

## Wheat Market Outlook and Price Report: January 25, 2021

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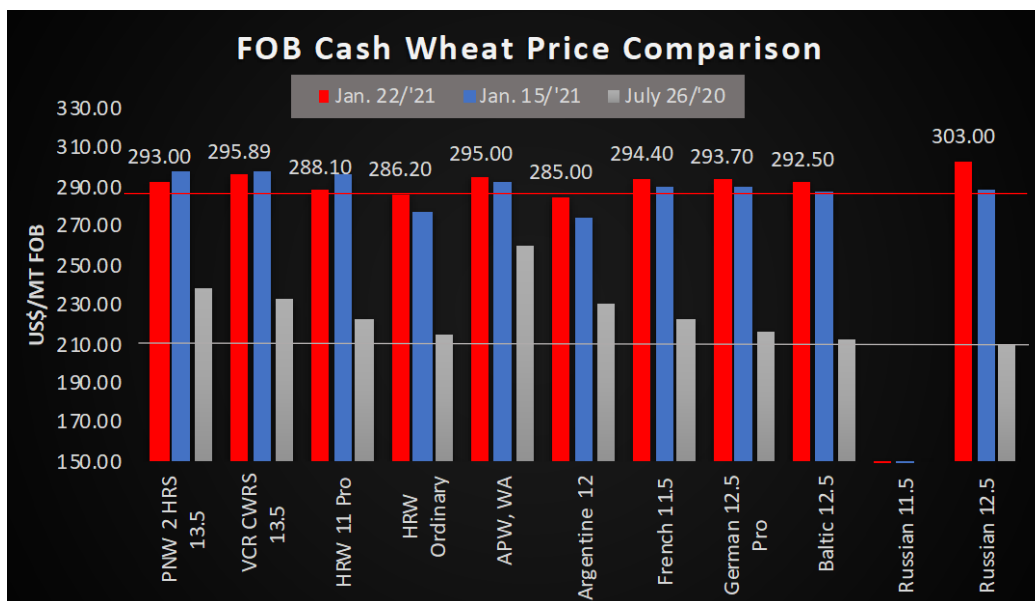
### i) Background and Rationale for the Report

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 January 25, 2021

International FOB Cash Wheat Price Comparison: Jan. 22/'21 vs. Jan. 15/'21 vs. July. 26/'20:



- **Technical selling** and profit-taking pressured all wheat futures prices last week.
- **World wheat futures** fell sharply as the debate about the unresolved export tax issues in Russia continued to dominate markets. Moreover, the talk about a further cap on Russian wheat exports seems to have stopped.
- But given the uncertainty about the export tax and export cap, there were no **Black Sea cash values** beyond January. The market has trouble finding a price level until Russian taxes and farmer marketing become clear. EU and Russian values increased last week, while FOB values for alternative wheat origins dropped.

- Meanwhile, **US/ N American wheat** looks increasingly competitive [see red line above], but until there is a liquid Black Sea cash market for February forward, the extent of any demand switching will be tough to assess.
- The graph illustrates how much higher FOB cash prices are this January compared to last July, and how much more competitive N American wheat is versus EU and Black Sea 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 634-4, down 26-2 cents on Friday, *down 41 c on the week*.
- Mch. '21 contract **Kansas hard red winter wheat** closed at 613-2, up 6-4 cents in Friday's trade, and *down 29-8 on the week*.
- Mch. '21 **Minneapolis hard red spring wheat** closed at 612-4, down 22-6 cents on Friday, and *down 30-8 on the week*.
- Futures market summary: World wheat futures fell sharply due technical selling and as Russia continued to dominate markets with an unresolved tax issue but perhaps the end to talk of a further cap on exports.

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



**KC Mch. '21 Wheat**



**Mpls. Mch. '21 Wheat**



**Canadian Wheat:**

- The **wheat outlook** with respect to actual cash price levels will remain unclear until the Russian export tax situation is resolved on both old and new crop. Only then will we have any idea about what export volumes to expect from Russia. However, the EU also needs to slow its exports, Argentina is rapidly selling out, and Australia and Canada are committed through April. This makes it hard to argue for sustained lower wheat prices going forward.
- At 281,000 mt, **Canadian wheat exports** were smaller last week (wk. 24). However, year-to-date wheat exports remain well ahead of last years with an additional 2.1 million mt (+29%) shipped over last year.
- The biggest increases in exports this year over last year are to China and to Nigeria. [See table next page.]
- Traders will watch the weather in South America, any new developments in Russia (export tax) and whether China will continue to buy aggressively.
- CBOT funds were estimated to be short 10,000 contracts on Friday, and as the N Hemisphere winter moves into spring, focus will shift to the state of winter crops.

