

Wheat Market Outlook and Price Report: October 25, 2021
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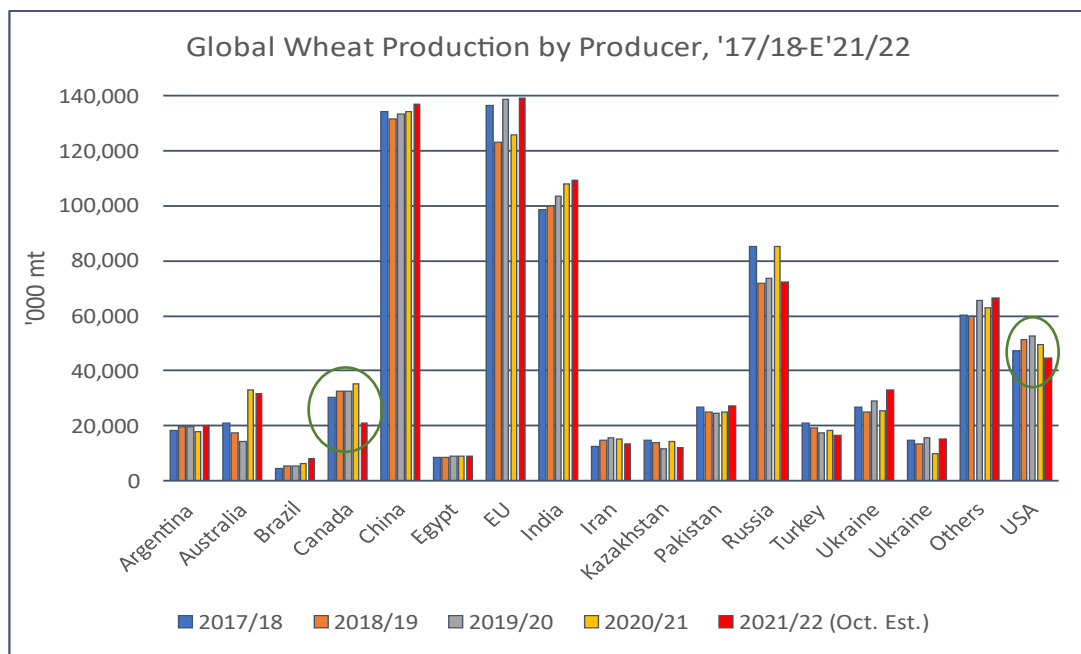
i) Background and Rationale for the Report

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 25, 2021

USDA – Global Wheat Production by Producer:



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

- This graph gives a good overview over **wheat production developments** over the past 5 years by major producer.
- Global production has increased by 14 million mt over that period, a 1.9% increase. Note that **global consumption** has increased by 6% over the same period (+44.5 million mt).
- Importantly, **production by the 8 major wheat exporters** (Argentina, Australia, Canada, EU, Kazakhstan, Russia, Ukraine, USA) has decreased by 6.6 million mt over the past 5 years to 374 million mt, a 1.7% reduction.

- And, most significantly, **production by the 8 major exporters this crop year '21/22 is down by 12.4 million mt from the past year.**
- The biggest reduction occurred in N America with a combined Canada - US reduction of 19.2 million mt. The biggest increase was in the EU (+13.4 million mt), but there are significant quality problems especially with the French wheat crop.

Recent Developments in Wheat Demand:

China: China imported just 55% of wheat this past September compared to the September of last year. At 636,532 mt, wheat imports were the lowest since March. High prices and cheaper corn are curbing demand, but we expect China will continue to be a large buyer this year.

➤ 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 756-0, up 14-6 cents on Friday, *up 22-0 cents on the week.*

Dec. '21 contract **Kansas hard red winter wheat** closed at 766-0, up 26-2 cents in Friday's trade, *up 30-2 cents on the week.*

Dec. '21 **Minneapolis hard red spring wheat** closed at 1013-0, up 27-6 cents on Friday, *up 44-2 cents on the week.*

- *The big story in wheat was ADM cancelling 1,314 receipts last Thursday night, which propelled KC futures to fresh contract highs and MLPS wheat to break \$10/bu. Additional strength in wheat came from the record pace of EU exports resulting from the Russian export tax.*
- This Monday morning, wheat futures remain strong, with Mpls currently up 9-10c/bu.

CBOT Dec. 2021 Wheat (1 yr.)



