

**Wheat Market Outlook and Price Report: December 13, 2021**  
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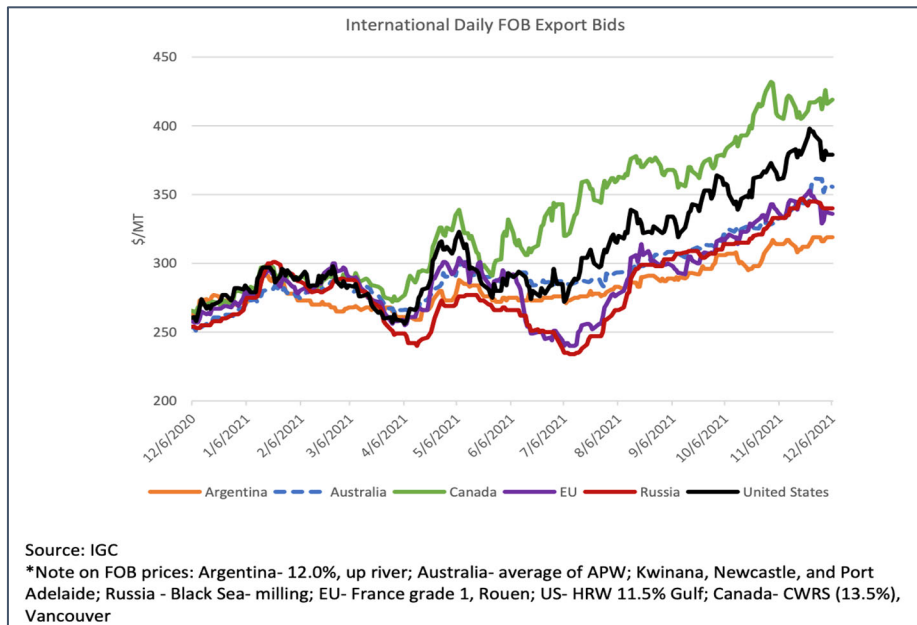
**i) Background and Rationale for the Report**

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 December 13, 2021**

**USDA/ IGC on Global Wheat Prices, Dec. 9/21: (in US\$/mt)**



Argentina	Australia	Canada	EU	Russia	United States
\$319	\$356	\$419	\$336	\$340	\$379

Note: As of December 6, 2021

- **Global wheat prices** were slightly higher over the past month, with strong import demand and mounting concerns over the availability of high-protein wheat.
- **Argentine wheat quotes** edged up only \$5/ton as favorable early harvest results and ample exportable supplies make this quote the most competitive.

- **EU quotes** have risen just \$7/ton since the last report, tracking closely with its key competitor Russia which rose a similar amount.
- The **global export market** recently edged lower, amid rumors that the Russian export quota may be less restrictive than initially anticipated. Nevertheless, its export tax continues to escalate and is now above \$80/ton, a significant increase from \$25/ton when the marketing year began in July.
- **Australian quotes** are up \$22/ton, reflecting both the remarkably strong export pace and the concerns about the availability of higher protein wheat.
- **U.S. HRW** shot up \$17/ton, while **Canadian quotes** rallied \$14/ton, reflecting tight supplies.

**Recent Developments in Wheat Demand:**

USDA lowered projected '21/11 demand for US HRW and HRS wheat by 500k mt in their December report due to the slow export pace YTD. USDA also lowered US wheat imports from Canada by 200k mt due to limited purchases to date.

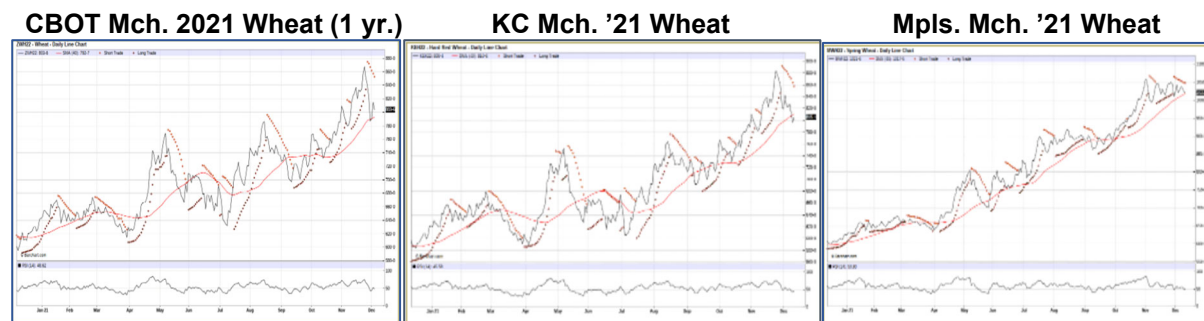
USDA increased their projection for overall '21/22 global wheat trade by 2.3 million mt to 205.5 million mt (mostly to the M East and SE Asia), and overall global consumption was raised by 1.9 million mt to 789.4 million mt.

