

## Wheat Market Outlook and Price Report: May 17, 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 May 17, 2021**

#### **2021/22 US Wheat assessment by the USDA & the US Ag Attaché in Russia:**

	Ag Attaché	USDA
Area	28.5	29.0
Yield	2.72	2.93
<b>Crop</b>	<b>77.5</b>	<b>85.0</b>
<b>Carry In</b>	<b>8.5</b>	<b>12.1</b>
Imports	0.5	0.5
Supply	86.5	97.6
Feed	18.5	19.0
FSI	23.0	23.5
Domestic	41.5	42.5
Exports	40.0	40.0
Demand	81.5	82.5
<b>End Stocks</b>	<b>5.0</b>	<b>15.0</b>

(in million mt)

- There are two versions of the Russian wheat balance sheet, which appeared within one day of each other, and which are alarmingly different:
  - The production numbers are 7.5 million mt apart
  - The carry-in numbers are 3.6 million mt apart
  - The '21/22 Russian wheat supply is 11.1 million mt different
  - Resulting ending stocks are 10 million mt apart
- If the Attaché crop number is correct (and our sources believe they are much closer to reality than the USDA), this wipes out the whole of the production increase over last year that the USDA had for the 7 major exporters in last Wednesday's USDA report.
- The Russian wheat balance sheet is extremely important for exporters and for the world market and we advise extreme caution, especially as farmers remain very reluctant sellers.

➤ **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:** July '21 contract Chicago winter wheat closed at 707-2 up 5-6 cents on Friday, down 54-4 cents on the week.

July '21 contract Kansas hard red winter wheat closed at 657-6, unchanged in Friday's trade, and down 79 on the week.

July '21 Minneapolis hard red spring wheat closed at 740-6, down 0-4 cents on Friday, and down 56-8 cents on the week.
- Futures market summary:** After mounting each week for more than a month, all wheat futures prices closed lower for the week. CBOT corn futures dropped 89 cents and CBOT soybean futures shed 18 cents.

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



**KC July '21 Wheat**

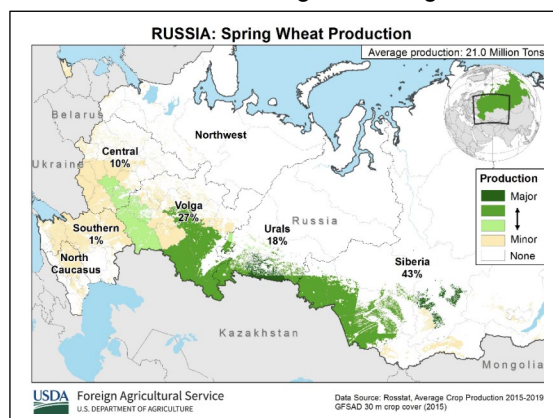


**Mpls. July '21 Wheat**

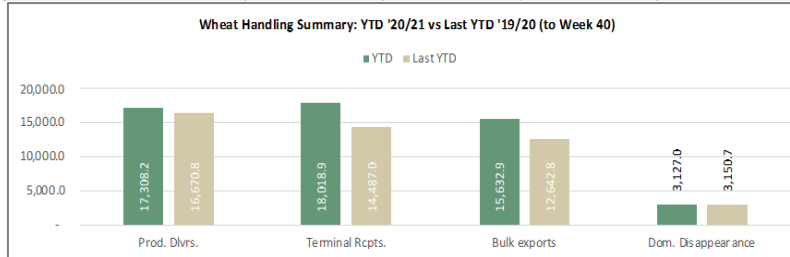


**Canadian Wheat:**

- We note that spring wheat areas in the US and Canada remain extremely dry causing concern about spring wheat planting and germination conditions. Regarding Russia, we again refer to the discrepancy in numbers discussed in the wheat section above. According to the ag attaché, although the Russian Federation's total grain planted area is expanding, some farmers have begun reducing the area planted under spring wheat and will sow less than planned in MY 2021/22. Farmers' decisions will be influenced by several factors, including the government's introduction of export duties and a serious increase in fertilizer prices.
- At 554,000 mt, **Canadian wheat exports** were excellent in week 40, advancing year-to-date wheat exports to 15.6 million mt, 3 million mt higher (+24%) than last year-to-date. The biggest increases in exports this year over last year are to China, Peru and to Nigeria.

