

Wheat Market Outlook and Price Report: November 15, 2021

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

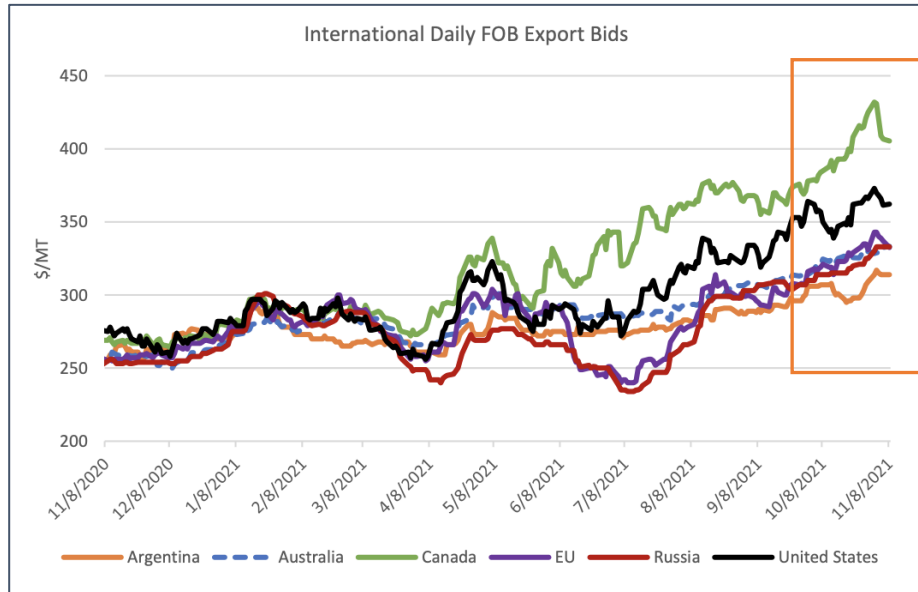
i) Background and Rationale for the Report

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 November 15, 2021

USDA, Nov. 9/21: Global Wheat Prices



Source: IGC

*Note on FOB prices: Argentina- 12.0%, upriver; Australia- average of APW; Kwinana, Newcastle, and Port Adelaide; Russia - Black Sea- milling; EU- France grade 1, Rouen; US- HRW 11.5% Gulf; Canada- CWRS (13.5%), Vancouver

| Argentina | Australia | Canada | EU | Russia | United States |
|-----------|-----------|--------|-------|--------|---------------|
| \$314 | \$333 | \$406 | \$333 | \$333 | \$362 |

Note: As of November 8, 2021

- **Global wheat prices** continued to rise throughout October as international demand remained high despite tight supplies from some major exporters.
- **Canada** had the largest increase as supplies are constrained by a significantly smaller crop. Canadian quotes peaked at a new high before dipping in November and settling up US\$24/mt from the prior month.
- **U.S.** quotes followed a similar trend, up \$4/mt from the prior month. U.S. farm and futures prices have risen to the highest levels since 2012/13, reflected in the highest export quotes since the same period.
- **EU** and **Russian** export quotes rose \$15/mt and \$19/mt respectively on large tenders, especially from the Middle East and North Africa.
- **Australian** quotes rose \$12/ton and Argentine quotes rose \$8/ton ahead of their new crops.

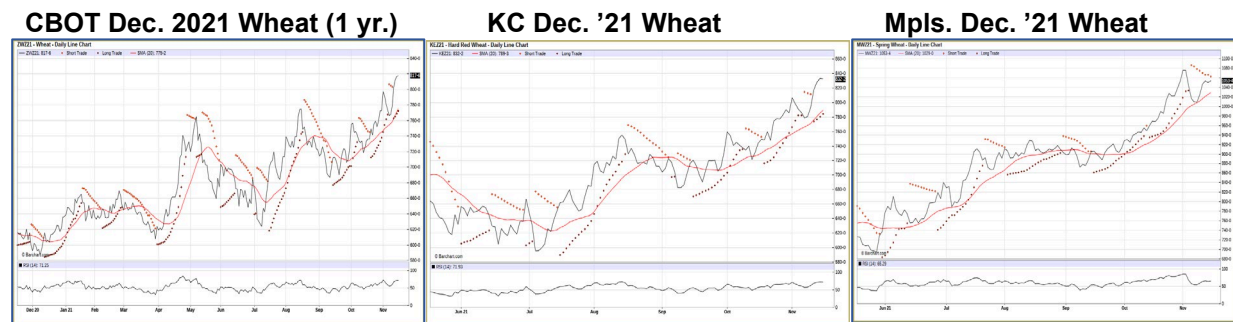
Recent Developments in Wheat Demand:

The **Middle East** and **North Africa** are projected to be the largest wheat importing regions in 2021/22, with the world's top importers Egypt and Turkey leading the way. Wheat consumption has steadily expanded in the Middle East and North Africa, mostly due to population growth outpacing domestic production. So, *despite global wheat prices climbing to extremely high levels*, importers in these regions are continuing to purchase wheat from international markets.

➤ **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:**
Dec. '21 contract Chicago winter wheat closed at 817-0, up 4-4 cents on Friday, *up 50-4 cents on the week.*
Dec. '21 contract Kansas hard red winter wheat closed at 833-0, up 5-0 cents in Friday's trade, *up 54-2 cents on the week.*
Dec. '21 Minneapolis hard red spring wheat closed at 1050-0, up 3-2 cents on Friday, *up 40-4 cents on the week.*
- This Monday morning, wheat futures are down, with the biggest weakness in Minneapolis, which currently is down 23 cents.

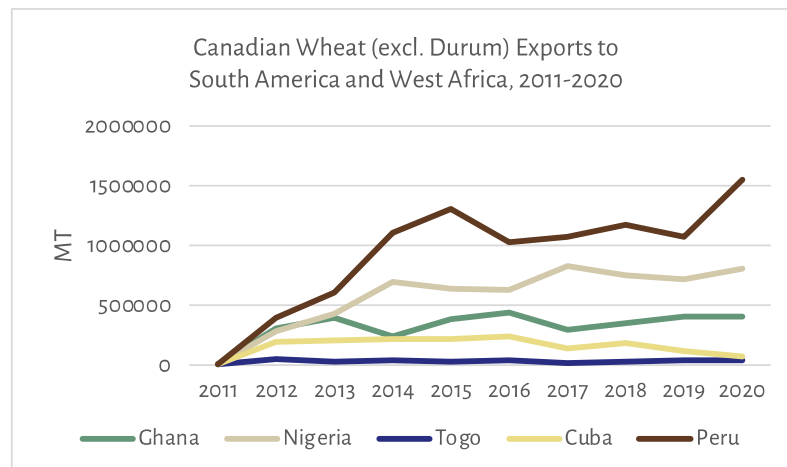


Canadian Wheat:

- The USDA decreased US wheat imports by 10 million bushels. The decrease came from a 5-million-bushel reduction each to Canadian spring wheat and durum imports due to the shortfall in Canadian production.
- Weekly Canadian exports: In shipping week 14, Canadian spring wheat exports were small at 130k mt for a season total of 3.42 million mt. This is just 60% (-2.25 million mt) of last year's export number. Visible supplies were essentially unchanged from last week at 2.77 million mt.

| (CGC) Grain Handling Summary Wheat | Wk. 14 | (Nov. 7/'21) | | |
|------------------------------------|--------------------|------------------------|---------------------|---------------------------|
| ('000 mt) | Prod. Dlvs. | Terminal Rcpts. | Bulk exports | Dom. Disappearance |
| Wk. 14 | 331.1 | 277.0 | 130.2 | 90.5 |
| Week ago | 432.3 | 259.7 | 332.9 | 89.6 |
| YTD | 4,767.5 | 4,854.9 | 3,422.0 | 1,319.8 |
| Last YTD | 5,998.1 | 6,960.8 | 5,676.2 | 1,372.3 |
| YTD less Last YTD | -1,230.6 | -2,105.9 | -2,254.2 | -52.5 |
| YTD over Last YTD | 79% | 70% | 60% | 96% |

- Canadian wheat exports to S America: In 2020, Canadian wheat exports to Peru increased by 50% to 1.98 million mt as the country has been shifting from solely HRW to a mix of durum and spring wheat for blending. Canada is the major competitor with the US into South American and West African markets. Over the past decade, Canadian wheat exports to South and Central America have more than doubled, reaching 6.12 million mt in 2020. Exports to West Africa have tripled, rising to 1.63 million mt in 2020. Canada accounts for 80-90% of South American high protein wheat. We expect this trend will continue, but low Canadian supplies will restrict Canadian exports to all destinations this year.