(CGC) Grain Handling Summary Wheat				Wk. 24	(Jan. 17/'21)
'000 mt)	Prod. Dlvs.	Terminal		Bulk exports	Dom. Disappearance
		Rcpts.			
<b>Wk. 24</b>	487.6	343.4		281.1	44.2
Week ago	600.1	417.0		448.9	64.9
<b>YTD</b>	<b>10,250.3</b>	<b>11,206.7</b>		<b>9,220.1</b>	<b>2,148.0</b>
Last YTD	9,701.8	8,796.7		7,131.4	1,926.6
<b>YTD less Last YTD</b>	<b>548.5</b>	<b>2,410.0</b>		<b>2,088.7</b>	<b>221.4</b>
<b>YTD over Last YTD</b>	<b>106%</b>	<b>127%</b>		<b>129%</b>	<b>111%</b>

Mercantile based on weekly CGC Handling Data

- Some traders have put their bids on hold, but 1 CWRS 13.5 should still be worth \$7.75-8.00/bu (+) delivered Sask.

Wheat		2020 - 2021 Crop Year to Date	2019 - 2020 Crop Year to Date	
Western Europe	Belgium	-	13.3	
	Italy	71.1	71.7	
	Portugal	19.0	-	
	Spain	13.6	-	
	United Kingdom	213.0	165.1	
Africa	Burundi	-	2.2	
	Cameroon	42.0	51.5	
	Gabon	2.5	-	
	Ghana	160.4	111.6	
	Ivory Coast	5.5	10.3	
	Kenya	43.5	75.3	
	Malawi	-	10.1	
	Morocco	-	23.1	
	Mozambique	174.2	64.5	
	Namibia	8.0	8.8	
	Nigeria	545.7	340.5	
	Rwanda	-	5.5	
	Senegal	12.5	38.6	
	South Africa	44.2	36.6	
	Sudan	59.0	-	
	Tanzania	42.4	23.7	
	Togo	15.0	40.5	
Uganda	-	1.7		
Asia	Bangladesh	534.8	588.9	
	Burma	-	11.9	
	China P.R.	1,240.9	268.9	
	India	-	24.1	
	Indonesia	967.4	900.6	
	Japan	776.8	730.7	
	Kuwait	12.1	20.6	
	Malaysia	37.2	83.7	
	South Korea	83.8	62.4	
	Sri Lanka	170.3	150.1	
	Thailand	52.7	61.9	
	UAE	69.5	92.9	
	Oceania	Australia	62.4	284.8
		Brazil	65.0	34.5
Western Hemisphere	Chile	201.4	105.0	
	Colombia	564.3	469.8	
	Costa Rica	46.3	107.6	
	Cuba	-	67.5	
	Dominican Republic	172.5	161.1	
	Ecuador	214.9	207.8	
	El Salvador	16.8	-	
	Guatemala	62.9	-	
	Haiti	20.5	-	
	Mexico	426.8	333.0	
	Nicaragua	5.0	-	
	Peru	767.5	411.8	
	Puerto Rico	47.5	30.6	
	United States	190.7	233.7	
Venezuela	89.7	44.1		
<b>Total - All Countries</b>		<b>8,371.2</b>	<b>6,582.4</b>	