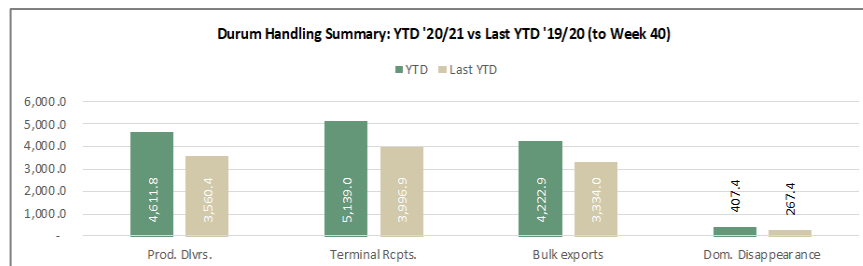


(CGC) Grain Handling Summary Wheat		Wk. 40			(May 9/'21)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 40	329.2	592.7	554.1		94.3
Week ago	445.6	509.8	531.6		77.5
YTD	17,308.2	18,018.9	15,632.9		3,127.0
Last YTD	16,670.8	14,487.0	12,642.8		3,150.7
YTD less Last YTD	637.4	3,531.9	2,990.1		-23.7
YTD over Last YTD	104%	124%	124%		99%



- Grower prices remain attractive with 13.5% protein #1 CWRS still bid over \$9.00/bu delivered to plant for May/June movement this week.
- Given the holidays in Europe and in Muslim countries are now past and given the drop in prices, we expect to see buying interest by importers return starting next week. The various crop concerns have not gone away and problems in US and Canadian spring wheat regions are getting more serious, not better for now. We think the market cannot afford any major crop issues.
- *We see no reason to follow the markets down at this time. The crops are not in the bin and the sell off by the funds has them with a more reasonable long.*
- The **durum market** continues to be very strong and has been trading between \$9.00 - \$9.50/bu FOB over the past while.
- Durum exports for week 40 were relatively small at 106,000 mt, for a year-to-date total of 5 million mt, compared to 4 million mt last year-to-date. This is a 24% improvement of last year's pace.

(CGC) Grain Handling Summary Barley		Wk. 40			(May 9/'21)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance	
Wk. 40	50.3	154.7	105.7		9.4
Week ago	90.5	161.1	287.7		2.2
YTD	5,031.2	5,911.6	4,984.1		435.2
Last YTD	3,958.7	4,737.9	4,017.4		308.1
YTD less Last YTD	1,072.5	1,173.7	966.7		127.1
YTD over Last YTD	127%	125%	124%		141%



Canadian Grain Exports (CGC numbers)		Wk. 40				
(000 MT)	Canola	Wht. & Durum	Peas (bulk)	Lentils (bulk)	All Grains	
Crop Year To date	9,076	20,617	2,348	835	42,571.1	
Year Ago	7,704	16,660	2,065	836	32,936.3	
Change this Cr.Yr. in MT	1,372	3,957	283	(1)	9,635	
Change this Cr. Yr. in Percent	118%	124%	114%	100%	129%	

#### US Wheat:

- US wheat futures suffered from ongoing liquidation triggered by Wednesday's USDA report and the technically overbought market. The CBOT RSI had hit 77 last Friday, but now it is at a far more reasonable 52.
- The USDA report last Wednesday had US stocks higher than trade guesses, and world (non-China) 21/22 ending stocks were forecast to increase by 3.3 million mt despite an 8 million mt increase in world consumption. However, major exporters' stocks only rose 400,000 mt despite a 6 million mt rise in production.
- The US HRW crop should improve with ongoing rains, but drought has persisted in the northern Plains and in the Canadian Prairies. **However, the Northern Plains (E MT/ND/N SD & SK/AB) which have been extremely dry for 5 months now are said to have a multi-inch rainfall pattern coming over the next 7-days. We are a bit skeptical, but if this materializes, this would be incredibly timely!**
- US HRS for June '21 is valued at \$328.00/mt FOB PNW (down \$18.00/mt from last week), PNW White wheat is valued at \$315/mt FOB PNW (up \$9.00/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$307.00/mt (down \$9.70/mt from last week).

#### Australian wheat:

- Australian wheat futures ended the week lower, but FOB remains ill-defined with farmers in the fields and Asian buyers mostly withdrawn.
- Australian new crop FOB APW wheat for June was quoted at \$290.00/mt, down \$10/mt from the previous week.

