

Wheat Market Outlook and Price Report: July 26, 2021

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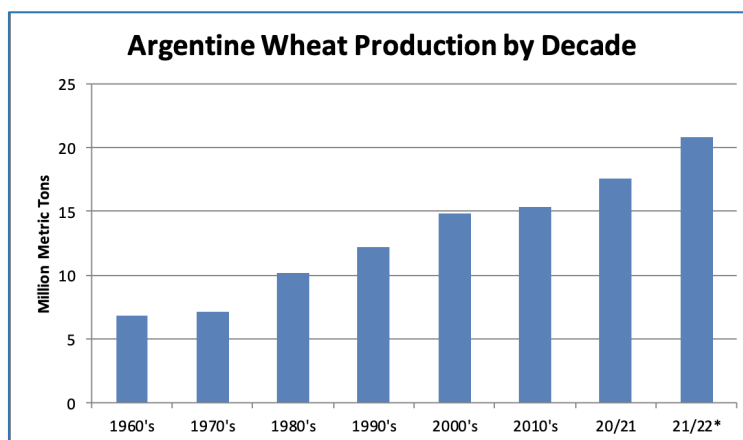
i) Background and Rationale for the Report

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 July 26, 2021

Argentine wheat production outlook 2021/22 (USDA data):



USDA-FAS, Buenos Aires
*Ag Attaché post projection

- The USDA Ag Attaché to Argentina expects Argentine '21/22 wheat production to hit a record high of 20.8 million mt, 300,000 mt higher than the official USDA projection.
- With an expected large production and stable domestic consumption, wheat exports in 2021/22 are forecast at a record 14 million mt. This volume is 500,000 mt higher than USDA's official number. Exports in the first 4-5 months of the new marketing year most likely will be directed primarily to Southeast Asia and African countries. Monthly exports to Brazil are relatively stable throughout the year, with a projected total volume of 5.8-6.0 million mt in 2021/22.
- Wheat exports in 2020/21 are forecast up at 10.7 million mt, 200,000 mt higher than USDA's official estimate.

➤ **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:

- Last Friday, Sept. '21 contract **Chicago winter wheat** closed at 684-0, down 8 cents on Friday, down 8 cents on the week.
- Sept '21 contract **Kansas hard red winter wheat** closed at 646-0, down 8 cents in Friday's trade, down 5 cents on the week.
- Sept. '21 **Minneapolis hard red spring wheat** closed at 883-4, down 20-4 cents on Friday, down 34 cents on the week.
- US Sept contract wheat futures lost 5 to 34 cents last week. The decline was a combination of profit taking after a huge rally the previous week and *increasing harvest pressure* in Europe and the US.

CBOT Sept. 2021 Wheat (1 yr.)



KC Sept. '21 Wheat

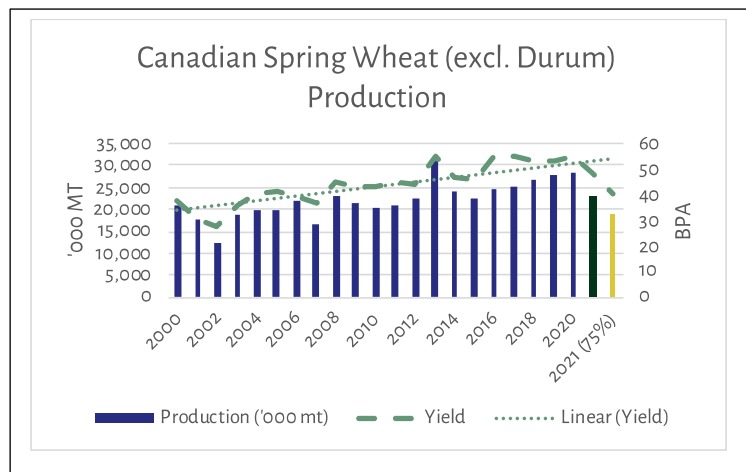
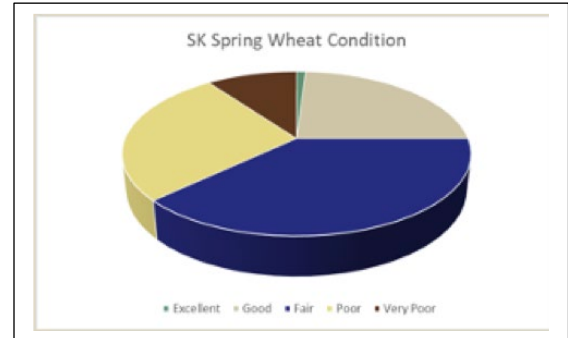