KC Dec. '21 Wheat



Mpls. Dec. '21 Wheat

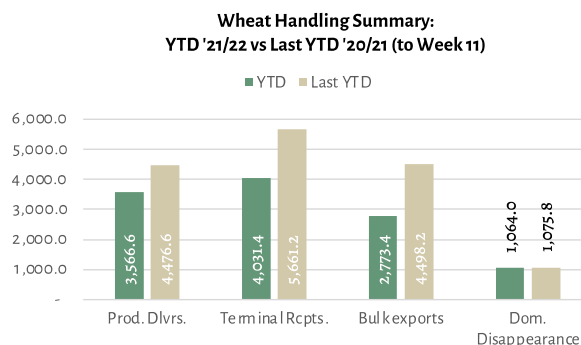


Canadian Wheat:

- Global wheat bids continued to rise over the week. North American values are increasing at a faster pace than other origins, which will impact export demand. Spring wheat is very tight. This is being reflected in the wide spreads between spring wheat and soft wheats.
- AAFC raised Canadian wheat (excl. durum) exports by 500k mt from their Sept. estimate to 13.0 million mt, down 37% from last year. The rest of the balance sheet was unchanged for a 500k decrease in ending stocks to 3.0 million mt, down 40% from last year. This would represent a 15% stock-use ratio, down from 18% last crop year.
- Latest CGC harvest sample data shows that average protein levels of the Canadian CWRS crop are unchanged from last week at 14.7%.
- In shipping week 11, Canadian spring wheat exports were a multi-year low of 95.8k mt for a season total of 2.77 million mt, 62% (-172 million mt) of last year's amount. To reach AAFC's 13.0 million

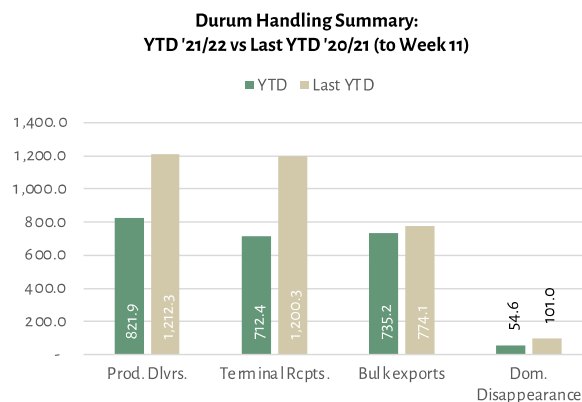
mt estimate, average exports will need to be 249.4k mt per week. This is in line with the current 252.1k mt per week, but we think the pace will slow. There remain over 1 million mt of stocks sitting in Eastern Canadian terminals that will be exported over the next few weeks.

(CGC) Grain Handling Summary Wheat	Wk. 11	(Oct 17/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 11	288.8	212.5	95.8	57.0
Week ago	289.1	190.7	205.3	63.3
YTD	3,566.6	4,031.4	2,773.4	1,064.0
Last YTD	4,476.6	5,661.2	4,498.2	1,075.8
YTD less Last YTD	-910.0	-1,629.8	1,724.8	-11.8
YTD over Last YTD	80%	71%	62%	99%



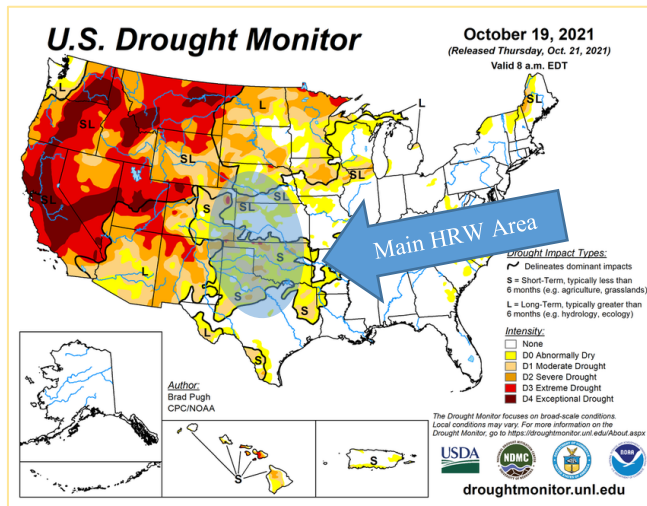
- *Tender business for wheat remains strong; we keep hearing reports significant increases in demand in the Middle East. Russia is largely out of the export market, and Australia, while having an amazing crop, does not have unlimited port capacity. We think there still is room for the wheat market to rise.*
- **Durum:** AAFC left the durum balance sheet unchanged in their October report, with production at 3.55 million mt (down 46% from last year), exports at 3.1 million mt (down 46% from last year) and ending stocks at 450k mt (down 40% from last year).
- Canadian durum exports are slowing down, which was expected/ inevitable. Shipping week 11 exports were 64.1k mt, for a season total of 735.2k mt, now down 5% (38.9k mt) from than last year. To reach AAFC's 3.1 million mt export projection, average weekly durum exports will need to be 57.7k mt per week. Average weekly exports are currently 66.8k mt per week, but this will continue to fall.
- *Demand remains strong as prices rose over the week, both domestically and internationally. We see no reason for the durum market to fall. We have been recommending sales at \$21 per bushel or better.*

