

Wheat Market Outlook and Price Report: December 21, 2020

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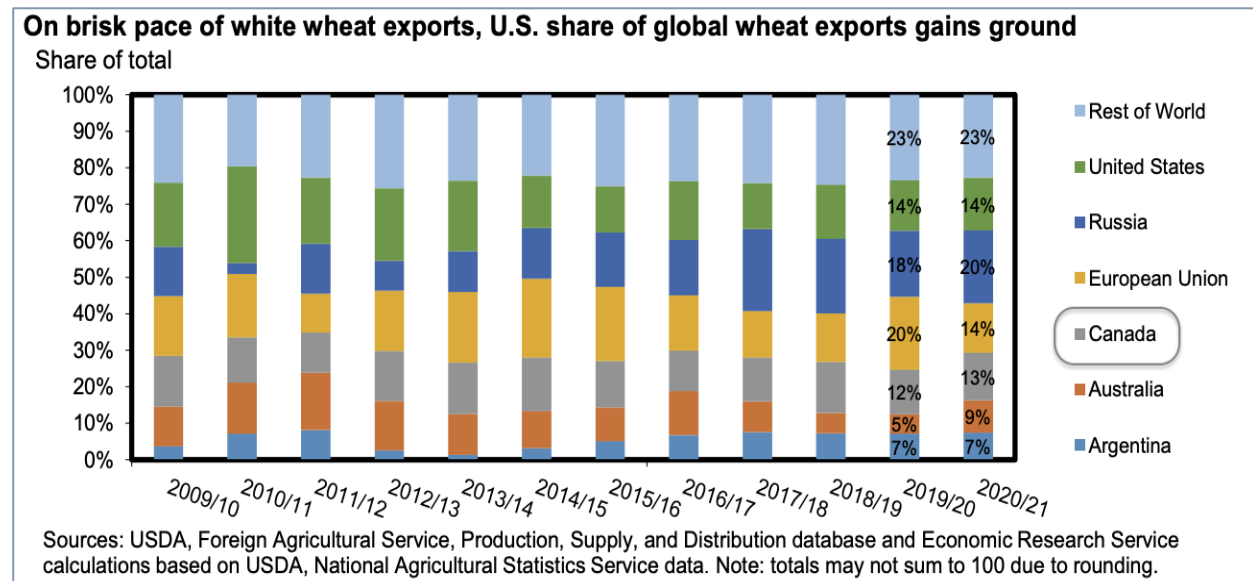
i) Background and Rationale for the Report

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 December 21, 2020

USDA-FAS – 2020/21 Market Share of N American & Australian Wheat gaining ground; EU share falling



- In their last report, USDA/WASDE raised **global wheat exports** to a record-high 194 million mt.
- U.S. exports were lifted by ½ million mt. *The Canadian wheat export projection was raised by a substantial 1 million mt to 26 million mt.*
- **Production increases** for key exporting nations Australia, Russia, and Canada lifted the 2020/21 global wheat harvest by nearly 1.3 million mt and bolstered exportable supplies.
- Expanded availability and **strong import demand** helps to lift global consumption and contributes to a more than 2.8 million mt increase in global exports.
- **With global exports expected at a record high at 193.6 million tons, the U.S. & Canada are expected to benefit from the uptick in demand for 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** Mch. '21 contract **Chicago winter wheat** closed at 608-2, down 0-4 cents on Friday, *down 6-2 cents for the week*.
Mch. '21 contract **Kansas hard red winter wheat** closed at 569-2, down 0-6 cents in Friday's trade, *down 12 cents for the week*.
Mch. '21 **Minneapolis hard red spring wheat** closed at 568-4, down 1-4 cents on Friday, *down 1-6 cents for the week*
- **Futures market summary:** Technical selling following the initial news of the Russian wheat export tax pressured wheat futures early in the week, but the sentiment changed to thinking the tax is supportive to wheat markets by reducing the volume of Russian wheat available for export Jan. forward.

CBOT Mch. 2021 Wheat (1 yr.)