Mpls. Sept. '21 Wheat

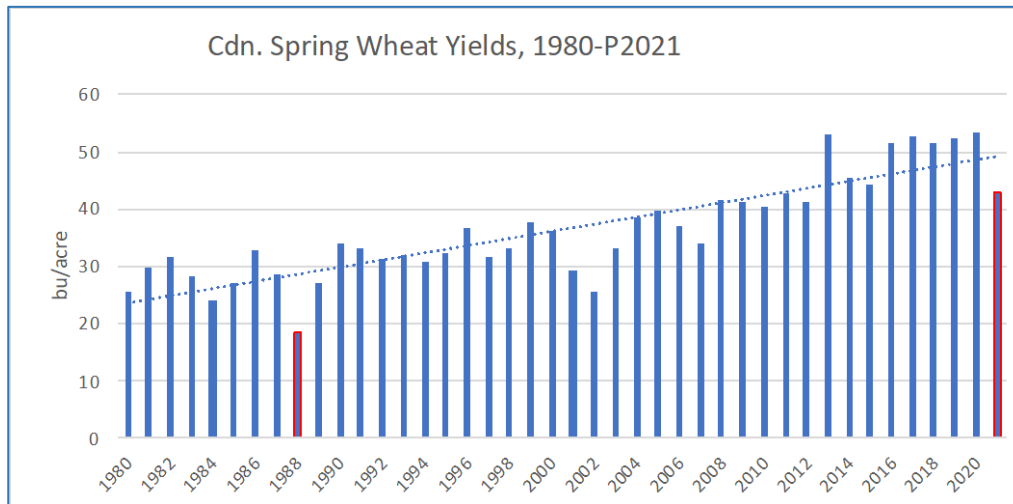


Canadian Wheat:

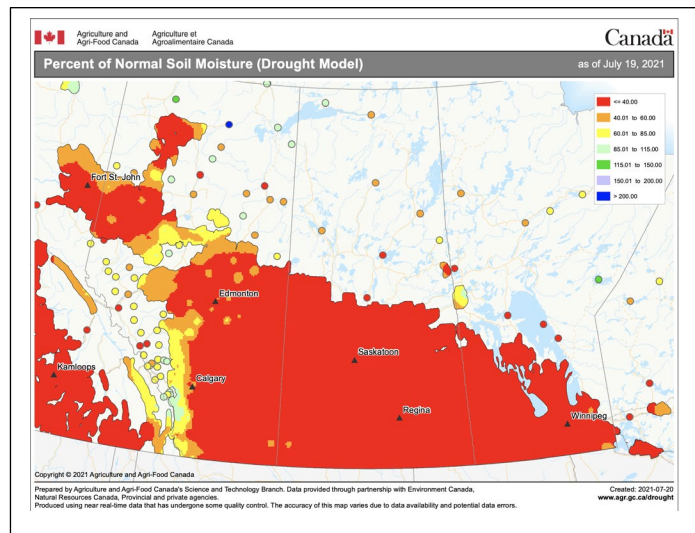
- Sept. '21 Minneapolis hard red spring wheat closed at 883-4, down 20-4 cents on Friday, down 34 cents on the week.
- The SK and AB Ag ministries are only reporting **crop conditions** on a bi-weekly basis. There was some rain in parts of AB and SK, but cereals are largely done, and we do not think it will do much to raise the overall condition of the crop. The SK crop was last reported as 25% Gd/Ex and 37% poor or very poor. The AB spring wheat crop was last reported at 39% Gd/Ex.
- Where the price for quality wheat goes from here will largely depend on the Canadian spring wheat crop. Should average Canadian yields fall 10% below average to 48.7 bu/ac, Canada would produce 22.8 million mt of wheat (using AAFC's acreage estimates). If average yields fall 25% below average to 40.6 bu/ac, Canada would produce 19.0 million mt of wheat. Both numbers create increasingly tight balance sheets, and there will be little help from the US spring wheat as they are expected to have a 42% smaller crop this year.



