

## Wheat Market Outlook and Price Report: October 18, 2021

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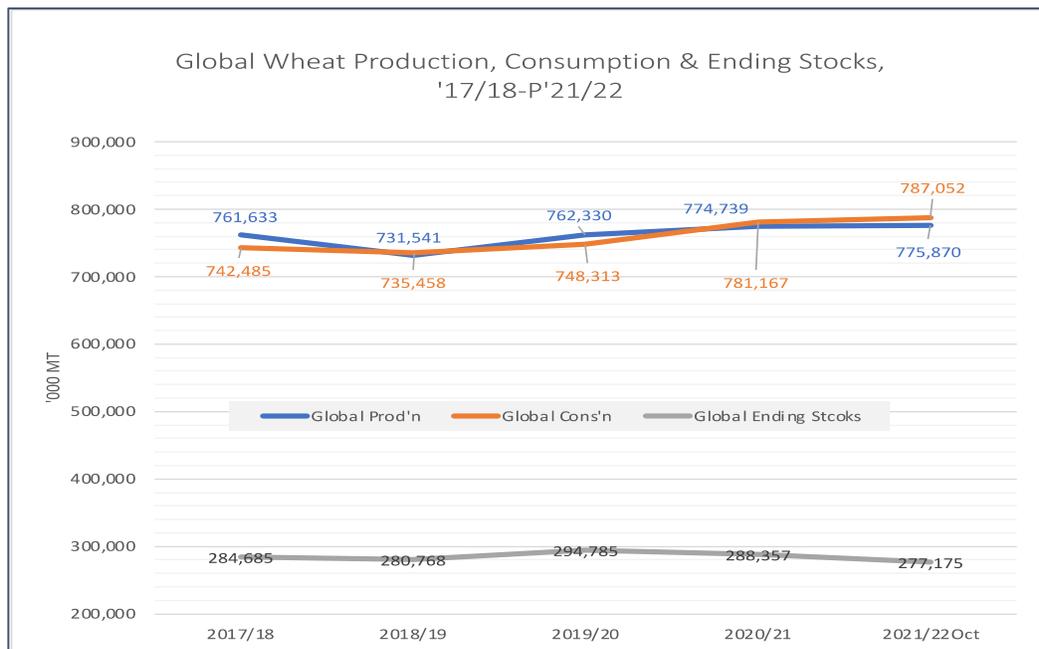
### i) Background and Rationale for the Report

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 October 18, 2021

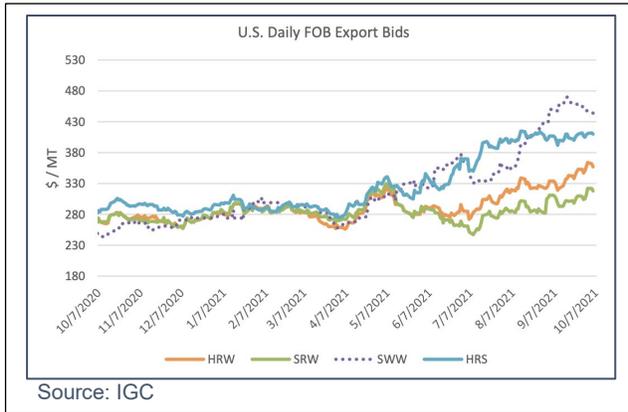
#### USDA – Oct.'21 Global Wheat Summary



Source: Mercantile, based on Oct. '21 USDA data

- The graph **summarizes global wheat production, consumption and ending stock data** over the past five years as seen by USDA.
- Over the 5-year time period, **global wheat production** has increased by 2% (+14.2 million mt), but **global wheat consumption** has increased by 6% (+44.6 million mt). **Global ending stocks** are down by 3% (-7.5 million mt). The stock-use ratio has decreased from 38% in '17/18 to a projected 35% in '21/22.

- The biggest gains in consumption over that period have been in China, India, Turkey, the US, Pakistan, Indonesia and Egypt.
- Note that while there is no outright shortage of wheat anticipated for the 2021/22 period, wheat consumption looks to exceed wheat production by 11.2 million mt.



### Recent Developments in Wheat Demand:

**IRAN** – There have been reports in the market from credible sources that Iran will require 8 million mt of wheat imports this year. However, USDA last week increased their demand estimate for Iran to ‘only’ 4.5 million mt. We point out that Russia alone has already shipped 2.5 million mt to Iran with another 500k mt in the line-up. There are another 500k mt reported to be on the books from Germany and the Baltic. And the season still less than 4 months old.

