mexico! *But US wheat has to stay out of the*



feed market, which will make it difficult for prices to fall without a drop in the corn market. This suggests that it is EU/Black Sea prices that will rise towards US levels, rather than the US wheat dropping to compete with European wheat.

- US HRS for May '21 is valued at \$315/mt FOB PNW (up \$17.00/mt from last week), PNW White wheat is valued at \$296/mt Fob PNW (up \$20.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$296.70/mt (up \$23.80/mt from last week).

Australian wheat:

- Australian new crop futures rallied to 5-month highs.
- Australia is seeing a few showers on the eastern seaboard and the SW corner.
- Australian new crop FOB APW wheat for May was offered at \$280/mt, up \$10/mt from the previous week.

Argentine wheat:

- Central Argentina had rain but the east and west stayed dry.
- Argentine Fob prices rose by \$4-6/mt, but the domestic market was mixed with nearby values falling \$2/mt, and Jun-July up \$2/mt.
- Fob values for May 12% protein Argentine wheat ranged from \$260-268/mt, up ~\$6-8/mt from last week.

EU wheat:

- Matif wheat saw daily gains of €7/mt in all positions out through 2022, and all contracts through Sept. 2023 registered contract highs.
- Dryness and cold temperatures are still an issue across much of Europe's wheat areas.
- Farmers will be very reluctant sellers until the volume of N Hemisphere crops are known this summer.
- FranceAgriMer estimated 85% of French wheat crops were in good to excellent condition as of 4/19. That was down from 86% last week.
- May Fob prices in the EU: French 11.5 pro closed at \$289.00/mt, up \$19.80/mt from last week. German 12.5 pro was up \$8.40/mt to \$277.20/mt. Baltic 12.5 pro increased by \$7.40/mt on the week to \$274.80/mt.

Black Sea wheat:

- The Black Sea area remains cool and mostly dry except for S Russia.
- Russian new crop Fob prices and futures rose \$13-15/mt due to the reported need for replanting in the CBS region at up to 20%, temperatures are too low for crop growth, and spring plantings are slow.
- Russia's IKAR reduced their 2021/22 wheat output forecast by 1.5 myn tonnes to 79.5 myn mt, citing a need to replant winterkill area.
- Black Sea new crop wheat jumped \$18/mt on the offered side with Russian 12.5 pro wheat for August at \$263/mt.

China:

- China reportedly returned with 1 million tonnes of French wheat purchases and rumors of more USA purchases.

➤ **Significant purchases/ trades:**

There was not a great deal of cash trade reported in international markets last week.

- **Chinese** buyers are thought to have booked 1 million tonnes new crop French wheat, as China looks widely to cover grain import needs heightened by a domestic corn deficit.
- **Egypt** (GASC) returns Tuesday and will see prices some \$30 above those of 2 weeks ago.

➤ **Wheat Market Outlook:**

Significant events:

- **Wheat markets** were very strong as the market experienced more weather events and recognized it can not have more wheat going into feed.
- There were reports of **weather damage** to heading winter wheat in the Southern Plains, where there were also reports that winter wheat had suffered freeze damage.

- **Spring wheat:** Severe dryness persisted in the spring wheat regions of the Northern Plains and Canada.
- **Cash wheat prices** are up by \$7.50-20.00/mt on the week.

➤ **Outlook:**

Consumers are short, farmers have little old crop left to sell, and on new crop, dryness persists across much of the continent. In addition, China reportedly returned with 1 million tonnes of new crop French wheat purchases and rumors of more US purchases. Egypt (GASC) returns Tuesday and will see prices some \$30/mt above those of 2 weeks ago.

We see steady to higher futures markets in the short term. Longer term, we see consumption falling as the effects of these higher prices will force price rationing.

We don't see any reason for wheat to go down in price over the short term.

Our recommendations stay the same: Clean out old crop stocks ensuring storage space for new crop where we see an opportunity for prices to go higher.

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	26-04-2021
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Sept. '21 (bu.)	Sept. '21 (mt)	
1 CWRS 13.5	\$8.61	\$316.37	1 CWRS 13.5	\$8.18	\$300.57	
1 CWAD 13.0	\$8.41	\$309.02	1 CWAD 13.0	\$7.61	\$279.62	
1 CPSR 11.5	\$8.24	\$302.77	1 CPSR 11.5	\$7.59	\$278.89	
SW Sask			SW Sask			
1 CWRS 13.5	\$8.41	\$309.02	1 CWRS 13.5	\$8.05	\$295.79	
1 CWAD 13.0	\$8.40	\$308.65	1 CWAD 13.0	\$7.70	\$282.93	
1 CPSR 11.5	\$8.11	\$297.99	1 CPSR 11.5	\$7.54	\$277.05	
NE Sask			NE Sask			
1 CWRS 13.5	\$8.33	\$306.08	1 CWRS 13.5	\$7.95	\$292.11	
1 CWAD 13.0	\$8.46	\$310.85	1 CWAD 13.0	\$7.74	\$284.40	
1 CPSR 11.5	\$8.10	\$297.63	1 CPSR 11.5	\$7.45	\$273.74	
SE Sask			SE Sask			
1 CWRS 13.5	\$8.26	\$303.51	1 CWRS 13.5	\$7.95	\$292.11	
1 CWAD 13.0	\$8.43	\$309.75	1 CWAD 13.0	\$7.76	\$285.13	
1 CPSR 11.5	\$7.85	\$288.44	1 CPSR 11.5	\$7.26	\$266.76	

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 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

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.”

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				26-04-2021
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	\$386.95	\$371.92		
HRS	\$379.66			
HRW 11.5	\$379.21			
SWW 12.0	\$361.45			
1 CWRS 13.5³	\$386.95		\$321.14	\$65.80
2 CWRS 13.0³	\$379.66		\$308.28	\$71.38
3 CWRS³	\$379.21		\$305.34	\$73.87
CPS³	\$355.08		\$307.91	\$47.17
1 CWAD⁴		\$365.55	\$308.65	\$56.90
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$263.00	May		
French 11.5 (Rouen)	\$289.00	May		
ASW 10.5 (W Coast)	\$280.00	May		
Argentine 12.0	\$264.00	May		

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				26-04-2021
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$10.16	\$10.15	\$7.80	\$7.80
Parity Track Rosetown	\$8.66	\$8.65	\$8.17	\$8.17
Track Bid Rosetown Area	\$8.39	\$8.31	\$8.38	\$8.38
Gross Margin at Elevator (\$/bu)*	\$0.27	\$0.34	-\$0.21	-\$0.21
Gross Margin at Elevator (\$/mt)*	\$10.02	\$12.51	-\$7.82	-\$7.82
* to cover elevation, elevator market risk, margin				