- The worst year for wheat on the Prairies we remember was in 1988, when spring wheat yields fell to a shocking 18.4 bu/acre:

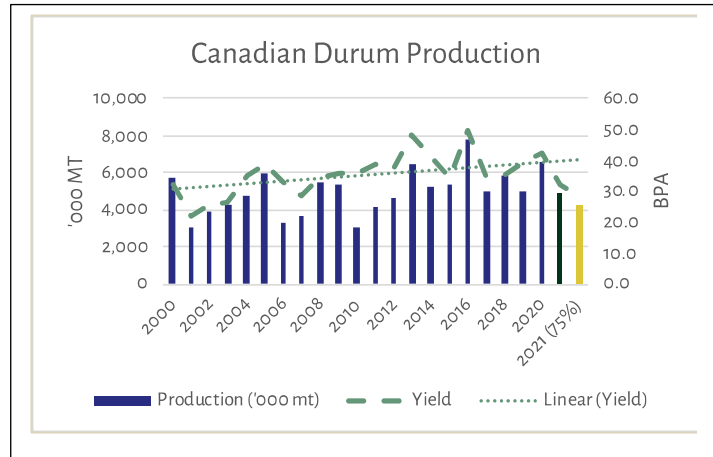


- Conditions in the US** fell another 5% from last week. Now, just 11% of the crop is in Gd/Ex condition. Sixty-three percent of the crop is in poor or very poor condition. Five percent of the US spring wheat crop is mature, and we expect harvest will begin any day now.
- Canadian wheat exports** for week 50 were 262.9,000 mt for a season total of 19.09 million mt. This is 10% (1.79 million mt) more than last year year-to-date.
- Fundamentally, the spring wheat outlook remains strong. There is not going to be a lot of quality wheat produced. Wheat will come under pressure as harvest continues to ramp up in Europe and the US, but once this is past, we expect to see strong prices return.*



(CCG) Grain Handling Summary Wheat	Wk. 50	(July 18/'21)		
	Prod. Dlvs.	Terminal Rpts.	Bulk exports	Dom. Disappearance
(⁰⁰⁰ mt)				
Wk. 50	322.2	341.0	262.9	60.3
Week ago	374.4	208.9	166.9	84.6
YTD	21,443.3	22,254.9	19,091.7	3,910.6
Last YTD	21,460.8	19,815.1	17,304.7	3,778.1
YTD less Last YTD	-17.5	2,439.8	1,787.0	132.5
YTD over Last YTD	100%	112%	110%	104%

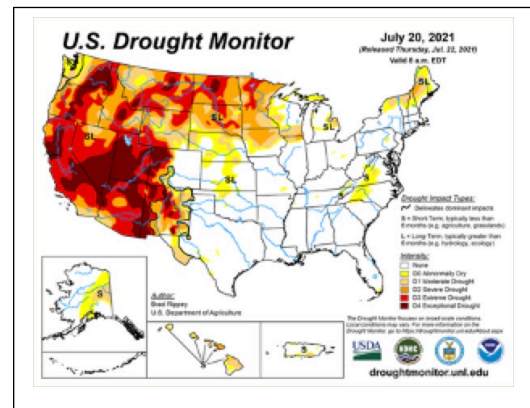
- **Durum:** There was no update on Canadian durum conditions this week. Last week, 12% of the SK crop was in 'good' condition (none was considered 'excellent'). Fifty-eight percent of the SK crop was in poor or very poor condition. The last AB crop report had their durum crop at 33% Gd/Ex.
- A conservative 20% decline in average Canadian yield to 32.3 bushels-per-acre would cause durum production to be 4.9 million mt. A 30% decline in average yield to 28.2 bushels-per-acre would cause production to fall to 4.2 million mt. AAFC's export number for 2021/'22 is 4.8 million mt and will not be possible. USDA expects USA will need to import 1.6 million mt. There will have to be demand rationing.
- USDA put **US durum production** down to 37.2 million bu (1.0 million mt), down 46% from last year. Most of the decline in production is from ND and MT where yields are expected to fall from 39 bushels-per-acre last year to 22 bushels-per-acre this year. Average yields are expected to fall 15.6 bushels-per-acre from last year to 25.8 bushels-per-acre.
- **Canadian Durum exports** for week 49 were 154,500 mt for a season total of 5.77 million mt, 19% (921,000 mt) more than last year. Durum exports will be down next year from low supply.
- Conditions in the US continue to deteriorate under extremely hot and dry conditions. One third of N Dakota's durum crop is in Gd/Ex condition, down 12 points from last week. The Montana crop lost 14 points from last week and is now just 16% GD/Ex.
- Canadian durum exports for week 50 were 169,100 mt for a season total of 5.94 million mt, 19% (960,000 mt) more than last year.
- *Demand rationing will be necessary as the potential sizes of the Canadian and US crops gets smaller and smaller. Note that \$15/bu was paid last week for new crop #3 CWAD for Sept. This is a strong value. This could be a good place to increase sales given you are sure of your crop. Otherwise, we would be content to hold for now.*



