

Wheat Market Outlook and Price Report: August 16, 2021

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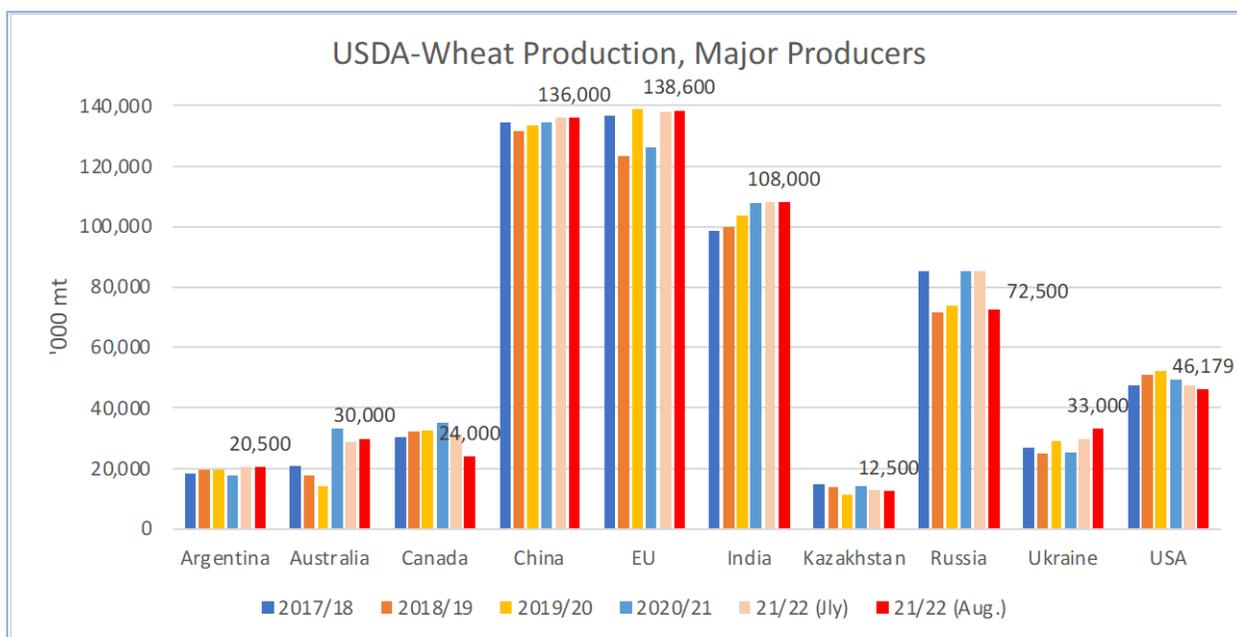
i) Background and Rationale for the Report

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 August 16, 2021

USDA-World Wheat Production (August):



Source: Data based on Aug. '21 USDA-WASDE report

- The August WASDE report made some very significant changes to their wheat production estimates in their August report. Overall, their global wheat production estimate dropped by 15.5 million mt to 776.9 million mt, a 2% drop from their July estimate.
- As anticipated, the big declines were in Russian and Canadian wheat production, but the size of the cuts (a combined 20 million mt) exceeded what was expected.

- The Australian crop was increased by 1.5 million mt which went into exports, but at 22 million mt exports, they are nearing their logistics capacity. The Ukrainian estimate also gained 3 million mt from last month.
- Wheat stocks are down everywhere, but most importantly they are down 8 million mt in the 8 major exporting countries, following a 17 million mt crop reduction, with the stocks/use ratio at a record low.
- **The wheat balance sheet lost a lot of tonnage available to the major exporters, which will be hard to replace elsewhere.**

➤ **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 762-2, up 8-6 cents on Friday, up 43-2 cents on the week.
 Sept '21 contract **Kansas hard red winter wheat** closed at 742-2, up 3-4 cents on Friday, up 36-6 cents on the week.
 Sept. '21 **Minneapolis hard red spring wheat** closed at 944-2, up 11-4 cents on Friday, up 28 cents on the week.
- US and world wheat markets soared last week following the USDA-WASDE reports, as the USDA produced a set of bullish production figures.