#### Argentine wheat:

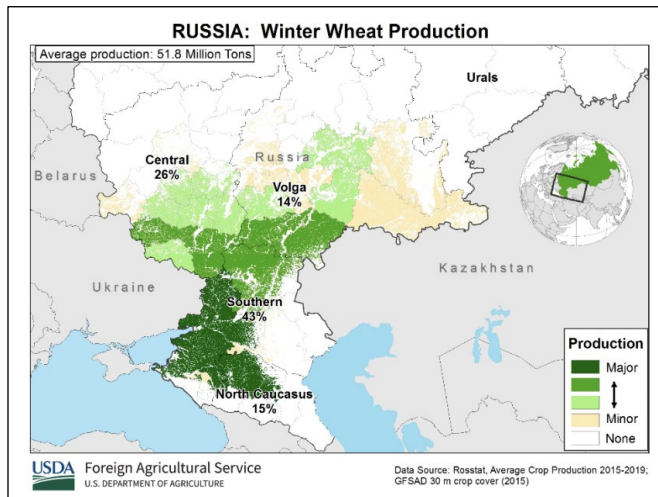
- BAGE in Argentina kept their acreage estimate at 6.5 million ha, equal to last year with a crop of 19 million mt (USDA is at 6.5 million ha and 20.5 million mt).
- FOB values remain firm with only 11.5 pro wheat quoted, but domestic markets dropped \$5-10/mt on the bid side, although farmers stayed away.
- FOB values for June 12% protein Argentine wheat ranged from \$275-285/mt, up ~\$7.50/mt from last week.

#### EU wheat:

- Matif wheat also saw sharp losses of €9/mt following the US sell-off, but this occurred with reduced trading volume due to the various holidays there. Like the US, Matif had become technically overbought by last Friday, with an RSI of 72. By last night's close the RSI stood at a far more reasonable 49 and will likely see support this week assuming the overnight rebound in the US holds.
- The FOB line-up continues to show EU wheat to be too cheap against both Black Sea and the US wheat, although putting a value on cash premiums in the current volatility (and holidays) is tough.
- FOB prices in the EU: July French 11.5 pro closed at \$263.30/mt (new crop), down \$16.70/mt from last week. June German 12.5 pro was unchanged at \$272.80/mt (down \$6.00/mt). Baltic 12.5 pro was unchanged on the week at \$270.40/mt (down \$5.90/mt).

**Black Sea wheat:**

- Concern is starting to be expressed in Russia where temperatures have risen rapidly, and soil moisture is in sharp decline.
- Ukraine is also turning drier and warmer, and needs to be monitored, particularly given one of the long-term forecasts which suggests extended hot dry conditions over the coming 2 months stretching from S Russia to S Germany.
- Regarding Russia, we note that the US ag attaché gave an outlook on Russian wheat that was radically different from the numbers USDA published just a day earlier. The attaché pegged '21/22 Russian wheat 77.5 million mt plus 8.5 million mt carry-in, while USDA used 85 million mt plus 21.1 million mt carry-in. That shows an 11.1 million mt discrepancy in the Russian wheat estimate. We tend to think that the attaché has a point!



- Russian 12.5 pro wheat for June remains at \$278/mt, up \$2/mt from last week. Black Sea new crop wheat (July) is available at \$273/mt (up \$3/mt from last week).

➤ **Significant purchases/ trades:**

There was not much to report here:

- There were few cash trades reported which was to be expected as the Middle East was on its end of Ramadan Holidays.
- The only cash trade reported was in the Black Sea, where June traded at \$278 FOB; the Jul-Aug bid-offer on Russian 12.5 pro wheat was \$270-275.00/mt
- US weekly export sales of just 30,000 mt left the season total at 938 million bu against the USDA's revised 965 million bu.

➤ **Wheat Market Outlook:**

**Significant events:**

- The **USDA report last Wednesday** had US stocks higher than trade guesses, and world (non-China) 21/22 ending stocks were forecast to increase by 3.3 million mt despite an 8 million mt increase in world consumption. However, major exporters' stocks only rose 400,000 mt despite a 6 million mt rise in production.
- **US wheat futures** suffered from ongoing liquidation triggered by Wednesday's USDA report and the technically overbought market. The CBOT RSI had hit 77 last Friday, but now it is at a far more reasonable 52.
- The EU and Black Sea accounted for the whole of the USDA's production increase; the market cannot afford any **crop issues** there. – *Watch what happens to the forecast rain in the northern US Plains and in Canada.*
- With Ramadan now over and following this week's price break we expect to see a **return of buying interest** from importers, particularly given the various crop concerns

➤ **Outlook:**

Overall, with Ramadan now over and following this week's major price break, we expect to see buying interest by importers return starting next week, particularly given the various crop concerns. Problems in US and Canadian spring wheat regions are clear, Australia is expected to see a 6 million mt drop in their crop, and as the EU and Black Sea accounted for the whole of the USDA's production increase amongst the major exporters, the market cannot afford any crop issues there.