(CCC) Grain Handling Summary Durum	Wk. 50	(July 18/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 50	108.5	107.8	169.1	4.6
Week ago	120.9	110.8	154.5	9.9
YTD	6,016.2	7,069.8	5,943.1	521.3
Last YTD	5,041.2	6,150.8	4,983.5	447.2
YTD less Last YTD	975.0	919.0	959.6	74.1
YTD over Last YTD	119%	115%	119%	117%

US Wheat:

- **Weather:** Hot and dry conditions continued to scorch parts of the PNW and N States. Soil moisture conditions in Washington state are 98% short or very short while soil moisture in Minnesota is 78% short or very short. Moisture conditions in the winter wheat belt are adequate ahead of fall planting.
- **Basis levels** in the PNW were stronger as the spring wheat crop continues to be poor, and farmers are busy with harvest and are not selling. In the Gulf, basis levels were lower as winter wheat harvest continues to show strong yields.
- As of July 19th, 73% of the **US winter wheat** crop had been harvested. HRW samples showed a decrease in test weight and falling number to 60.9 lb/bu and 275 seconds respectively (last year was 61.7 lb/bu and 367 seconds respectively). Average protein levels were unchanged from last week at 11.4% (11.9% last year).
- US **spring wheat** ratings fell 5% to just 11% good to excellent (68% last year and only 1% off the record low of 1988).
- **US commercial sales** for the week were 473,200 mt for a season total of 7.5 million mt, 12% less than last year – exactly in-line with USDA’s current projected decline.
- *The steam may be out of wheat futures for now as harvest pressure continues to ramp up in Europe and the US. But there are several issues in the Black Sea and the EU as production estimates continue to be revised lower and quality is a concern in many areas. We continue to be optimistic about the wheat market, but for now, it will follow corn. Traders expect a strong corn crop but are watching weather and crop conditions closely.*
- US HRS for Aug. '21 is valued at \$395.00/ mt FOB PNW (up \$15/mt on the week), FOB Gulf HRW 11/12.5 pro is valued at \$298.80/mt (up \$18/mt from last week).



Australian wheat:

- Australia maintains rain across all the major crop areas.
- The Australian wheat crop looks quite promising.
- *Quality issues in the EU and Russia along with a small North American will make Asian mills heavily dependent on the Australian crop.*
- Australian new crop FOB APW wheat for Aug. was quoted at \$290.00/mt, up \$7.00/mt from last week.

Argentine wheat:

- According to BAGE, Argentina’s wheat crop is deteriorating in northern and central regions due to ongoing dryness, although BAGE kept their crop estimate unchanged at 19 million mt.
- Plantings are 98% complete (94% last year), and GD/EX ratings dipped 2% on the week to 57% but this remains well above last year’s 22%.
- FOB values for August 12% protein Argentine wheat ranged from \$280-285/million mt, mostly unchanged from last week.

EU wheat:

- Led by the losses in the US markets, Matif wheat in Europe closed down €4/mt at 1-week lows.
- Harvest data remains o.k., but not stellar, logistics to the ports continue to pose problems, but this is still a market that lacks activity with farmers not selling and consumer demand lacking. It is unclear if the lack of buying is due to high prices of goods and freight, or due to simple delaying of decisions to the very last moment.

- FOB prices in the EU: Aug. French 11.5 pro closed at \$254.40/mt (new crop), up \$0.90/mt from last week. N/C Aug. German 12.5 pro wheat closed at \$255.80, up \$2.40/mt. August Baltic 12.5 pro wheat (N/C) was at \$249.90/mt, up \$2.40/mt.

Black Sea wheat:

- Black Sea Futures closed lower but the carries remain extremely wide, the bid-offer spread on 12.5 pro was put at \$245-250/mt.
- Debate over the size of the Russian crop continues, but estimates are all moving lower. The USDA is using 85 million mt, other estimates are as low as 75 million mt. We think it is closer to 80 million mt.
- Kazakhstan is banning exports of feed wheat and barley and all exports of rye for 6 months (this is subject to change). Severe drought has caused a shortage of animal feed. Last week USDA lowered Kazakh spring crop production by 1 million mt to 13 million mt.
- Russian 12.5 pro wheat for Aug. is quoted at ~\$252.00/mt, up \$12/mt from last week.

