

Wheat Market Outlook and Price Report: March 29, 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 March 29, 2021

International Grains Council on Global Wheat:

	18/19	19/20 est.	20/21 f'cast	21/22 proj.	
million tons			25.02	25.03	
WHEAT					
Production	732	762	773	774	790
Trade	168	184	188	190	184
Consumption	740	743	756	760	778
Carryover stocks	260	278	294	292	304
year/year change	-8	19		14	12
Major exporters ^{b)}	69	64	64	63	64

- The IGC forecast last week that the 2021/22 **global wheat production** would rise to 790 million mt, up 16 million mt from the prior season's 774 million with larger crops expected in several countries, including exporters France (37.3 million versus 30.4 million tonnes) and Argentina (20.3 million versus 17.2 million).
- An expected drop in wheat production in Russia - to 76.9 million tonnes versus 85.4 million - limited the increase in global output.
- The IGC estimated '21/22 **global wheat trade** at 184 million mt, down from 190 million mt this crop year.
- 2021/22 **ending stocks** are forecast by IGC to increase by 12 million mt from this year to 304 million mt.

➤ **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** - May '21 contract Chicago winter wheat closed at 613-2, up 0-6 cents on Friday, *down 13-8 cents on the week. This was the lowest close since mid-December.* May '21 contract Kansas hard red winter wheat closed at 568-2, up 1-4 cents in Friday's trade, *down 17-2 cents on the week.* May '21 Minneapolis hard red spring wheat closed at 614, down 3-4 cents on Friday, and *down 13 cents on the week*
- **Futures market summary:** It has been a sharp and brutal reversal since the contract highs in late February, with futures shedding around \$1/bu in just 4 weeks. Improved Plains moisture has clearly been a factor, as has the recent weakness in corn and soybeans ahead of next week's report.

CBOT May 2021 Wheat (1 yr.)



KC May '21 Wheat



Mpls. May '21 Wheat

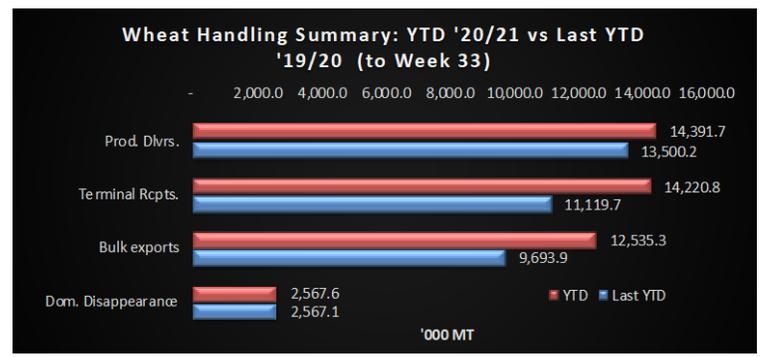


Canadian Grain Exports (CGC numbers)		Wk. 33				
('000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains	
Crop Year To date	7,681	16,402	1,955	667	34,974.0	
Year Ago	6,114	12,839	1,611	625	26,360.0	
Change this Cr. Yr. in MT	1,567	3,563	344	42	8,614	
Change this Cr. Yr. in Percent	126%	128%	121%	107%	133%	

Canadian Wheat:

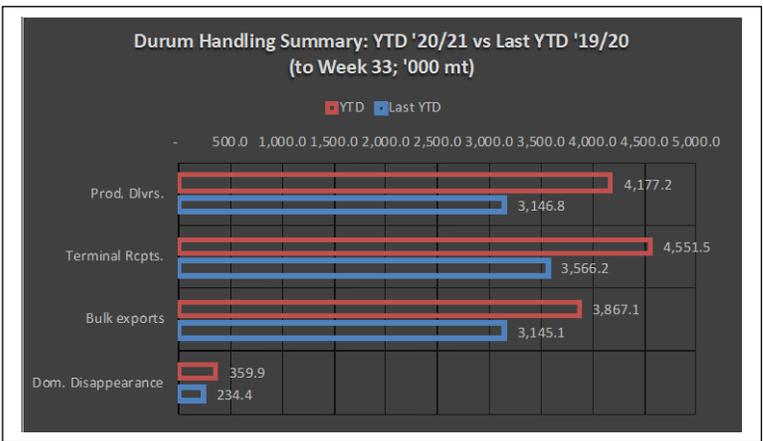
- As mentioned above, it has been a sharp reversal since the contract highs in late February, with futures shedding around \$1/bu in only 4 weeks. Improved moisture on the Plains has clearly been a factor, as has the recent weakness in the corn & soybeans ahead of Wednesday's USDA report. *But it is the weakness in cash wheat markets and the apparent disappearance of demand despite a sharp drop in Black Sea wheat availability which has been the main driver.* And while N American wheat values are competitive on a FOB basis, freights spreads have eliminated any major chance of any incremental old crop export demand.