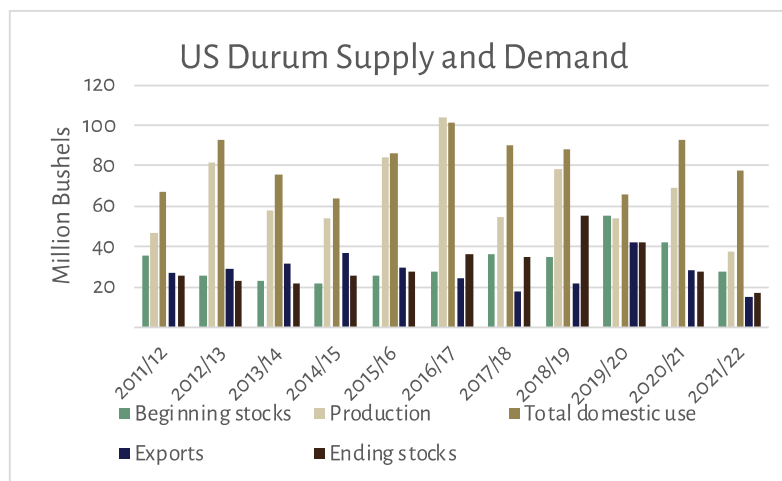


Data Source: Statistics Canada

- *The wheat market continues to be strong, and we think patience will pay off. For now, high Canadian prices have risen above US values which will curb additional demand. But quality wheat is in short supply, and users will need all the wheat that is available.*
- **Durum:** Week 14 durum exports were 68.3k mt for a season total of 928.5k mt. This is 27% (-338.7k mt) less than last year.

| (CGC) Grain Handling Summary Durum | Wk. 14 | (Nov. 7/'21) | | |
|------------------------------------|--------------------|------------------------|---------------------|---------------------------|
| ('000 mt) | Prod. Dlvs. | Terminal Rcpts. | Bulk exports | Dom. Disappearance |
| Wk. 14 | 77.6 | 119.6 | 68.3 | 17.3 |
| Week ago | 59.3 | 112.5 | 121.0 | 5.8 |
| YTD | 1,066.8 | 1,027.2 | 928.5 | 86.8 |
| Last YTD | 1,687.0 | 1,869.4 | 1,267.2 | 115.4 |
| YTD less Last YTD | -620.2 | -842.2 | -338.7 | -28.6 |
| YTD over Last YTD | 63% | 55% | 73% | 75% |

- The USDA decreased US durum imports by 5 million bushels due to the shortfall in Canadian production. Domestic durum use was reduced by 2 million bushels. *Overall, US durum ending stocks were 3 million bushels lower at 17 million bushels (27 million bushels last year).*