CBOT Sept. 2021 Wheat (1 yr.)



KC Sept. '21 Wheat



Mpls. Sept. '21 Wheat



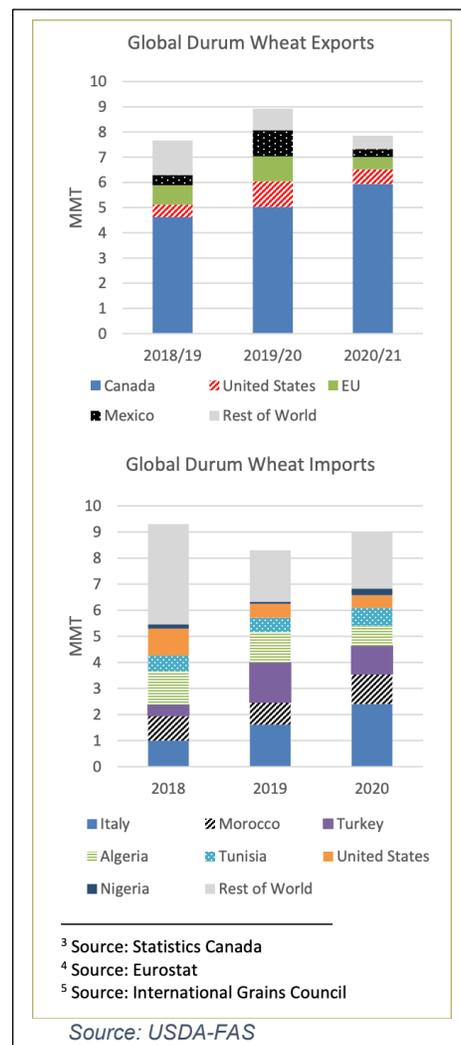
Canadian Wheat:

- **USDA** lowered the Canadian wheat crop by a big 7.5 million mt, but left US spring and durum wheat unchanged from the July report. We anticipate additional losses in US spring wheat & durum once the higher level of abandonment is considered. Still, *global spring wheat supplies* were further depleted by a 500,000 mt drop in Kazakshstan's crop, while comments from the Kazakh Govt suggest the yield decline in their crop could be bigger. The largest and least expected adjustment (at least of this size) came for Russian wheat, where the USDA lowered the July figure by 12.5 million mt to 72.5 million mt. However, note that the reduction was based on changes to winter wheat (WW area and yield were revised down), while spring wheat area and yield was revised up.

Spring Wheat Production - Major Producers					
(million mt)	18/19	19/20	E'20/21	P'20/21	Δ
Canada (CWRS)	24.05	25.95	25.16	24.00	95%
USA (HRS)	16.00	14.20	14.40	8.30	58%
Russia (spring wheat)	19.22	21.07	22.70	22.00	97%
Kazakhstan (spring wheat)	13.90	11.50	14.30	12.50	87%
Total	73.17	72.72	76.56	66.80	87%
updated Aug. 12/'21					

- *We think the latest reductions in wheat production by major exporters numbers mean that world wheat importers now have a major problem, because the lost production in export countries is not easily replaced. And longer term, the N Hemisphere needs to expand both winter and spring acreage to replenish stocks. It seems that world wheat prices may have to stay elevated at least into the middle of 2022 to accomplish that. - Bids at Canadian elevators continue to trail world market levels.*