Amber Durum Exports		2020 - 2021 Crop Year to Date	2019 - 2020 Crop Year to Date
Western Europe	Belgium	131.6	46.3
	France	12.3	-
	Italy	852.9	438.6
	Portugal	18.1	-
	Spain	-	48.5
E Europe	Latvia	19.4	-
	Algeria	120.3	61.6
Africa	Cameroon	3.2	-
	Egypt	3.0	-
	Libya	22.8	-
	Mauritania	14.0	-
	Morocco	573.8	344.5
	Nigeria	70.0	33.7
	Togo	-	3.0
	Tunisia	154.6	-
Asia	Indonesia	7.7	15.4
	Japan	56.6	58.6
	Kuwait	-	12.0
	Turkey	95.2	705.2
	United Arab Emirates	55.5	46.1
Western Hemisphere	Chile	-	1.4
	Colombia	3.3	-
	Costa Rica	9.7	14.9
	Cuba	-	4.0
	Ecuador	1.7	1.8
	Guatemala	4.2	4.0
	Haiti	30.7	46.0
	Mexico	-	5.0
	Peru	89.8	36.5
	United States	62.2	87.8
Venezuela	38.3	21.2	
<b>Total - All Countries</b>		<b>2,450.7</b>	<b>2,035.9</b>

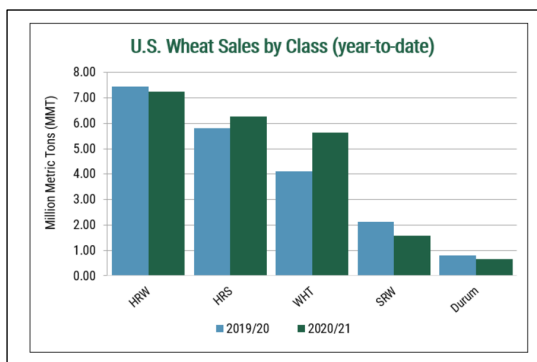
- Durum exports** for week 24 were 39,000 mt, for a year-to-date total of 2.6 million mt, compared to 2.3 million mt last year-to-date. This is 11% ahead of last year's pace.
- The biggest export gains in this year's durum sales over last years were to Italy, Morocco, Algeria, and to Belgium. We lost significant volume to Turkey.
- Tunisia** tendered last Friday for 92,000 mt each soft wheat and durum wheat; we have not yet seen the tender results.
- We note that **Morocco** extended the suspension of import duties on common wheat and products until May 31, 2021 to keep the cost of imports at a competitive level and to build stocks.
- We would target \$9.00/bu. for additional durum sales.

(CGC) Grain Handling Summary Durum Wk. 24 (Jan. 17/'21)				
'000 mt)	Prod. Dlvs.	Terminal		Dom.
		Rcpts.	Bulk exports	Disappearance
<b>Wk. 24</b>	124.9	125.2	38.6	6.3
<b>Week ago</b>	146.8	99.7	49.3	12.5
<b>YTD</b>	2,972.5	3,542.7	2,553.9	250.5
<b>Last YTD</b>	2,236.0	2,995.5	2,304.8	198.8
<b>YTD less Last YTD</b>	736.5	547.2	249.1	51.7
<b>YTD over Last YTD</b>	133%	118%	111%	126%

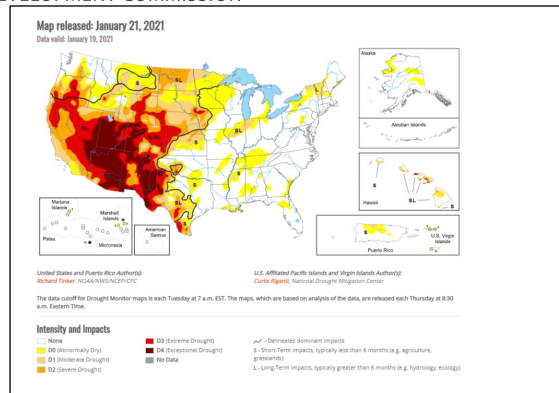
Mercantile based on weekly CGC Handling Data

## US Wheat:

- Weekly **US wheat export sales** at 330,000 mt were at the low end of expectations (300-600,000 mt). They were up 49% from the previous week, but down 7% from the prior 4-week average. Increases primarily for Indonesia (106,000 mt), Japan (77,000 mt), unknown destinations (76,000 mt), and China (65,000 mt).
- US/ N American wheat looks increasingly competitive on paper, but until there is a liquid Black Sea cash market for February forward, the extent of any demand switching will be tough to assess.
- Dry conditions are building across the Plains and KC looks like it could continue to gain on Chicago.*



- US HRS for January '21 is valued at \$293/mt FOB PNW (down \$5.00/mt), PNW White wheat is valued at \$285/mt FOB PNW (unchanged), FOB Gulf HRW 11/12.5 pro is valued at \$288.73/mt (down \$7.63/mt from last week).