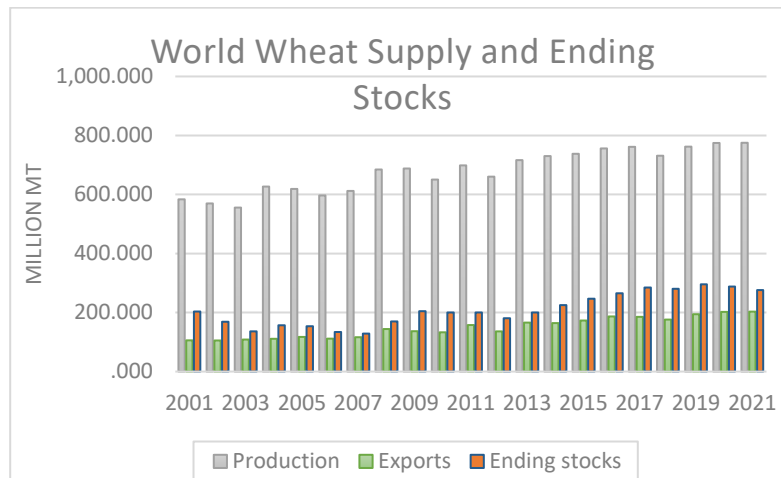
Data Source: USDA

- **Italy's durum crop** was forecast to be 4.3 million mt by the EU Commission, but this was recently cut to 3.7 million mt. (Total **EU-27 durum production** is pegged at 7.5 million mt in '21, up from 7.4 million mt in '20.) Usually, the domestic crop in Italy is enough to supply a good portion of the needs of Italian pasta makers, but the lack of domestic production and the shortfall of North American crops has Italian pasta makers facing shortfalls. Some processors are at risk of running out of durum when local supplies run out. This could cause production to halt in some instances. Next to Canada, Australia has become the EU's second largest durum supplier this year.

- In France, the price of no-name brand pasta has risen by 20%. While wealthy countries will be able to pay up and source the necessary durum supplies, substitution will be more pronounced in emerging economies. Turkey, a major pasta exporter increased the maximum share of common wheat allowed in pasta exports from 30% to 100%. - Stratégie Grain projects global durum demand to fall by 6%, the bulk of the reduction will be in Turkey and N Africa.
- *Durum prices in N Italy stayed the same as last week at €543/mt.*
- *We would target 15% of new crop at \$13.00 or better for a #3 CWAD for the fall of 2022. We recommend locking in a #3 CWAD. This will provide a hedge against quality risk and open the opportunity for a premium should your crop have stronger quality.*

US Wheat:

- **Nov. 9 USDA-WASDE reports:** The USDA made minor revisions to the US wheat balance sheet last week. Imports were down 10 million bushels which caused supplies to fall 2,606 million bushels. There were some minor changes to food and seed use, but exports were seen 15 million bushels lower for a 3 million bu increase in ending stocks to 583 million bushels (845 million bushels last year).
- World wheat ending stocks were below trade expectations at 275.8 million mt, down 1.4 million mt from last month and 12.2 million mt less than last year. We note that world stocks excluding China & India are down just 400k mt from last month but ending stocks at major exporters are down 1.6 million mt and their stocks to use ratio is at a new record low.



Data Source: USDA

- Two significant revisions to production numbers were a 1 million mt decrease in EU wheat production, and a 2 million mt increase in Russian production. World wheat trade was raised by another 3.5 million mt.
- Weekly US export sales were within expectations at 289,900 mt. This makes for a season total of 13.3 million mt, 22% behind last year vs the USDA's projected 13% decline.
- US winter wheat planting is 92% complete. Seventy-four percent of the crop has emerged and is rated as 45% Gd/Ex, unchanged from last week and last year.
- Most of the US wheat growing region was dry last week. There were limited showers in parts of North Dakota and Kansas.
- US HRS for Dec. '21 is valued at \$457.00/ mt FOB PNW (up \$13/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$361.20/mt (up \$13.60/mt from last week).

Australian wheat:

- The USDA made no changes to the Australian wheat balance sheet. Australia is dryer in the West, but the South and the East remain wet.
- Heavy rain continues over Eastern Australia and concerns over wheat quality are increasing. Next week looks drier but as La Nina builds, further rain is projected through December. - *Australian quality remains a big concern as rains continue.*
- Australian new crop FOB APW wheat for Dec.'22 was quoted at \$355.00/mt, up \$15/mt from last week.

Argentine wheat:

- BAGE put the Argentine harvest at 12% complete (16% last year, 13% average), with GD/EX ratings up 4% at 50% GD/EX against just 15% last year.
- **Argentine GM wheat discussion:** We are told that last Friday a Govt. agency in Brazil approved the import of *flour made from GM wheat*, but it did **not** approve the import of GM wheat. Abitriago (Brazilian Millers' Association) wants the President to step in, and they are taking legal advice regarding the decision. If the millers do not want GM wheat imports, they will object to flour imports even more, because this would take market share. - Time is not on the side of Argentine exporters with harvest imminent and already existing contracts that need to be shipped. Many Argentine wheat importers around the world will be watching closely how this develops.
- Fob values for Dec. 12% protein Argentine wheat ranged from \$300-305/million mt, unchanged from last week.