- **Durum:** While the USDA publishes an all-wheat number for Canada in their reports, they separately commented that the severe drought in Western Canada and the Northern Plains of the US “will sharply reduce North American durum wheat production”. USDA expects the US durum crop to be also down significantly, dropping 50% to 900,000 mt with a 24 bu/acre average yield in 2021.
- With much reduced durum supplies in Canada and the US, Mexico and the European Union have an opportunity to expand exports in 2021/22. EU durum production is forecast to be up 7% to 7.7 million mt, while Mexico’s crop is up 9% to 1.3 million mt. But these relatively small increases in durum production in Europe and Mexico will not be sufficient to offset declines elsewhere.
- For example, Italy imported nearly 2 million tons of durum wheat from Canada and the US in 2020/21. So, despite increased supplies in Europe, **Italy** will struggle to find the necessary supplies in 2021/22 to continue its robust pasta production.
- **Turkey**, another major pasta producer, sources nearly half of its imported durum wheat from Canada. With pasta exports on the rise and lower production in 2021/22, Turkey must turn towards lower-priced suppliers such as Mexico.
- **Morocco** and **Algeria** primarily source durum wheat from Canada, so imports are expected to diminish significantly in 2021/22. Moreover, thanks to improved growing conditions, Morocco’s domestic wheat production has nearly tripled from the previous year, easing some of its durum supply issues. Algeria also imports a significant amount of durum wheat from Mexico, and it will likely shift to sourcing more from there in 2021/22 to ease some loss of supplies from Canada.
- *We expect that with both the Canadian & US crops yielding badly, durum supplies in N America will be very tight. We note that \$17.00/bu has been paid by US buyers for Canadian. #3 CWADS, while Canadian buyers trail the market. We think this is an excellent value.*



US Wheat:

- USDA reduced the **US crop** by 1.3 million mt via lower winter wheat yields in the PNW. We note that spring and durum wheat remained unchanged from the July report, and we anticipate additional losses in spring wheat & durum once the higher level of abandonment is considered in September.
- US HRS for Sept. '21 is valued at \$405.00/ mt FOB PNW (unchanged from last week), FOB Gulf HRW 11/12.5 pro is valued at \$326.60/mt (up \$14.80/mt from last week).

Australian wheat:

- The Australian wheat crop was increased by 1.5 million mt to 30 million mt. Australian exports were increased to 22 million mt (vs. last year's 23 million mt), but their logistics will be taxed at that.
- Australia remains the one of the few regions which so far has seen very favourable conditions.
- Australian new crop FOB APW wheat for Oct. was quoted at \$300.00/mt, up \$5/mt from last week.

Argentine wheat:

- The Argentine wheat crop was left unchanged by USDA at 20.5 million mt. The wheat market absolutely needs a perfect finish to the Argentine and Australian crops.
- Argentina and Brazil remain totally dry this week.
- FOB values for Sept. 12% protein Argentine wheat ranged from \$290-295/million mt, up \$7/mt from last week.

EU wheat:

- USDA increased the EU wheat production 400k mt to 138.6 million mt, and the EU wheat export number which was raised 1 million mt to 35 million mt.
- Matif wheat futures rose €9/mt in the last 30 minutes of trading following the USDA report. However, we find that the USDA assumption that the EU will export 35 million mt this year challenging. It seems to ignore the mounting quality problems emerging from the EU, especially France.
- Soufflet in France is reporting that only 35% of soft wheat so far is meeting the milling standard.
- FOB prices in the EU: Sept. French 11.5 pro closed at \$300.10/mt, up \$24.20/mt from last week. N/C Sept. German 12.5 pro wheat closed at \$308.30, up \$33/mt. Sept. Baltic 12.5 pro wheat (N/C) was at \$301.30/mt, up \$30.80/mt.

Black Sea wheat:

- The USDA lowered the July figure by 12.5 million mt to 72.5 million mt. However, note that the reduction was based on changes to winter wheat (WW area and yield were revised down), while spring wheat area and yield was revised up.
- Global spring wheat supplies were further depleted by a 500,000 mt drop in Kazakhshtan's crop. Kazakh wheat continues to suffer under heat and dryness.
- Black Sea futures rose by \$9-12/mt and it will be some time before the FOB markets settle.
- There is no indication that farmers show any increased desire to sell their crop, particularly as there is still some 40% of the crop to harvest.
- Rumours are circulating of possible changes to the export tax calculation, which adds to the uncertainty surrounding Russian exports.
- Russian 12.5 pro wheat for Sept. is quoted at ~\$295.00/mt, up \$25/mt from last week.

➤ Significant purchases/ trades:

There was very little cash trade during the week as most wanted to see what the USA's new WASDE report had to say on Thursday.