*Futures and charts look grim right now, but it is the cash markets that will determine where markets go from here.*

➤ **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.

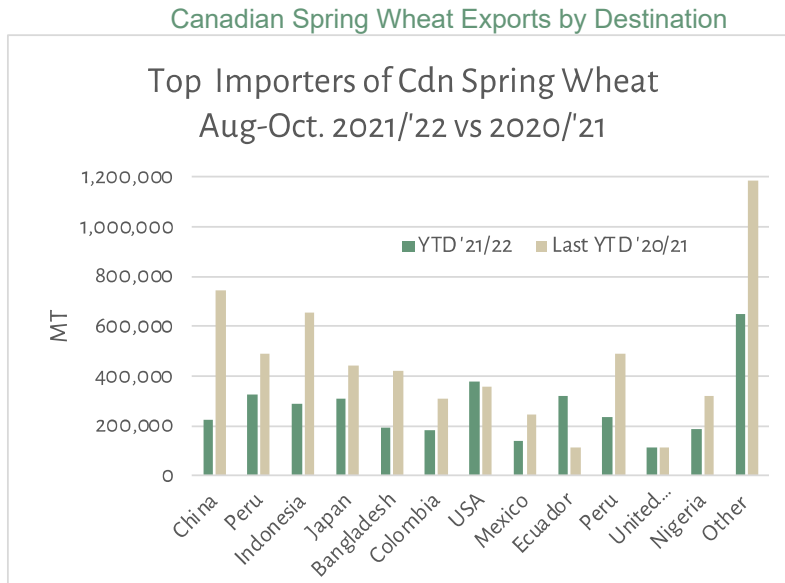
- **Futures:**
- Mar. '21 contract Chicago winter wheat closed at 785-2, up 8-4 cents on Friday, *down 18-4 cents on the week.*
- Mar. '21 contract Kansas hard red winter wheat closed at 805-4, up 9-0 cents in Friday's trade, *down 18-6 cents on the week.*
- Mar. '21 Minneapolis hard red spring wheat closed at 1021-6, down 0-4 cents on Friday, *up 1-0 cent on the week.*
- This Monday morning, all wheat futures are up somewhat. CBOT and KC futures are up 5-7c/bu, while Mpls. wheat is currently up ~1c.



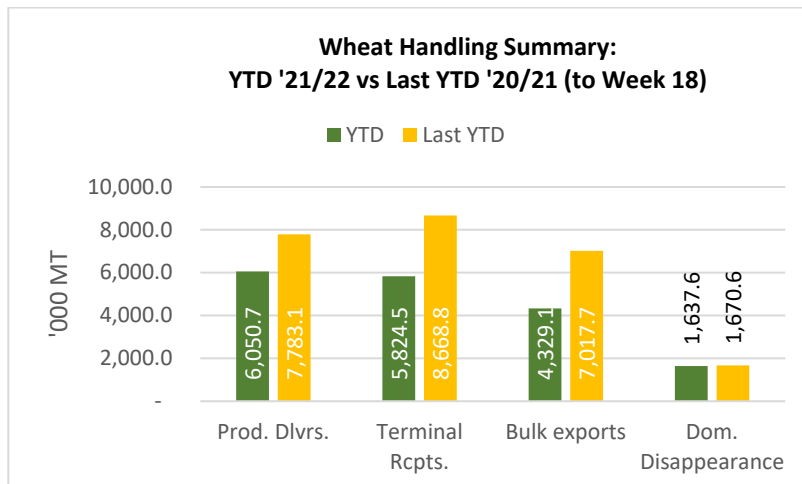
**Canadian Wheat:**

- Despite a somewhat negative report for spring wheat, Minneapolis wheat closed a penny higher on the week.
- USDA report: The entire 5 million bushel decrease in US imports was in the HRS class on lower imports from Canada.