EU wheat:

- Matif Dec. wheat rose another €6/mt to a record high of €300.50/mt before easing into the close. (Incredibly, for importers, this is still \$100/mt below the all-time high in US\$ terms set in 2008 because the Euro was at \$1.55 in 2008 vs. \$1.15 today.)
- USDA lowered 2021 EU wheat production by 1 million mt to 138.4 million mt.
- Algeria usually buys French wheat due to very tight damage specifications that some shippers (Russia) cannot comply with. Algeria is now loosening their specs so more suppliers can qualify. French wheat futures immediately dropped from their all-time high on Friday. However, values are still high, and supplies are already running low.
- Fob prices in the EU: Dec. French 11.5 pro closed at \$345.50/mt, up \$5.40/mt from last week. Dec. German 12.5 pro wheat closed at \$341.20, up \$9.70/mt. Dec. Baltic 12.5 pro wheat was at \$338.90/mt, up \$3.90/mt.

Black Sea wheat:

- The Russian Ag Min. is contemplating changing the formula used for calculating the wheat export tax and is also contemplating implementing a wheat export quota. The policies are an effort to temper domestic inflation which has hit a 5-year high.
 - The current export tax stands at \$77.70/mt, up \$10.30/mt from last week. It is not clear how the tax formula will change, but there are reports that it could rise by \$25/mt in January.
 - The export quota is said to come into effect in Mid-February. It will be based on the volume of the exportable surplus that is remaining, minus the amount exported during the Jul-Jan period.
- The chance of higher export taxes and a potential quota on wheat exports has Russian exporters looking at moving wheat before the restrictions are applied. There is Russian wheat being exported to be stored in other countries (a lot of is going to Turkey) to avoid the rising restrictions. Despite the current pace of Russian exports being 30% behind last year, USDA raised their Russian wheat export estimate by 1 million mt from last month to 36 million mt (7% less than last year).
- The trade is concerned over Russian supplies following last week's rhetoric on taxes and quotas, the building Russia-Ukraine tension, plus the possible implications for exports from both countries.

- Black Sea Fob remains a tough call, so while Dec futures rose \$5/mt to contract highs, we have left Fob quotes unchanged from earlier this week:
- Russian Dec. 12.5 pro wheat is valued at ~\$340.00/mt, up \$5/mt from last week.

➤ **Significant purchases/ trades:**

There were few significant trades during the week as the industry wanted to see the WASDE report first.

- **Tunisia** bought 100k mt for Dec-Jan at \$380.30-\$385.60/mt.
- The **Philippines** bought 2 cargoes of Australian feed wheat last week at around \$365/mt and they remain open for the Jan-Feb position.
- **Bangladesh** returns Nov 22 for 50k mt.
- We still have no results from Tuesday's UN tender for **Ethiopia** (110k mt).
- Net **US sales** of 285,900 mt for 2021/2022 were down 29 percent from the previous week and from the prior 4-week average. Increases primarily for the Philippines (152,000 mt), Japan (57,400 mt), and Mexico (37,200 mt).

➤ **Wheat Market Outlook:**

Significant events:

- **USDA-WASDE reports: World wheat ending stocks** were below trade expectations at 275.8 million mt, down 1.4 million mt from last month and 12.2 million mt less than last year. We note that world stocks excluding China & India are down just 400k mt from last month but ending stocks at major exporters are down 1.6 million mt and their stocks to use ratio is at a new record low.
- The USDA decreased US wheat imports of Canadian spring wheat and durum by 5 million bu each due to the shortfall in Canadian production.
- **Australian new crop wheat quality** is a big concern as rains continue.
- **Argentine GM wheat discussion:** We are told that last Friday a Govt. agency in Brazil approved the import of *flour made from GM wheat*, but it did not approve the import of GM wheat. - Many Argentine wheat importers around the world will be watching closely how this develops.
- The **Russian Ag Min.** is contemplating changing the formula used for calculating the **wheat export tax** and is also contemplating implementing a **wheat export quota**. The policies are an effort to temper domestic inflation which has hit a 5-year high.
- The **higher view of world wheat trade** is looking at 3 potential concerns:
 - Australian wheat quality,
 - the wider implications of the GM wheat standoff between Argentine & Brazil,
 - the new threat of conflict on the Ukraine-Russian border.
 None of these looks to bring lower prices or increase the availability of wheat to importers.