### ➤ 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 734-0, down 9-2 cents on Friday, *unchanged on the week*.  
Dec. ‘21 contract **Kansas hard red winter wheat** closed at 743-6, up 12-6 cents in Friday’s trade, *up 6-2 cents on the week*.  
Dec. ‘21 **Minneapolis hard red spring wheat** closed at 968-6, up 8-6 cents on Friday, *up 22-2 cents on the week*
- There was some mid-week profit taking in the wheat markets as the USDA report was seen as bearish for soybeans and corn. Despite this, strong demand and tight stocks caused all wheat futures to close higher for the week.
- This Monday morning, wheat futures are mixed.

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



**KC Dec. '21 Wheat**

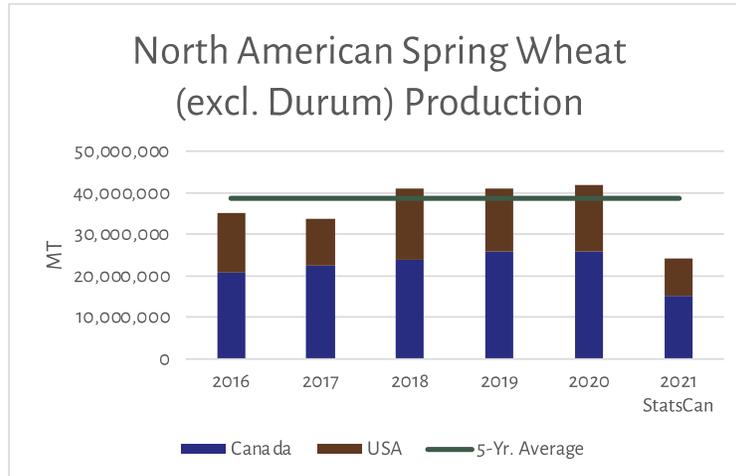


**Mpls. Dec. '21 Wheat**



**Canadian Wheat:**

- Spring wheat futures continued to move higher as demand is strong and quality milling wheat is in tight supply.
- The following graph summarizes the change in North American spring wheat production. On average, the US and Canada produce a total of 38.6 million mt of spring wheat. This year, North American production fell by 42% to just 24.3 million mt.

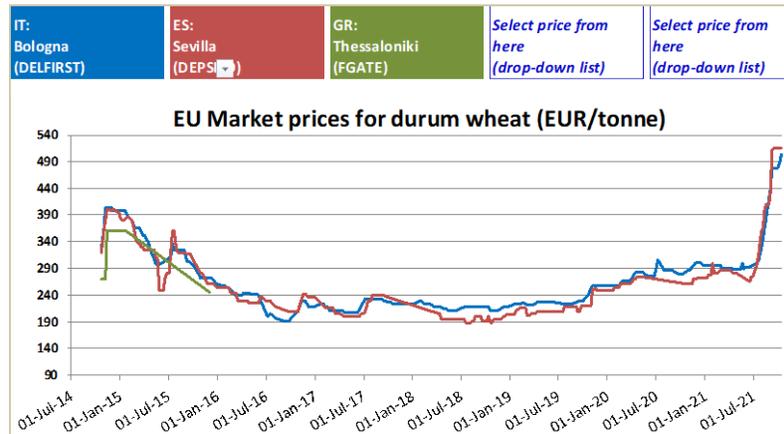


- Latest CGC harvest sample data shows that average Canadian protein levels are down a point from last week to 14.7%.
- In shipping week 10, Canadian spring wheat exports were 205.3k mt for a season total of 2.677 million mt, 68% (-1.28 million mt) of last year’s volume. There are over 1 million mt of stocks in Eastern Canadian terminals that will be exported over the next few weeks.