- **S Korea** bought Australian ASW at just over \$290/mt FOB and APH at just over \$300/mt last Tuesday.
- **Korea** also bought 11% pro US white wheat at \$346.76/mt FOB and 9% pro at \$438.62/mt (albeit for a very small quantity).
- **The Philippines** passed on their 120,000 mt feed wheat tender, as did **Jordan**.
- There were no results on **Thailand's** feed wheat tender, but they too reportedly passed.
- **The Philippines** plan to tender next Thursday for 280k mt feed wheat
- **Morocco** tenders Aug 24 for 363,000 m US durum under the preferential tariff quota. They will find US prices very high.
- **US export sales** of 293,100 metric tons (MT) for 2021/2022 were down 5 percent from the previous week and 32 percent from the prior 4-week average

➤ **Wheat Market Outlook:**

Significant events:

- Last week's **USDA-WASDE** report was less conservative than previous reports and reflected the damage done due to weather to the expected yields. World wheat production was lowered by a big 15.5 million mt.
- Specifically, USDA slashed the **production** of major exporters by a much larger than expected 17 million tonnes, mostly in Russia (12.5 million tonnes) and Canada (7.5 million tonnes). And despite making some sizeable demand reductions, the 8 major exporters' stocks/use ratio fell to a record low.
- **Wheat futures** followed the report with positive movement on Friday as well. The leader was Mpls., up 5 to 11 ½ cents in most front months. All three wheat exchanges posted multiyear highs last week.
- In Europe, the **EU wheat quality** is questionable with estimates suggesting that much of it will not make export standards we are already seeing sales being cancelled.
- **Durum prices** are very strong with American buyers paying big premiums to Canadian Elevator bids.

➤ **Outlook:**

US and world wheat markets soared as the USDA slashed the production by major exporters by a much larger than expected 17 myn tonnes, and despite making some sizeable demand reductions, the 8 major exporters' stocks/use ratio fell to a record low.

Wheat could be a price leader with other origins increasing to match North American prices. Durum prices are very strong with American buyers paying big premiums to Canadian Elevator bids. We see no reason to push for wheat sales at this time. Durum prices are becoming very attractive.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 16-08-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$10.59	\$389.12	1 CWRS 13.5	\$10.77	\$395.73
1 CWAD 13.0	n/a		1 CWAD 13.0	\$15.66	\$575.41
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$10.48	\$385.08	1 CWRS 13.5	\$10.66	\$391.69
1 CWAD 13.0	\$14.71	\$540.50	1 CWAD 13.0	\$14.74	\$541.61
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
NE Sask			NE Sask		
1 CWRS 13.5	\$10.32	\$379.20	1 CWRS 13.5	\$10.52	\$386.55
1 CWAD 13.0	\$16.01	\$588.27	1 CWAD 13.0	\$16.02	n/a
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$10.32	\$379.20	1 CWRS 13.5	\$10.46	\$384.34
1 CWAD 13.0	\$15.95	\$586.07	1 CWAD 13.0	\$5.98	\$219.73
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	

Data source: PDQ, Aug. 16/21

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, Aug. 3/21

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

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.”

- 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				16-08-2021
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	\$503.63	\$653.33		
HRS	\$496.23			
HRW 11.5	\$413.99			
SWW 12.0	\$468.51			
1 CWRS 13.5 ³	\$503.63		\$376.26	\$127.37
2 CWRS 13.0 ³	\$496.23		\$363.77	\$132.47
3 CWRS ³	\$413.99		\$346.50	\$67.49
CPS ³	\$462.04		\$364.13	\$97.91
1 CWAD ⁴		\$646.86	\$552.26	\$94.60
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$295.00	September		
French 11.5 (Rouen)	\$300.10	September		
ASW 10.5 (W Coast)	\$295.00	October		
Argentine 12.0	\$292.50	September		

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				16-08-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$13.33	\$11.09	\$10.00	\$10.00
Parity Track Rosetown	\$11.83	\$9.59	\$11.08	\$11.08
Track Bid Rosetown Area	\$9.90	\$9.43	\$9.91	\$9.91
Gross Margin at Elevator (\$/bu)*	\$1.93	\$0.16	\$1.17	\$1.17
Gross Margin at Elevator (\$/mt)*	\$71.02	\$6.04	\$42.93	\$42.93

* to cover elevation, elevator market risk, margin