Outlook:

There is little to stop wheat going higher for the short term. Importantly, wheat still remains good value compared to corn in poultry rations and Australian quality remains a big concern as rains continue. However, the trade will be watching for increased Russian farmer sales ahead of higher taxes and quotas and at some point, price will start to ration demand. - *We expect wheat to go higher so would be in no rush to sell yet.*

iii) Primary Elevator Price Tables and Grade Spreads

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

| | | | | | Date: | 15-11-2021 |
|--------------------|---------|----------|--------------------|----------------|---------------|------------|
| NW Sask | Spot | | NW Sask | Deferred | | |
| | (bu.) | (mt) | | Feb. '22 (bu.) | Feb. '22 (mt) | |
| 1 CWRS 13.5 | \$12.53 | \$460.40 | 1 CWRS 13.5 | \$12.64 | \$464.44 | |
| 1 CWAD 13.0 | \$19.94 | \$732.68 | 1 CWAD 13.0 | \$20.26 | \$744.43 | |
| 1 CPSR 11.5 | \$11.27 | \$414.10 | 1 CPSR 11.5 | \$11.32 | \$415.94 | |
| SW Sask | | | SW Sask | | | |
| 1 CWRS 13.5 | \$12.36 | \$454.16 | 1 CWRS 13.5 | \$12.48 | \$458.57 | |
| 1 CWAD 13.0 | \$20.06 | \$737.08 | 1 CWAD 13.0 | \$20.45 | \$751.41 | |
| 1 CPSR 11.5 | \$11.20 | \$411.53 | 1 CPSR 11.5 | \$11.26 | \$413.74 | |
| NE Sask | | | NE Sask | | | |
| 1 CWRS 13.5 | \$12.32 | \$452.69 | 1 CWRS 13.5 | \$12.40 | \$455.63 | |
| 1 CWAD 13.0 | \$20.56 | \$755.46 | 1 CWAD 13.0 | \$20.75 | \$762.44 | |
| 1 CPSR 11.5 | n/a | | 1 CPSR 11.5 | n/a | | |
| SE Sask | | | SE Sask | | | |
| 1 CWRS 13.5 | \$12.22 | \$449.01 | 1 CWRS 13.5 | \$12.31 | \$452.32 | |
| 1 CWAD 13.0 | \$20.53 | \$754.35 | 1 CWAD 13.0 | \$20.75 | \$762.44 | |
| 1 CPSR 11.5 | \$11.43 | \$419.98 | 1 CPSR 11.5 | \$11.46 | \$421.09 | |

Data source: PDQ, Nov. 15/21

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, Nov. 15/21

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 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

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.”

- 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 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 | | | | 15-11-2021 |
|--|--|-------------------------|----------------------|--|
| 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 | \$527.84 | \$851.81 | | |
| HRS | \$517.26 | | | |
| HRW 11.5 | \$465.71 | | | |
| SWW 12.0 | \$501.15 | | | |
| 1 CWRS 13.5³ | \$527.84 | | \$443.87 | \$83.97 |
| 2 CWRS 13.0³ | \$517.26 | | \$438.72 | \$78.53 |
| 3 CWRS³ | \$465.71 | | \$431.74 | \$33.97 |
| CPS³ | \$494.71 | | \$415.57 | \$79.13 |
| 1 CWAD⁴ | | \$845.37 | \$716.88 | \$128.50 |
| Competing wheat: | US\$/mt | | | |
| Russia 12.5 (Black Sea, 25k mt) | \$340.00 | December | | |
| French 11.5 (Rouen) | \$345.50 | December | | |
| ASW 10.5 (W Coast) | \$340.00 | December | | |
| Argentine 12.0 | \$302.50 | December | | |

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