(CGC) Grain Handling Summary Wheat	Wk. 10	(Oct 10/21)		
	<b>Prod. Dlvs.</b>	<b>Terminal Rcpts.</b>	<b>Bulk exports</b>	<b>Dom. Disappearance</b>
(’000 mt)				
Wk. 10	289.1	190.7	205.3	63.3
Week ago	301.0	316.2	126.1	169.2
YTD	3,271.1	3,749.9	2,677.5	1,003.5
Last YTD	4,130.8	5,175.5	3,939.7	1,031.7
YTD less Last YTD	-859.7	-1,425.6	-1,262.2	-28.2
YTD over Last YTD	79%	72%	68%	97%

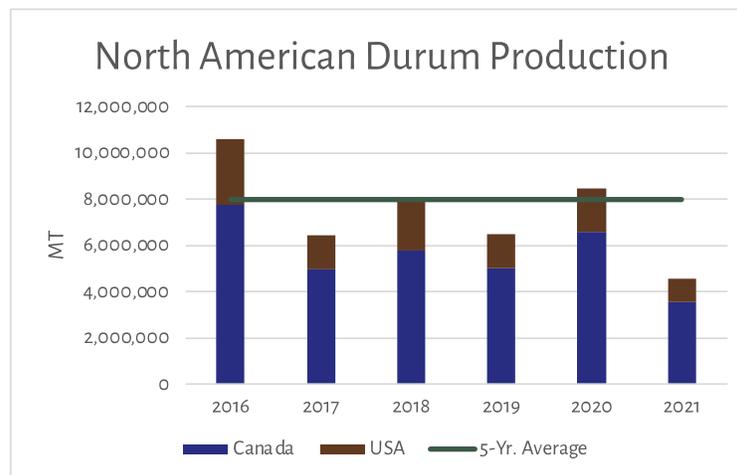
- *Although some of the strength in the winter wheat complex is being pressured by corn, spring wheat continues to show strength. Global demand has been strong and although we did not see many new buyers take advantage of the lower prices this week, there are several end users that will need to increase coverage.*

- We would sell 20 percent of 2CWRS at \$11.75/bu.
- **Durum:** Durum prices in Europe have continued to strengthen. Durum prices in Italy have risen CAD \$93/MT since harvest and are now bid at CAD \$721.70/mt or \$19.64 per bushel. Canadian cash durum bids in SK are similar to this, so we are still higher by the cost of transportation and elevation.



Source: European Commission

- The USDA increased durum production slightly to 37.3 million bushels (46% of last year's crop) and decreased imports to 50 million bushels (still 13 million bushels more than last year). Overall, the USDA increased durum ending stocks by 2 million bushels to 20 million bushels.
- Durum production in North America was just over half (54%) of an average crop. For the past 5 years, the combined average durum production in Canada and the US has been just shy of 8.0 million mt. This year there was just over 4.5 million mt produced between the two countries.



Source: Merc, Stats Canada, USDA

- Durum exports are slowing. Shipping week 10 durum exports were 73.3k mt for a season total of 671.1k mt, 14% (82.4k mt) more than last year.

(CCG) Grain Handling Summary Durum	Wk. 10	(Oct. 10/21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 10	97.1	74.6	73.3	0.8
Week ago	62.9	80.0	22.1	15.2
YTD	743.6	629.1	671.1	47.2
Last YTD	1,090.7	1,069.2	588.7	73.7
YTD less Last YTD	-347.1	-440.1	82.4	-26.5
YTD over Last YTD	68%	59%	114%	64%

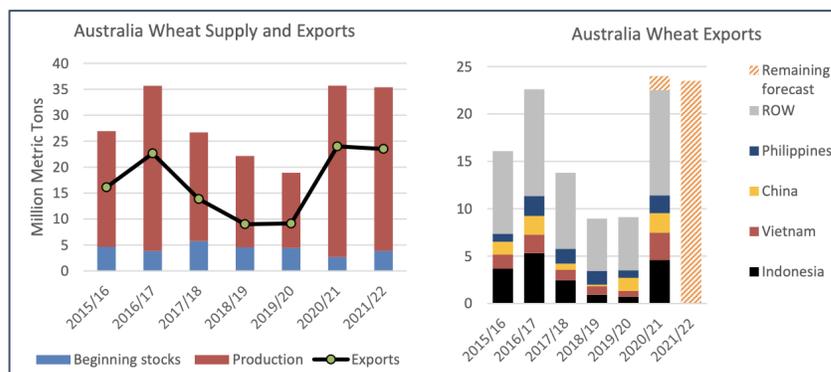
- We expect durum to stay firm. We are recommending sales at \$21 per bushel or better.