KC Mch. '21 Wheat



Mpls. Mch. '21 Wheat



Canadian Wheat:

- Hard red spring wheat has been lagging on price action, but it was the top class of US wheat sold for export, taking 37% of the sales with 7.3 million bushels sold. Wheat trading volumes are dropping with the holidays approaching and it seems that the grains are content to trade sideways.
- Cdn. wheat exports during week 19 were quite good again at 410k mt for the week.
YTD exports reached 7.5 mln mt, 23% ahead of last year's pace. We have had a strong wheat market this fall, but without the improved rail capacity this year, we would not have captured the same volume gains!
- The wheat market this past week was all about figuring out what the effects of the €25/mt Russian wheat export tax is going to be on Russian export volumes, and on Thursday wheat futures rallied 8-10¢ due to renewed concern over Russian supplies and due to US export sales at the high end of expectations. The absence of Russian wheat offers beyond early January combined with reports of customs interference with Russian export documents supported the bulls.
- Turkey changed its import tax from 20% to zero, and the Ukraine lowered its VAT on Ag products from 20% to 14%, which could give domestic users more buying power and move grain away from the export market. Meanwhile, Australian wheat is cheap (but export capacity is fully committed into FH April) and India wants to export, but should we take 8 mln mt of wheat off the EU/Russian world supply, this will be tough to reallocate.
- Exchange rates are also creating support, as the 32-month high in the Euro raises the size of Russian tax in US\$ (priced at €25), while a similar 32-month low in the US dollar helped lift US futures.

(CGC) Grain Handling Summary Wheat				
('000 mt)	Wk.19		(Dec. 13/'20)	
	Prod. Divrs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk.19	470.9	441.6	409.5	120.5
Week ago	579.0	410.3	338.7	67.6
YTD	8,253.9	9,110.7	7,463.7	1,766.4
Last YTD	7,998.7	7,302.8	6,062.6	1,790.3
YTD less Last YTD	255.2	1,807.9	1,401.1	-23.9
YTD over Last YTD	103%	125%	123%	99%

Mercantile based on weekly CGC Handling Data

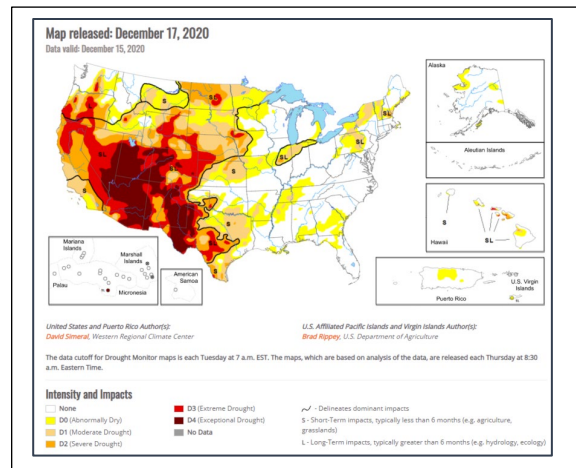
- On the weather front, the market is watching the long-term dryness in the US Plains, and new crop KC futures are pushing up against 2-year highs.
- The effect of the Russian export tax is almost certainly to reduce export supplies, which along with the expected ongoing strength in corn and soybeans, will keep a floor under world wheat values.
- Canadian wheat is very competitively priced to go to the EU. We would wait with further sales until after the holidays; we expect wheat prices to be stronger in 2021.*
- Durum exports were good during week 19 with 188k mt loaded for a YTD total of 2.154 mln mt, compared to 1.9 mln mt last YTD.
- A durum wheat sale last week of 100k mt to Tunisia works back to ~C\$9.10/bu FOB farm SK. We see that Viterra is bidding \$8.42 /bu for D/J durum in Moose Jaw. That's still too cheap compared to sales in the international market and we would target close to \$9.00/bu, depending on location.