- According to Stats Canada, Canada exported 900.1k mt of wheat during October. This is essentially half of the exports done in October 2020. The top importing countries during the month were Nigeria and Ecuador, which imported 88k mt and 87k mt of wheat, respectively. China, which was the top importer last year, has taken just 31% of last year's Aug-Oct. amount at 228k mt. The only major countries taking similar-to-higher amounts of Canadian wheat during Aug-Oct are the US (+6%), the UK (-3%) and Ecuador (+184%). With a 39% smaller crop, Canadian spring wheat is expensive, and exports will be smaller than usual for the remainder of the marketing year.



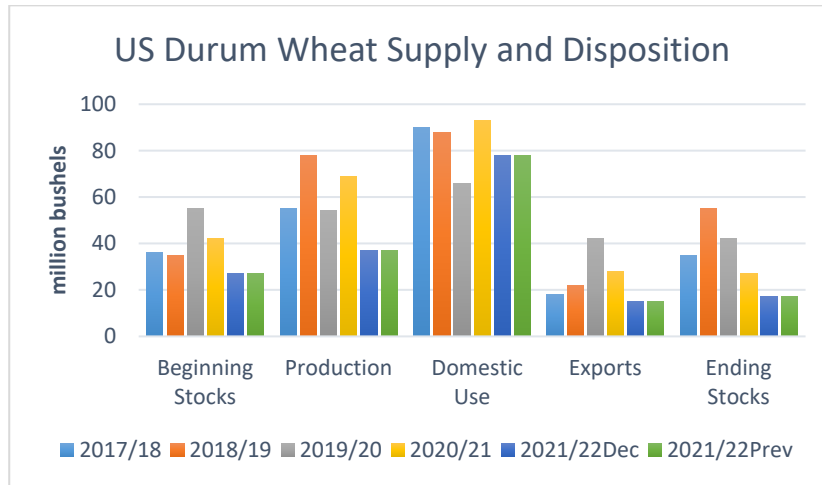
- Canadian exports during week 18 were small at 161.3k mt for a season total of 4.33 million mt – just 62% of last year. Visible supplies in the Canadian elevator system grew to 2.88 million mt. Supplies in Vancouver grew slightly to 63.5k mt, but shrank in Prince Rupert to 43.5k mt. Rain delays are going to make sure that wheat exports continue to be slow. Additionally, Canadian wheat is expensive and is going to only the most inelastic of demand.



- Wheat futures are going to struggle moving into the holidays, especially HRS futures as exports from the west coast continue to be limited. Returns to wheat in Canada look quite good; we would sell some Canadian cash, but not at any sharp discounts.

- Durum:** The USDA left their US durum numbers unchanged. The USDA's supply numbers continue to imply that total imports (from Canada) will be 46 million bushels, 24% higher than last year's 37 million bushels. They expect that US exports will be just 15 million bushels (down 46% from last year), with 17 million bushels of ending stocks (down 37% from last year). Ending stocks are roughly the equivalent of 55 days of use which is just over half of the average amount remaining at the end of the year.