### US Wheat:

- Weekly US wheat sales were above expectations at 568k mt (20.9 million bu), the second highest amount this marketing year. Total commitments are now 440 million bushels, 20% less than last year. Average weekly sales for the remainder of the season will need to be 11.8 million bushels to reach the USDA's 875 million bushel projection.
- Winter wheat planting is up 13% from last week at 60% complete, in-line with average.
- There was much needed rain in the Dakotas and Minnesota. Meanwhile conditions in the winter wheat belt are continuing to deteriorate.
- The USDA report was supportive for wheat. The agency decreased wheat production to correspond with Sept. 30 Small Grains Summary. Exports were unchanged at 875 million bushels, 12% less than last year. Ending stocks were reduced by 35 million bushels from August to 580 million bushels (the trade was expecting a 42 million bu decrease). This is a 31% decrease from last year and the smallest level since 2008.
- There was some mid-week profit taking in the wheat markets as the USDA report was seen as bearish for soybeans and corn. Despite this, strong demand and tight stocks caused all wheat futures to close higher for the week.
- US HRS for Oct. '21 is valued at \$426.00/ mt FOB PNW (up \$5/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$331.10/mt (up \$0.60/mt from last week).

### Australian wheat:

- Australian futures ended the week lower, but Fob values remain firm as the loss of supply elsewhere and the wide freight spreads will ensure solid demand for Australian wheat throughout 2022.



Source: USDA-FAS

- Australian new crop FOB APW wheat for Dec.'21 was quoted at \$330.00/mt, up \$10/mt from last week.

#### **Argentine wheat:**

- BAGE raised crop ratings by 2% this week to 46% Gd/Exc against just 10% last year, and the recent rains lifted soil moisture to 67% favorable vs. 59% last week and 46% a year ago.
- Brazil's flour millers continue to state that they will not import GM wheat. We do not know what their Gvmt. will decide next month, but Argentine exporters have already purchased almost 8 million mt of new crop wheat and taken close to 9 million mt of export licences.
- First new crop shipments should start early December, which is just 6 weeks away.
- Fob values for Oct. 12% protein Argentine wheat ranged from \$290-295/million mt, unchanged from last week.

#### **EU wheat:**

- EU Matif was lower mid-week but closed at new highs following more reported French sales to China.
- Total French sales to China are estimated at 1.5-2 million mt, but the final confirmation will only come with actual shipments.
- Using French port data, EU exports are 60% ahead of last year.
- Fob prices in the EU: Oct. French 11.5 pro closed at \$318.80/mt, up \$3.90/mt from last week. Oct. German 12.5 pro wheat closed at \$322.80, up \$2.80/mt. Oct. Baltic 12.5 pro wheat was at \$322.20/mt, up \$2.70/mt.

#### **Black Sea wheat:**

- The Russian export tax will rise above \$61 next week, while the current Fob market argues that \$80 will be the next target.
- Current Fob offers equate to around Rb15,500 CPT, against a parity of Rb17,500 reportedly being paid by the interior market. We interpret this to say that Russia will not be able to originate even 30 million mt of exports without getting much closer to interior parities.
- Russian 12.5 pro wheat yesterday is valued at ~\$315.00/mt. 11.5 pro wheat, unchanged from last week.

#### ➤ **Significant purchases/ trades:**

- **Jordan** returns Oct 20 for 120k mt of wheat for Jan-Mar.'21.
- **Turkey** is back yet again on Oct 21 for 300k mt of wheat for Dec. 10- 31.
- **Japan** bought 120k tonnes of milling wheat in their tender, including 59k from the U.S., 32k from Canada, and 29k from AU.
- **Pakistan** has issued an international tender to purchase and import 90,000 tonnes of wheat.
- **Weekly US wheat sales** were strong at 568k mt (20.9 million bu), the second highest amount this marketing year. Total commitments are now 440 million bushels, 20% less than last year

➤ **Wheat Market Outlook:**

**Significant events:**

- Per the latest USDA report: While there is no outright shortage of wheat anticipated for the 2021/22 period, **wheat consumption looks to exceed wheat production by 11.2 million mt.**
- *On the demand side*, there are reports that **Iran** will require as much as 8 million mt of wheat imports this year. The USDA last week increased their demand estimate for Iran to 'only' 4.5 million mt.
- **Durum prices in Europe** have continued to strengthen. Durum prices in Italy have risen CAD \$93/MT since harvest and are now bid at CAD \$721.70/mt or \$19.64 per bushel.
- **US winter wheat planting** is up 13% from last week at 60% complete, in-line with average. There was much needed rain in the Dakotas and Minnesota. Meanwhile conditions in the winter wheat belt are continuing to deteriorate.
- **EU Matif** was lower mid-week but closed at new highs following more reported French sales to China. Total French sales to China are estimated at 1.5-2 million mt, but the final confirmation will only come with actual shipments.
- The **Russian export tax** will rise above \$61 next week. This will make it hard to source more wheat for export while still paying ~Rb17,500 in the interior. We interpret this to say that Russia will not be able to originate even 30 million mt of exports without getting much closer to interior parities.
- **Weekly US wheat sales** were strong at 568k mt (20.9 million bu), the second highest amount this marketing year.