(CGC) Grain Handling Summary Durum	Wk.19		(Dec. 13/'20)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk.19	154.7	270.4	188.3	3.2
Week ago	162.6	240.3	64.3	21.8
YTD	2,455.9	2,901.0	2,141.5	189.7
Last YTD	1,959.2	2,514.1	1,871.1	156.0
YTD less Last YTD	496.7	386.9	270.4	33.7
YTD over Last YTD	125%	115%	114%	122%

Mercantile based on weekly CGC Handling Data

US Wheat:

- US wheat export sales of 540k mt took the season total 722 mln bu, 10% higher than last year's 655 mln bu. China was the top destination for U.S. corn, barley, and soybeans and the 2nd best destination for U.S. wheat. Hard red spring wheat has been lagging on price action, but it was the top class of wheat sold for export, taking 37% of the sales with 7.3 million bushels sold.
- The €25/mt Russian export tax issue almost a week old, but there are still differing opinions about what it means to the markets. The question is how much Russian wheat will be lost to the world markets, and what the price effect will be on Russian wheat. We do not expect that Russian farmers will drop their price ideas, so Russian export wheat should become more expensive and their exports should slow. *How much of this can be captured by US/ N American wheat is not clear, but with renewed rumours of China looking for US wheat, world cash markets do not look to be going lower.*
- On the weather front, the market is watching the **long-term dryness in the US Plains**, and new crop KC futures are pushing up against 2-year highs.
- US HRS for January '21 is valued at \$280/mt FOB PNW (up \$5/mt from last week), PNW White wheat is valued at \$275/mt FOB PNW (up \$12/mt from last week), FOB Gulf HRW is valued at \$266.13/mt (down \$2.57/mt).



Australian wheat:

- Australian wheat futures rose to a 4-week high, in spite of the strong Australian dollar.
- The Australian wheat harvest is close to complete, and Australian wheat export capacity seems fully committed through early April '21.
- Australian new crop FOB APW wheat values for Jan. closed at \$268/mt, up \$8/mt compared to the previous week.

Argentine wheat:

- The BAGE crop update raised Gd./Exc. wheat ratings from 29% to 35% (last year 42%), with soil moisture 84% favourable vs. 82% last week. BAGE kept the crop unchanged at 16.8 mln mt.
- Argentine port strikes continue, and logistics could become an issue going forward.
- FOB 12% pro Argentine wheat was more or less unchanged at \$250-255/mt for Jan. delivery.

EU wheat:

- Matif wheat futures ended the week lower, but cash wheat remained very firm.
- In the absence of Russian offers, EU wheat is the cheapest origin wheat to many destinations February forward. This is making it increasingly tough for the EU to ration its exports to preserve feed grains.
- *FOB prices were slightly higher in most of the EU, down in the Baltic:* French 11.5 pro closed at \$269.27/mt, up \$1.58/mt from last week. German 12.5 pro was up \$0.39/mt to \$265.10/mt. Baltic 12.5 pro fell by \$3.00/mt on the week to \$257.00/mt.

Black Sea wheat:

- Offers of Russian wheat were then pulled when customs began to slow exports prior to the export tax becoming operative, with reports of interference in the Sea of Azov, the Caspian Sea and Novorossiysk.
- Given the export tax, there is a lot of doubt if Russian farmers will sell at lower prices, as they are currently well financed, so no exporter dared to offer Russian wheat for Feb. onwards.
- The Ukraine lowered its VAT on Ag products from 20% to 14%, which could give domestic users more buying power and keep some grain away from the export market. Meanwhile, Turkey lowered its import tax from 20% to zero.
- FOB values for Jan. nominally fell by \$3/mt to finish the week at \$257/mt for Russian 12.5 pro. There were no offers for Feb. '21 forward.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) bought 120,000 mt of Romanian wheat and 115,000 mt of Ukrainian wheat for 1-15 Feb at \$7 above what they paid at the previous tender. Russia announced a €25/mt export tax from Feb 15 onwards, and Russian offers to Egypt/GASC all took appropriate margin protection, so were too expensive to figure into the tender.
- **Tunisia** bought 100,000 mt Jan-Feb milling wheat at \$280-283/mt, plus 100,000 mt durum at \$371-376/mt.
- **Thailand** bought 77,000 mt Feb feed wheat at \$279 Liner Out.
- **US inspections** were 261,000 mt (season total 505 mln bushels, up just 1%), sales were 540,000 mt (season total 722 mln bushels, up 10%).
- **EU shipments** jumped 1.1 mln mt for a soft wheat total 11.6 mln mt, just 17% below last year.