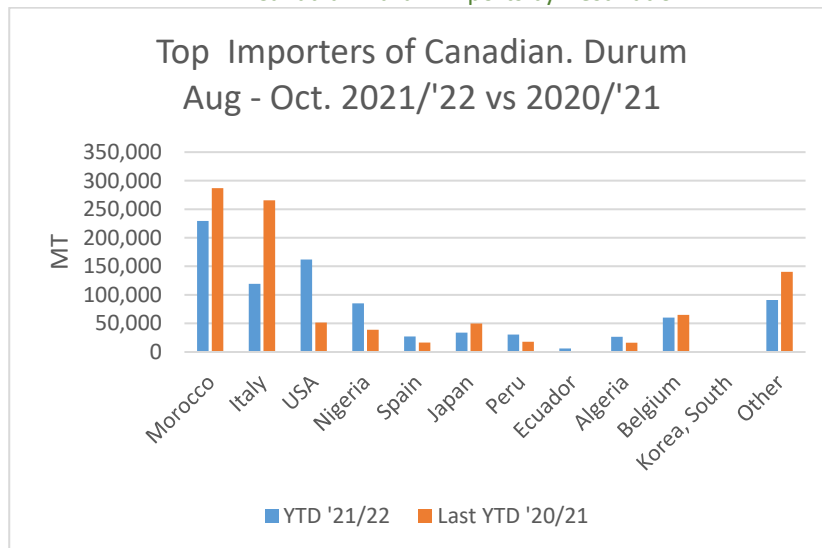
USDA December Estimates of US Durum



Data Source: USDA

- According to Stats Canada, October 2021 exports of Canadian durum were 243.8k mt, 48% less than last year's October amount. The destination with the most notable decrease from last year was Italy where exports are just 45% (-146k mt) of last year's Aug-Oct amount. Notably, the current pace of exports to the US are running more than 3 times higher than last year during Aug-Oct. The pace of durum exports will continue to slow as Canadian. exports will only be ~53% of last year's amount, but we think exports to the US will remain strong.

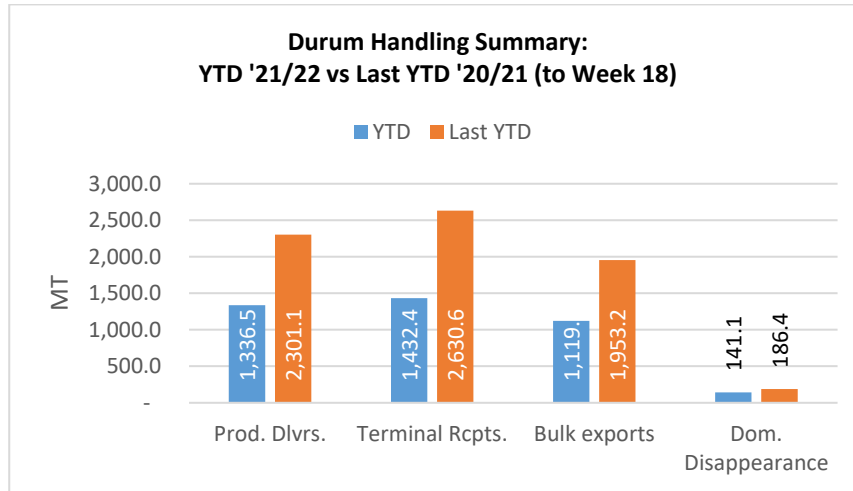
Canadian Durum Exports by Destination



Data Source: Stats Canada

- Week 18 exports of Canadian durum were 51.4 k mt which makes for a season total of 1.12 million mt. This is just 57% (-833.4k mt) of last year's amount). Visible supplies grew slightly to 785.8k

mt. There is 158.4k mt of durum sitting in terminals at Thunder Bay and an additional 216.8k mt of durum sitting in terminals on the St. Lawrence.

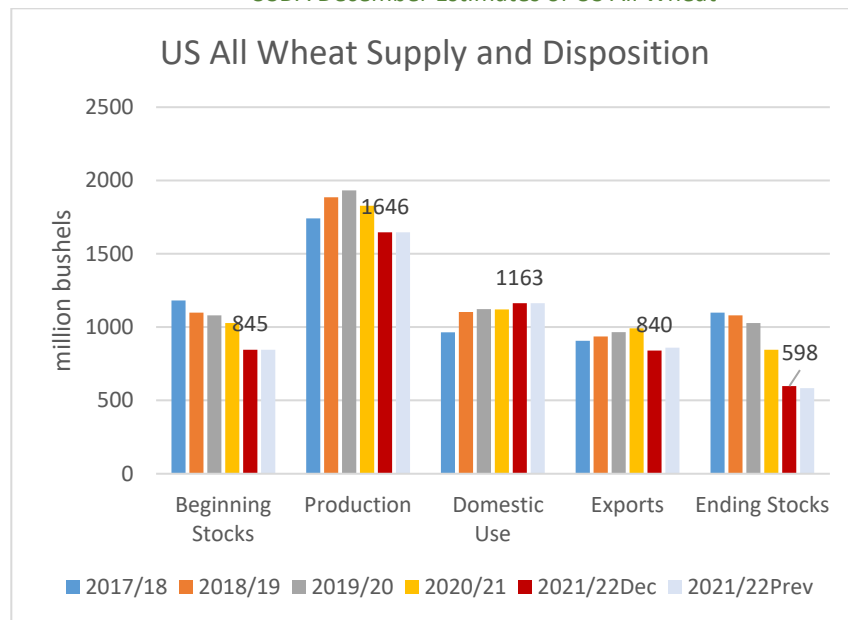


- Cash bids in Canada were higher on the week as traders came to the realization that there was significantly less production (according to Stats Canada) in the country than originally expected.