- **Canadian wheat exports** in week 33 were quite good at 417,000 mt. The season total is 12.5 million mt, a full 2.8 million mt (+29%) higher than last year to date. However, these shipments are executions of earlier sales, and it remains to be seen if Canadian exporters can keep making export sales when demand is thinning.



- **Combined wheat and Durum exports exceed last years by 3.6 million mt!**

- Prices in the country are down a bit but have so far been holding up well given the developments in futures and international cash markets. 2 CWRS 13.5 fetch ~7.80-8.00/bu for Apr./May; and feed wheat ~\$7.50/bu, depending on location. *We hope you made sure to sell most of your old crop grains.*



- **Durum exports** for week 33 at 145,000 mt were quite good. We are showing a year-to-date total of 3.9 million mt, 23% higher than last year-to-date.

- Old crop durum in Saskatchewan is trading at \$8.60-9.10/bu delivered. We would be sold min. 70% of the crop at that. New crop durum is still bid at \$8.25-\$8.50/bu FOB farm Saskatchewan.

- **We think that wheat needs to be sold. The USDA planting report may rally the markets. The target is to carry out the minimum of current crop wheat stocks.**

US Wheat:

- Last week US wheat easily confirmed the break of the resistance at \$6.26 and fell to the new one at 6.08. Cash trade was very slow and various origins were offered lower looking for bids. Lack of demand remains the old crop problem, and the Suez Canal blockage is not helping.
- *The USDA report is not expected to bring any major surprises for wheat.*
- This week's U.S. commercial wheat sales of 344,000 mt were down 12% from last week's 390,000 mt, but within trade expectations of 150,000 to 500,000 mt.
- US HRS for April '21 is valued at \$282/mt FOB PNW (down \$6.00/mt from last week), PNW White wheat is valued at \$285/mt FOB PNW (down \$7.00/mt), FOB Gulf HRW 11/12.5 pro is valued at \$271.00/mt (down \$0.60/mt from last week).

Australian wheat:

- Australian futures headed to 7 1/2-month lows on both old and new crop
- Australia stays dry in the west and the rain in the east has now largely stopped.
- Australian new crop FOB APW wheat values for June was offered at \$275/mt, down \$10/mt from the previous week, but bids were far below these values.

Argentine wheat:

- Argentine wheat continues to slide but is no longer the world's cheapest wheat on a FOB basis; they continue to suffer from the sky-high freight market.
- FOB values for April 12% protein wheat ranged from \$245-252/mt, down ~\$11/mt.

EU wheat:

- Matif futures fell through support to their lowest level since early January, which along with a 19-week low in the Euro and unchanged cash premiums took EU dollar prices sharply lower.
- The EU's first attempt at the '21/22 wheat S & D shows a big increase in supplies of all EU grains next season. This helped push farmers to sell their remaining old crop, further affecting prices.
- *April FOB prices in the EU:* French 11.5 pro closed at \$263.80/mt, down another \$11.00/mt from last week. German 12.5 pro was down by \$12.10/mt to \$259.10/mt. Baltic 12.5 pro dropped by \$13.60/mt on the week to \$256.10/mt.

Black Sea wheat:

- Russia and Ukraine are still much cooler than normal with snow still in parts of S Russia.
- In the Black Sea, Balkan wheat can be bought below \$255/mt for April, Ukrainian wheat in the Sea of Azov costs less than \$250/mt, while the few Russian old crop feed wheat is quoted around \$238/mt the June position (because the tax saving for a June B/L, when the floating tax rate starts, is presumed to be \$25/mt vs April/May).
- April Russian 12.5 pro wheat closed at \$257.00/mt, down \$13.00/mt from last week.

➤ Significant purchases/ trades:

- Lack of demand has become the old crop wheat problem.
- **Korea** continues to buy new crop feed wheat at or below \$270/mt (Black Sea ocean freight is around \$45/mt, but the sales are for optional origin wheat).
- **The Philippines** and **Thailand** both passed on their tenders.
- **Ethiopia** returns on April 20th for 400,000 mt purchase.
- The lack of demand was reinforced by Saudi Arabia's (SAGO') continued absence from the market and reports by the USDA attaché that they are allowing free extension for existing purchases. (This likely means that they have too much wheat on hand.)
- Weekly **U.S. commercial sales** of 344,000 mt were down 12% from last week's 390,000 mt, but within trade expectations of 150,000 to 500,000 mt.