## Australian wheat:

- Australian FOB wheat is nominally unchanged, but the market will be watching for any Australian offers at the TMO tender.
- Australian new crop FOB APW wheat values for April (first available position) closed at \$295/mt, up \$2/mt from the previous week. *There were no offers for Jan., Feb., or March '21.*

## Argentine wheat:

- Argentine FOB wheat prices were virtually unchanged on the sell side, but finding the bids was tough.
- There is still speculation that Argentine (or other S American) wheat did fill some of the Algerian tender, and adding to the confusion are the official FOB prices (which are used to calculate the export tax): \$258 for Jan., \$253 Feb. and \$245 for March
  - these prices are substantially way below nominal market prices. This is the opposite of recent Gvmt. policy (artificially high official prices generate increased tax revenue).
- 'Nominal values' for FOB 12% pro Argentine wheat are at \$275-285/mt for Feb. delivery.

## EU wheat:

- Matif wheat closed lower (-€8.25/mt) following the Algerian and Russian rumours. However, we struggle with the EU wheat balance sheet: The USDA EU wheat export number of 26.5 million mt leaves end stocks historically tight. At the same time, but the EU is still shipping at an annualised 32.5 million mt. – The EU needs to lose, not buy demand. - Unless the crop and/or domestic demand estimates are incorrect.
- Feb. FOB prices in the EU:* French 11.5 pro closed at \$289.53/mt, up \$4.89/mt from last week. German 12.5 pro was up by \$4.36/mt to \$293.73/mt. Baltic 12.5 pro increased by \$5.51/mt on the week to \$285.83/mt.

## Black Sea wheat:

- There were rumours that Russia was reverting to the original idea of a floating rate tax on old crop which would bring world prices down according to the analysts (we are not so certain about this.)
- There was no further talk of eventual volume restrictions on Russian exports.
- There were no Black Sea cash values beyond January and the market cannot find a level until Russian taxes and farmer marketing becomes clear.
- The FOB offer for Jan Russian 12.5 pro wheat (in theory a position with no export tax) closed at \$302/mt, up \$12/mt. FOB values beyond January are not defined.

## ➤ Significant purchases/ trades:

- The **Philippines** tendered Wednesday for 100,000 mt feed wheat for Apr-May, but they passed against the cheapest offer at \$300/mt (around \$10-15 above corn).
- Algeria** tendered Wednesday and while the EU sold 390,000 mt of discounted wheat to Algeria, it was also rumoured that Argentina did a share of the Algerian sale.
- Tunisia** tendered Friday for 92,000t each soft wheat and durum wheat.
- Turkey** (TMO) tendered for 400,000 mt of wheat on Thursday. But when TMO saw the market slump on Friday, they ended up buying just 95,000t of their 400,000t tender, which will leave an overhang of cash longs in the market on Monday.

- There were reports of 138,000 mt of HRW sales to **Nigeria** and offers to **Egypt** at \$319/mt.
- Weekly **US wheat export sales** at 330,000 mt were at the low end of expectations (300-600,000 mt).

➤ **Wheat Market Outlook:**

**Significant events:**

- **World wheat futures** fell sharply as Russia continued to dominate markets with an unresolved tax issue but perhaps the end to talk of a further cap on exports.
  - The rumour mills last week had Russia reverting to a floating rate tax for old crop, but more recent reports are suggesting a status quo of €25/mt export tax from Feb 15, €50/mt from March 1, and a "non-zero" floating rate for new crop.
  - The possibility of a smaller export cap also seems to have been dropped, and this is contributing to the weakness.
- When Turkey (TMO) saw the market slump on Friday, they bought just 95,000 mt of their 400,000 mt tender, which leaves an overhang of **cash longs** in the market on Monday.
- There were **no Black Sea cash values** beyond January and the market cannot find a definitive price level until Russian taxes and farmer marketing becomes clear.
- We struggle with the **EU wheat balance sheet**: The USDA EU wheat export number of 26.5 million mt leaves end stocks historically tight. At the same time, but the EU is still shipping at an annualised 32.5 million mt. – The EU needs to lose, not buy demand. - Unless the crop and/or domestic demand estimates are incorrect.
- *Traders will watch the weather in South America, any new developments in Russia (export tax) and whether China will continue to buy aggressively.*
- N American wheat is much *more competitive* versus EU and Black Sea wheat than it was last summer.
- Much of the **Great Plains remain abnormally to exceptionally dry**. Extreme dryness continues to plague winter wheat producers in western Nebraska, eastern Colorado and western Kansas. Looking ahead, dry conditions are expected to persist from the Southern to Northern Plains.