**US Wheat:**

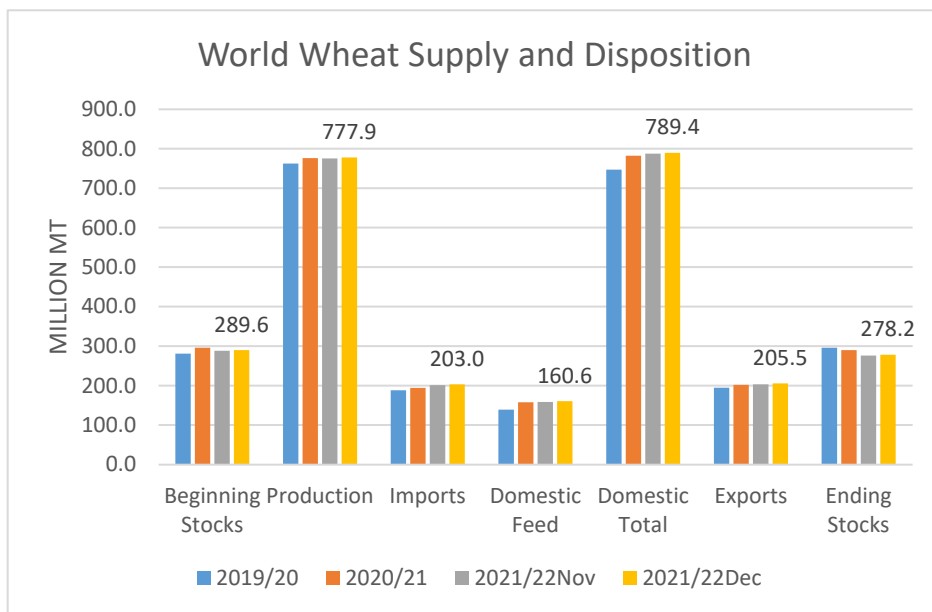
- The USDA report was slightly bearish for US wheat. US imports were reduced by 5 million bushels to 110 million bushels. This was entirely from lower HRS imports (from Canada). Exports were reduced by 20 million bushels (we said it could fall by 30 million bushels) to 840 million bushels. Ending stocks were raised 15 million bushels to 598 million bushels (845 million bushels last year).
- By-class, the decrease in US wheat exports were split between HRW and HRS. HRW exports fell 10 million bushels to 350 million bushels while HRS exports also fell 10 million bushels to 205 million bushels.

USDA December Estimates of US All Wheat



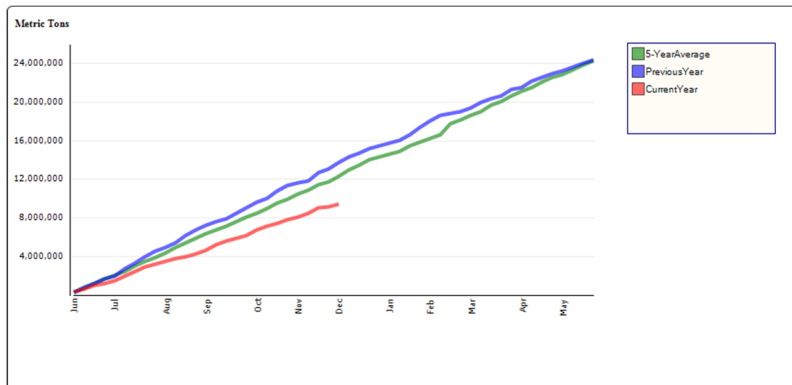
- WASDE report:** The USDA raised Australian production to ABARES levels at 34.0 million mt. Canadian production was similarly raised to 21.7 million mt. Other production changes included a 300k mt increase in the EU and a 1 million mt increase in Russia. Production in “other” countries was reduced by 1.9 million mt (most of the reduction was in the Middle East). World feed use was raised 2 million mt, imports were raised 2.4 million mt (mostly in the Middle East and SE Asia). Chinese importes were reduced by 500k mt to 9.5 million mt which is 100k mt lower than their wheat TRQ amount. The increase in Aussie production cuased their exports to rise 2 million mt, but this number will come against port capacity and quality issues. Russian exports were left unchanged at 36 million mt while most analysts think this is 4-5 million mt too high. EU exports were raised another 500k mt to 37 million mt.
- Overall, world ending stocks were seen 2.4 million mt higher than last month at 278.18 million mt (the trade was expecting 275.7 million mt).**