*We see no reason to follow the markets down at this time. The crops are not in the bin and the sell off by the funds has them with a more reasonable long.*

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

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

Date: 17-05-2021

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct. '21 (bu.)	Oct. '21 (mt)
<b>1 CWRS 13.5</b>	\$8.49	\$311.96	<b>1 CWRS 13.5</b>	\$8.18	\$300.57
<b>1 CWAD 13.0</b>	\$8.23	\$302.40	<b>1 CWAD 13.0</b>	\$7.85	\$288.44
<b>1 CPSR 11.5</b>	\$7.84	\$288.07	<b>1 CPSR 11.5</b>	\$8.25	\$303.14
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$8.30	\$304.98	<b>1 CWRS 13.5</b>	\$8.07	\$296.52
<b>1 CWAD 13.0</b>	\$8.31	\$305.34	<b>1 CWAD 13.0</b>	\$7.97	\$292.85
<b>1 CPSR 11.5</b>	\$7.75	\$284.77	<b>1 CPSR 11.5</b>	\$7.24	\$266.03
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$8.24	\$302.77	<b>1 CWRS 13.5</b>	\$7.94	\$291.75
<b>1 CWAD 13.0</b>	\$8.53	\$313.43	<b>1 CWAD 13.0</b>	\$8.02	\$294.69
<b>1 CPSR 11.5</b>	\$7.72	\$283.66	<b>1 CPSR 11.5</b>	\$7.09	\$260.51
<b>SE Sask</b>			<b>SE Sask</b>		
<b>1 CWRS 13.5</b>	\$8.18	\$300.57	<b>1 CWRS 13.5</b>	\$7.93	\$291.38
<b>1 CWAD 13.0</b>	\$8.45	\$310.49	<b>1 CWAD 13.0</b>	\$8.08	\$296.89
<b>1 CPSR 11.5</b>	\$7.57	\$278.15	<b>1 CPSR 11.5</b>	\$6.97	\$256.11

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

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn./mt
<b>1 CWRS 13.5</b>	Base Grade	Base Grade
<b>2 CWRS 13.5</b>	(0.15)	(5.51)
<b>1 CWRS 12.5</b>	(0.30)	(11.02)
<b>1 CWAD 13.0</b>	Base Grade	Base Grade
<b>1 CWAD 13.5</b>	0.00	0.00
<b>2 CWAD 13.5</b>	(0.10)	(3.67)
<b>2 CWAD 12.5</b>	(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

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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.”

- 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				17-05-2021
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	\$367.31	\$362.43		
HRS	\$360.65			
HRW 11.5	\$346.01			
SWW 12.0	\$374.40			
1 CWRS 13.5 <sup>3</sup>	\$367.31		\$297.63	\$69.68
2 CWRS 13.0 <sup>3</sup>	\$360.65		\$284.03	\$76.62
3 CWRS <sup>3</sup>	\$346.01		\$280.72	\$65.29
CPS <sup>3</sup>	\$368.19		\$270.07	\$98.13
1 CWAD <sup>4</sup>		\$356.22	\$330.70	\$25.52
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$278.00	June		
French 11.5 (Rouen)	\$263.30	July		
ASW 10.5 (W Coast)	\$290.00	July		
Argentine 12.0	\$280.00	June		

<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					17-05-2021
Canadian Funds	Grade				
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS	
Dec/Jan delivery	\$9.65	\$9.25	\$8.30	\$8.30	
Parity Track Rosetown	\$8.15	\$7.75	\$8.52	\$8.52	
Track Bid Rosetown Area	\$7.73	\$7.64	\$7.35	\$7.35	
Gross Margin at Elevator (\$/bu)*	\$0.42	\$0.11	\$1.17	\$1.17	
Gross Margin at Elevator (\$/mt)*	\$15.43	\$4.09	\$43.14	\$43.14	

\* to cover elevation, elevator market risk, margin