➤ **Wheat Market Outlook:**

Significant events:

- The focus in the wheat market last week was on the implications of the **Russian wheat export tax** (€25/mt). The market now seems to think that the Russian export taxes are more bullish than bearish.
- **We think that in the short-term prices will be led by corn and soybeans.** We see both of these to be stronger through to 2021. Consequently, we don't expect cash wheat prices to lower, which in turn should help USA futures. We expect wheat prices to be stronger in 2021.
- We note there is some rain/snow in the forecast for Russia and the UK, which could be mildly bearish for wheat, but this is not going to cause a big swing in wheat trading. There is nothing of the sort on the horizon for the parched US HRW Belt.
- The "new" strain of COVID in the UK is causing some concern that affect investors' confidence.

➤ **Outlook:**

We think that in the short-term prices will be led by corn and soybeans. We see both of these to be stronger through to 2021. Consequently, we don't expect cash wheat prices to lower, which in turn should help USA futures. We expect wheat prices to be stronger in 2021.

We expect stronger prices in 2021, so we would leave markets alone until after New Year's. Have a safe and "Happy Christmas" until then.

iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch.'20 (bu.)	Mch.'20 (mt)
1 CWRS 13.5	\$6.76	\$248.39	1 CWRS 13.5	6.88	\$252.80
1 CWAD 13.0	\$7.97	\$292.85	1 CWAD 13.0	8.18	\$300.57
1 CPSR 11.5	\$6.17	\$226.71	1 CPSR 11.5	6.42	\$235.90
SW Sask			SW Sask		
1 CWRS 13.5	\$6.62	\$243.25	1 CWRS 13.5	6.74	\$247.65
1 CWAD 13.0	\$8.04	\$295.42	1 CWAD 13.0	8.23	\$302.40
1 CPSR 11.5	\$6.10	\$224.14	1 CPSR 11.5	6.34	\$232.96
NE Sask			NE Sask		
1 CWRS 13.5	\$6.47	\$237.73	1 CWRS 13.5	6.64	\$243.98
1 CWAD 13.0	\$7.93	\$291.38	1 CWAD 13.0	8.19	\$300.93
1 CPSR 11.5	\$5.98	\$219.73	1 CPSR 11.5	6.26	\$230.02
SE Sask			SE Sask		
1 CWRS 13.5	\$6.44	\$236.63	1 CWRS 13.5	6.57	\$241.41
1 CWAD 13.0	\$8.00	\$293.95	1 CWAD 13.0	8.23	\$302.40
1 CPSR 11.5	\$5.96	\$218.99	1 CPSR 11.5	6.21	\$228.18

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 14.0	0.10	3.77
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	0.10	3.67
2 CWAD 13.0	(0.20)	-7.35
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 Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. 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.

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.”

- 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				21-12-2020
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	\$327.61	\$385.12		
HRS	\$320.54			
HRW 11.5	\$338.45			
SWW 12.0	\$310.64			
1 CWRS 13.5 ³	\$327.61		\$243.25	\$84.36
2 CWRS 13.0 ³	\$320.54		\$228.92	\$91.62
3 CWRS ³	\$338.45		\$219.73	\$118.72
CPS ³	\$304.04		\$232.96	\$71.08
1 CWAD ⁴		\$378.52	\$306.81	\$71.71
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$257.00	January		
French 11.5 (Rouen)	\$269.27	January		
ASW 10.5 (W Coast)	\$265.00	January		
Argentine 12.0	\$253.50	January		

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				21-12-2020
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$8.54	\$9.03	\$6.45	\$6.45
Parity Track Rosetown	\$7.05	\$7.53	\$6.78	\$6.78
Track Bid Rosetown Area	\$6.23	\$5.98	\$6.34	\$6.34
Gross Margin at Elevator (\$/bu)*	\$0.82	\$1.55	\$0.44	\$0.44
Gross Margin at Elevator (\$/mt)*	\$30.04	\$57.14	\$16.10	\$16.10
* to cover elevation, elevator market risk, margin				