USDA December Estimates of the Global Wheat Situation



- Weekly US wheat sales were small at 240k mt (8.8million bushels). Total commitments are now 535 million bushels, down 24% from last year compared to the USDA’s projected 15% decrease to 840 million bushels.

Accumulated Net Sales of US Wheat



Source: USDA-FAS

- Soil moisture conditions deteriorated across the US Plains and into Texas and Oklahoma. The US winter wheat area in drought rose 1% over the week to 53%.

Source: USDA

- US HRS for Jan. '22 is valued at \$435.00/ mt FOB PNW (down \$10/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$365.30/mt (down \$15.70/mt from last week).

#### **Australian wheat:**

- The USDA raised Australian wheat production to ABARES' levels at 34.0 million mt.
- The increase in Australian production resulted in exports to also rise 2 million mt, but we expect this number to come up against port capacity and quality issues.
- The primary concerns in Australia are still logistics and quality. So Australian export data will be closely followed during the season.
- Australian new crop FOB APW wheat for Jan.'22 was quoted at \$375.00/mt, up \$10/mt from last week.

#### **Argentine wheat:**

- USDA surprisingly kept the Argentine wheat crop at 20 million mt despite both BAGE and Rosario GE raising their crop to 21 and 22 million mt, respectively.
- Further discussions in Brazil on the GM issue were expected last weekend, with 350k mt of wheat vessels for Brazil already in the Argentine vessel line-up. – We have not heard any fresh news so far.
- Fob values for Jan. 12% protein Argentine wheat are \$316/million mt, unchanged from last week.

#### **EU wheat:**

- USDA raised EU exports again to 37 million mt, leaving ending stocks equal to just 25 days of supply.
- Matif wheat fell sharply for the second straight day on Friday, with March making its lowest intra-day close for the month. The expiry of the December contract will drop the continuation chart below the up-trend that began back in mid-July.
- Fob prices in the EU: Jan.'22 French 11.5 pro closed at \$326.40/mt, down \$15.40/mt from last week. Dec. German 12.5 pro wheat closed at \$332.50, down \$20.50/mt. Dec. Baltic 12.5 pro wheat was at \$339.70/mt, down \$10.50/mt.

#### **Black Sea wheat:**

- USDA raised the Russian wheat crop by 1 million mt to 75.5 million mt but left exports at 36 million mt.
- Black Sea futures followed the US and Matif lower in the deferreds, with losses for the week at \$17/mt for the March contract. However, December is down just \$2/mt, and the Dec-Jan has gone from a \$5 carry to a \$5 inverse in only 4 days.
- The trade still believes that the 2022 quota will cap Russian exports at 31-32 million mt. Farmers in Russia have reportedly increased sales into the domestic market, but it will take some time for the Fob market to be defined.
- Russian Jan. '22 12.5 pro wheat is valued at ~\$340.00/mt, down \$8/mt from last week.

#### ➤ **Significant purchases/ trades:**

- **Korea** bought 60,000 mt of feed wheat at \$337.00/mt, while another cargo traded at \$351.00/mt.
- **Jordan** bought 60,000 mt wheat at \$341.00.
- There were also strong rumours that **Chinese buyers** have been making large purchases of French wheat (and barley along with Ukrainian corn and barley) last week, taking advantage of a pause in surging prices to cover some of their feed grain needs. Total volumes bought are not yet clear, but importers are said to have secured at least several hundred thousand tonnes of grain from France and the Ukraine.
- **USA weekly export** sales were 240,000 mt.