➤ Wheat Market Outlook:

Significant events:

- The **IGC forecast** last week that the 2021/22 **global wheat production** would rise to 790 million mt, up 16 million mt from the prior season's 774 million with larger crops expected in several countries, including exporters France (37.3 million versus 30.4 million tonnes) and Argentina (20.3 million versus 17.2 million). 2021/22 **ending stocks** are forecast by IGC to increase by 12 million mt from this year to 304 million mt.
- We have seen a sharp reversal since the **wheat futures** contract highs in late February, with futures shedding around \$1/bu in just 4 weeks. Improved Plains moisture has clearly been a factor, as has the recent weakness in corn and soybeans ahead of next week's report.
- The **Suez Canal** has been blocked for a week now by the **MV Ever Given**, one of the biggest container vessels, weighing ~200,000 mt. About 12% of all global trade, including 15% of global rice and wheat exports, sail through the 120-mile-long canal instead of taking the long way around the southern tip of Africa. Ship logs suggest about 4 million mt of grain is being held up right now

waiting to go through the Suez. GPS data Monday morning seems to suggest that the vessel is starting to shift slightly.

- We expect the **USDA Grain Stocks and Acreage reports** on Wednesday. The USDA report is not expected to bring any major surprises for wheat.
- **International cash wheat prices** have fallen by \$7-13/mt over the past week due to sluggish demand.

➤ **Outlook:**

We have seen a sharp reversal in wheat futures since the contract highs in late February, with futures shedding around \$1/bu in only 4 weeks. Improved moisture on the Plains has clearly been a factor, as has the recent weakness in the corn & soybeans ahead of this week's USDA report. *But we think it is the weakness in cash wheat markets and the apparent disappearance of demand despite a sharp drop in Black Sea wheat availability which has been the main driver.* And while N American wheat values are competitive on a FOB basis, freights spreads have eliminated any major chance of any incremental old crop export demand.

We think that wheat needs to be sold. The planting report may rally the markets. The target is to carry out the minimum of wheat stocks.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 29-03-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Aug. '21 (bu.)	Aug. '21 (mt)
1 CWRS 13.5	\$7.53	\$276.68	1 CWRS 13.5	6.99	\$256.84
1 CWAD 13.0	\$8.44	\$310.12	1 CWAD 13.0	7.87	\$289.18
1 CPSR 11.5	\$7.08	\$260.15	1 CPSR 11.5		
SW Sask			SW Sask		
1 CWRS 13.5	\$7.36	\$270.44	1 CWRS 13.5	6.85	\$251.70
1 CWAD 13.0	\$8.40	\$308.65	1 CWAD 13.0	7.89	\$289.91
1 CPSR 11.5	\$7.09	\$260.51	1 CPSR 11.5		
NE Sask			NE Sask		
1 CWRS 13.5	\$7.32	\$268.97	1 CWRS 13.5	6.85	\$251.70
1 CWAD 13.0	\$8.26	\$303.51	1 CWAD 13.0	7.89	\$289.91
1 CPSR 11.5	\$6.92	\$254.27	1 CPSR 11.5		
SE Sask			SE Sask		
1 CWRS 13.5	\$7.15	\$262.72	1 CWRS 13.5	6.71	\$246.55
1 CWAD 13.0	\$8.31	\$305.34	1 CWAD 13.0	7.87	\$289.18
1 CPSR 11.5	\$6.91	\$253.90	1 CPSR 11.5		

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

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 Canadian FOB Prices minus primary elevator bids, the FOB prices

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.”

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.
 - 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				29-03-2021
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	\$334.02	\$377.96		
HRS	\$327.08			
HRW 11.5	\$324.76			
SWW 12.0	\$325.69			
1 CWRS 13.5 ³	\$334.02		\$269.70	\$64.31
2 CWRS 13.0 ³	\$327.08		\$256.84	\$70.24
3 CWRS ³	\$324.76		\$253.53	\$71.23
CPS ³	\$319.21		\$244.35	\$74.86
1 CWAD ⁴		\$371.49	\$301.67	\$69.82
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$257.00	April		
French 11.5 (Rouen)	\$263.80	April		
ASW 10.5 (W Coast)	\$275.00	June		
Argentine 12.0	\$249.00	April		

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				29-03-2021
Canadian Funds		Grade		
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$8.73	\$8.66	\$6.90	\$6.90
Parity Track Rosetown	\$7.23	\$7.17	\$7.19	\$7.19
Track Bid Rosetown Area	\$6.99	\$6.90	\$6.65	\$6.65
Gross Margin at Elevator (\$/bu)*	\$0.24	\$0.27	\$0.54	\$0.54
Gross Margin at Elevator (\$/mt)*	\$8.77	\$9.77	\$19.88	\$19.88
* to cover elevation, elevator market risk, margin				