➤ **Outlook:**

Getting more clarity on the Russian export tax issue would be a major help for the market, but it would still not answer the two central questions: How does the Russian farmer react, and will domestic prices come down?

Meanwhile, the EU sold 390,000 mt of discounted wheat to Algeria, US export sales were at the low end of expectations and while Russian farmers did not rush to sell wheat, French farmers did sell into the midweek contract highs

*Traders will watch the weather in South America, any new developments in Russia (export tax) and whether China will continue to buy aggressively.*

*CBOT funds were estimated to be short 10,000 contracts on Friday, and as the N Hemisphere winter moves into spring, focus will shift to the state of winter crops.*

*Some traders have put their bids on hold, but basis market values, 1 CWRS 13.5 should still be worth \$7.75-8.00/bu (+) delivered Sask. elevator.*

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

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

Date: 25-01-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		May '21 (bu.)	May '21 (mt)
1 CWRS 13.5	\$7.20	\$264.56	1 CWRS 13.5	7.44	\$273.38
1 CWAD 13.0	\$8.24	\$302.77	1 CWAD 13.0	8.29	\$304.61
1 CPSR 11.5	\$6.79	\$249.49	1 CPSR 11.5	7.04	\$258.68
SW Sask			SW Sask		
1 CWRS 13.5	\$7.08	\$260.15	1 CWRS 13.5	7.28	\$267.50
1 CWAD 13.0	\$8.28	\$304.24	1 CWAD 13.0	8.3	\$304.98
1 CPSR 11.5	\$6.72	\$246.92	1 CPSR 11.5	6.99	\$256.84
NE Sask			NE Sask		
1 CWRS 13.5	\$6.96	\$255.74	1 CWRS 13.5	7.17	\$263.45
1 CWAD 13.0	\$8.35	\$306.81	1 CWAD 13.0	8.54	\$313.79
1 CPSR 11.5	\$6.55	\$240.67	1 CPSR 11.5	6.78	\$249.12
SE Sask			SE Sask		
1 CWRS 13.5	\$6.84	\$251.33	1 CWRS 13.5	7.09	\$260.51
1 CWAD 13.0	\$8.35	\$306.81	1 CWAD 13.0	8.47	\$311.22
1 CPSR 11.5	\$6.51	\$239.20	1 CPSR 11.5	6.72	\$246.92

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 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/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.

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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.”

- 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			25-01-2021	
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	\$350.81	\$382.15		
HRS	\$343.80			
HRW 11.5	\$361.10			
SWW 12.0	\$343.33			
1 CWRS 13.5 <sup>3</sup>	\$350.81		\$269.70	\$81.11
2 CWRS 13.0 <sup>3</sup>	\$343.80		\$258.68	\$85.12
3 CWRS <sup>3</sup>	\$361.10		\$253.17	\$107.94
CPS <sup>3</sup>	\$336.78		\$253.17	\$83.61
1 CWAD <sup>4</sup>		\$375.60	\$293.95	\$81.65
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$302.00	February		
French 11.5 (Rouen)	\$289.53	February		
ASW 10.5 (W Coast)	\$291.00	April		
Argentine 12.0	\$280.00	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



## ADDENDUM

### Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities				25-01-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$9.18	\$9.65	\$7.20	\$7.20
Parity Track Rosetown	\$7.68	\$8.15	\$7.67	\$7.67
Track Bid Rosetown Area	\$7.04	\$6.89	\$6.89	\$6.89
Gross Margin at Elevator (\$/bu)*	\$0.64	\$1.26	\$0.78	\$0.78
Gross Margin at Elevator (\$/mt)*	\$23.58	\$46.40	\$28.63	\$28.63

\* to cover elevation, elevator market risk, margin