➤ **Wheat Market Outlook:**

**Significant events:**

Domestic events:

- According to Stats Canada, Canada exported 900.1k mt of wheat during October. This is essentially half of the exports done in October 2020.
- October 2021 exports of Canadian durum were 243.8k mt, 48% less than last year's October volume.
- Cash bids for durum in Canada were higher on the week as traders came to the realization that (according to Stats Canada) there was significantly less production in the country than originally expected.

International wheat market:

- Cash trade in wheat was thought to be fairly active with rumours that **China** was busy buying French and Australian feed wheat.
- The **USDA report** was slightly bearish for US wheat. Exports were reduced by 20 million bushels to 840 million bushels. Ending stocks were raised 15 million bushels to 598 million bushels (845 million bushels last year).
- Overall, **world ending stocks** were seen 2.4 million mt higher than last month at 278.18 million mt (the trade was expecting 275.7 million mt).
- The USDA raised **Australian wheat** production to ABARES' levels at 34 million mt, and also increased **exports** by 2 million mt. However, we expect this number to come up against port capacity and quality issues!
- **Matif wheat** fell sharply for the second straight day on Friday, with March making its lowest intra-day close for the month.
- The trade still believes that the 2022 quota will cap **Russian exports** at 31-32 million mt. Farmers in Russia have reportedly increased sales into the domestic market, but it will take some time for the Fob market to be defined.

**Outlook:**

We expect the markets to take on a bearish tone over the holidays. However, we think the market is ignoring the difficult logistics of moving the big Australian crop and the USDA has underestimated the demand.

Returns to wheat in Canada look quite good; we would sell some Canadian cash, but not at any sharp discounts.



### iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '22 (bu.)	Mch. '22 (mt)
1 CWRS 13.5	\$12.62	\$463.71	1 CWRS 13.5	\$12.68	\$465.91
1 CWAD 13.0	\$19.54	\$717.98	1 CWAD 13.0	\$20.00	\$734.88
1 CPSR 11.5	\$11.25	\$413.37	1 CPSR 11.5	\$11.34	\$416.68
<b>SW Sask</b>			<b>SW Sask</b>		
1 CWRS 13.5	\$12.43	\$456.73	1 CWRS 13.5	\$12.51	\$459.67
1 CWAD 13.0	\$19.61	\$720.55	1 CWAD 13.0	\$20.03	\$735.98
1 CPSR 11.5	\$10.94	\$401.98	1 CPSR 11.5	\$11.31	\$415.57
<b>NE Sask</b>			<b>NE Sask</b>		
1 CWRS 13.5	\$12.33	\$453.05	1 CWRS 13.5	\$12.39	\$455.26
1 CWAD 13.0	\$19.71	\$724.22	1 CWAD 13.0	\$20.00	\$734.88
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
<b>SE Sask</b>			<b>SE Sask</b>		
1 CWRS 13.5	\$12.21	\$448.64	1 CWRS 13.5	\$12.27	\$450.85
1 CWAD 13.0	\$19.75	\$725.69	1 CWAD 13.0	\$20.05	\$736.72
1 CPSR 11.5	\$11.18	\$410.80	1 CPSR 11.5	\$11.35	\$417.04

Data source: PDQ, Dec. 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	(0.10)	(3.67)
1 CWRS 12.5	(0.02)	(0.85)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.00	0.00
2 CWAD 13.5	(0.09)	(3.31)
2 CWAD 12.5	(0.11)	(4.04)

Data source: PDQ, Dec. 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* 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)

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<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.

“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.”

- 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.

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

Relevant FOB Prices and Export Basis				13-12-2021
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	\$538.23	\$856.66		
HRS	\$527.90			
HRW 11.5	\$470.13			
SWW 12.0	\$514.75			
1 CWRS 13.5 <sup>3</sup>	\$538.23		\$462.97	\$75.26
2 CWRS 13.0 <sup>3</sup>	\$527.90		\$457.10	\$70.80
3 CWRS <sup>3</sup>	\$470.13		\$449.75	\$20.39
CPS <sup>3</sup>	\$508.17		\$413.74	\$94.44
1 CWAD <sup>4</sup>		\$850.09	\$716.88	\$133.21
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$340.00	January		
French 11.5 (Rouen)	\$326.40	January		
APW 10.5 (W Coast)	\$375.00	January		
Argentina 12.0	\$316.00	January		

<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