**Outlook:**

USA weekly wheat exports at 576,000 tonnes were larger than expected. In the monthly report, USDA lowered USA and Canadian production, USA ending stocks fell below 600 million bushels for the first time in 8 years, and USA wheat became more competitive on the export market with a larger than expected weekly sales number and with sales to China rumoured. EU Matif was lower mid-week but closed at new highs following more reported French sales to China. For now, wheat leads the market higher. Keep in mind that the grower only gets about 5 percent of the cost of a loaf of bread.

*We would sell 20 percent of 2CWRS at \$11.75/bu.*

iii) Primary Elevator Price Tables and Grade Spreads

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

					Date:	18-10-2021
NW Sask	Spot		NW Sask	Deferred		
	(bu.)	(mt)		Dec. '21 (bu.)	Dec. '21 (mt)	
<b>1 CWRS 13.5</b>	\$11.44	\$420.35	<b>1 CWRS 13.5</b>	\$11.51	\$422.92	
<b>1 CWAD 13.0</b>	\$19.36	\$711.36	<b>1 CWAD 13.0</b>	\$19.74	\$725.33	
<b>1 CPSR 11.5</b>	n/a		<b>1 CPSR 11.5</b>	n/a		
<b>SW Sask</b>			<b>SW Sask</b>			
<b>1 CWRS 13.5</b>	\$11.28	\$414.47	<b>1 CWRS 13.5</b>	\$11.37	\$417.78	
<b>1 CWAD 13.0</b>	\$19.50	\$716.51	<b>1 CWAD 13.0</b>	\$19.88	\$730.47	
<b>1 CPSR 11.5</b>	n/a		<b>1 CPSR 11.5</b>	n/a		
<b>NE Sask</b>			<b>NE Sask</b>			
<b>1 CWRS 13.5</b>	\$11.18	\$410.80	<b>1 CWRS 13.5</b>	\$11.24	\$413.00	
<b>1 CWAD 13.0</b>	\$20.17	\$741.13	<b>1 CWAD 13.0</b>	\$20.33	\$747.01	
<b>1 CPSR 11.5</b>	n/a		<b>1 CPSR 11.5</b>	n/a		
<b>SE Sask</b>			<b>SE Sask</b>			
<b>1 CWRS 13.5</b>	\$11.13	\$408.96	<b>1 CWRS 13.5</b>	\$11.21	\$411.90	
<b>1 CWAD 13.0</b>	\$19.97	\$733.78	<b>1 CWAD 13.0</b>	\$20.20	\$742.23	
<b>1 CPSR 11.5</b>	n/a		<b>1 CPSR 11.5</b>	n/a		

Data source: PDQ, Oct. 12/21

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION 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>	(0.05)	(1.84)
<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)

Data source: PDQ, Oct. 12/21

#### **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 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/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)

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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.”

- 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				18-10-2021
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)
<b>DNS 14.0</b>	\$502.83	\$841.54		
<b>HRS</b>	\$493.74			
<b>HRW 11.5</b>	\$418.72			
<b>SWW 12.0</b>	\$486.01			
<b>1 CWRS 13.5<sup>3</sup></b>	\$502.83		\$420.35	\$82.48
<b>2 CWRS 13.0<sup>3</sup></b>	\$493.74		\$413.00	\$80.74
<b>3 CWRS<sup>3</sup></b>	\$418.72		\$400.14	\$18.58
<b>CPS<sup>3</sup></b>	\$479.65		\$367.07	\$112.57
<b>1 CWAD<sup>4</sup></b>		\$835.17	\$753.25	\$81.92
<b>Competing wheat:</b>	<b>US\$/mt</b>			
<b>Russia 12.5 (Black Sea, 25k mt)</b>	<b>\$315.00</b>	October		
<b>French 11.5 (Rouen)</b>	<b>\$318.80</b>	October		
<b>ASW 10.5 (W Coast)</b>	<b>\$320.00</b>	December		
<b>Argentine 12.0</b>	<b>\$292.50</b>	October		

<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