Significant purchases/ trades:

Trade reports were thin last week.

- Algeria bought 30,000 mt of milling wheat in a tender at ~US\$288/mt C&F.
- US weekly export sales of 473,000 mt took the season total to 279 million bu, down 14% on last year against the USDA's projected 12% decline.

➤ Wheat Market Outlook:

Significant events:

- **Spring wheat and durum crops** across the Northern Plains in the USA and Canadian Prairies continue to face extreme heat with little/no rain. Yields continue to be revised down, and prices for spring wheat and durum have been rising in N America. Demand rationing will be necessary as the potential sizes of the Canadian and US crops gets smaller and smaller.
- US **spring wheat** ratings fell 5% to just 11% good to excellent (68% last year and only 1% off the record low of 1988).
- Production of **Argentine** and **Australian** wheat looks to be up from last year. The Australian wheat crop looks quite promising.
- In **Europe**, Harvest data remains o.k., but not stellar, logistics to the ports continue to pose problems, but this is still a market that lacks activity with farmers not selling and consumer demand lacking. It is unclear if the lack of buying is due to high prices of goods and freight, or due to simple delaying of decisions to the very last moment.
- We note that **Kazakhstan** is banning exports of feed wheat and barley and all exports of rye for 6 months. Severe drought has caused a shortage of animal feed.

➤ Outlook:

For the present, buyers have control as prices move lower, harvest pressure to sell mounts, and there are some news forecasts calling for more rain in the USA. However longer term, we think the demand is there and expect that the wheat market is close to its lows. We think Kansas City is reflecting a price which makes hard red wheat competitive for feed and milling versus corn futures and this is the futures we would look to buy as a spec.

With hot dry weather on the horizon see no reason to sell additional grain.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 26-07-2021					
NW Sask	Spot		NW Sask	Deferred	
	{bu.}	{mt}		Nov. '21 {bu.}	Nov. '21 {mt}
1 CWRS 13.5	\$10.13	\$372.22	1 CWRS 13.5	\$9.91	\$364.13
1 CWAD 13.0	\$11.83	\$434.68	1 CWAD 13.0	\$11.83	\$434.68
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$10.03	\$368.54	1 CWRS 13.5	\$9.86	\$362.30
1 CWAD 13.0	\$11.93	\$438.36	1 CWAD 13.0	\$11.98	\$440.19
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
NE Sask			NE Sask		
1 CWRS 13.5	\$9.88	\$363.03	1 CWRS 13.5	\$9.63	\$353.84
1 CWAD 13.0	\$12.37	\$454.52	1 CWAD 13.0	\$12.39	n/a
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$9.84	\$361.56	1 CWRS 13.5	\$9.64	\$354.21
1 CWAD 13.0	\$12.34	\$453.42	1 CWAD 13.0	\$12.52	\$460.03
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION 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	(0.35)	-12.86
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/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
 - 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 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				26-07-2021
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	\$458.26	\$651.89		
HRS	\$451.35			
HRW 11.5	\$356.38			
SWW 12.0	\$419.08			
1 CWRS 13.5 ³	\$458.26		\$367.44	\$90.82
2 CWRS 13.0 ³	\$451.35		\$244.35	\$207.00
3 CWRS ³	\$356.38		\$351.27	\$5.10
CPS ³	\$412.62		\$285.50	\$127.12
1 CWAD ⁴		\$645.44	\$469.59	\$175.85
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$252.00	August		
French 11.5 (Rouen)	\$254.50	August		
ASW 10.5 (W Coast)	\$285.00	August		
Argentina 12.0	\$280.00	August		

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				26-07-2021
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$12.11	\$9.52	\$8.95	\$8.95
Parity Track Rosetown	\$10.61	\$8.03	\$9.73	\$9.73
Track Bid Rosetown Area	\$6.65	\$9.56	\$7.77	\$7.77
Gross Margin at Elevator (\$/bu)*	\$3.96	-\$1.53	\$1.96	\$1.96
Gross Margin at Elevator (\$/mt)*	\$145.56	-\$56.34	\$72.14	\$72.14
* to cover elevation, elevator market risk, margin				