(CGC) Grain Handling Summary Durum	Wk. 11	(Oct. 17/'21)		
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 11	78.3	68.5	64.1	4.9
Week ago	97.1	74.6	73.3	0.8
YTD	821.9	712.4	735.2	54.6
Last YTD	1,212.3	1,200.3	774.1	101.0
YTD less Last YTD	-390.4	-487.9	-38.9	-46.4
YTD over Last YTD	68%	59%	95%	54%



US Wheat:

- Rain alleviated some of the drought that had been increasing in the winter wheat area (espec. PNW), but moisture maps continue show widespread dryness. La Nina conditions in North America are expected to alleviate drought conditions in the PNW and upper Midwest.
- As of October 17th, US farmers had planted 70% of the intended US winter wheat acres.
- Weekly US commercial sales were in-line with the trade's expectations at 362,400. Total sales for the season are now 12.3 million mt, still 20% behind last year compared to the USDA's projected 12% decline. Average weekly sales will need to be ~321,000 mt to reach the USDA's number.
- US HRS for Nov. '21 is valued at \$431.00/ mt FOB PNW (up \$5/mt from last week), FOB Gulf HRW 11/12.5 pro is valued at \$341.60/mt (up \$10.50/mt from last week).



Australian wheat:

- Australian futures are lower on the upcoming harvest, higher for 2023. The Jan. '22-Jan. '23 carry of A\$22/mt equates to 45¢ per bu compared to just 5-8¢/bu at the CBOT and KC.
- *Australian new crop wheat remains the cheapest wheat into Asia.*
- Australian new crop FOB APW wheat for Dec.'22 was quoted at \$330.00/mt, unchanged from last week.

Argentine wheat:

- Argentine Fob values were hard to define. Exporters own 8.1 million mt of wheat against 9.1 million mt of export licences.
- *While Argentine Fob prices also look cheap on paper, huge freight rates and the uncertainty over the GM situation make Argentine wheat only a limited competitor for now.*
- The forecast remains dry, as next week's rain misses the core wheat areas. Very warm temperatures will accelerate soil moisture losses.
- BAGE crop update: Gd/ Exc. ratings dropped 2% to 44%, and BAGE cited upcoming heat and disease as threats to the crop.
- Fob values for Nov. 12% protein Argentine wheat ranged from \$293-298/million mt, up about \$3/mt from last week.

EU wheat:

- *Matif wheat made its highest close last Friday for a nearby contract in 9 years with the EU needing to drastically curtail exports over the next while.*
- Last Tuesday's EU shipment report again highlighted the need for prices to slow exports, but there was also talk of new sales of French wheat to China. The specs of these sales are reported to be closer to feed specs than milling wheat quality.

- Fob prices in the EU: Nov. French 11.5 pro closed at \$329.30/mt, up \$10.50/mt from last week. Nov. German 12.5 pro wheat closed at \$331.00, up \$8.20/mt. Nov. Baltic 12.5 pro wheat was at \$331.60/mt, up \$9.40/mt.

Black Sea wheat:

- Black Sea wheat looks underpriced against EU replacement.
- The current Russian export tax will likely reach \$90/mt by the end of 2021, and there is no sign to end to what is effectively a bullish feedback loop for Russian prices.
- Interior/ domestic Russian wheat and flour prices made new highs.
- However, Ukraine reportedly raised this year's export quota to 25.3 million mt compared to the USDA's 23.5 million mt.
- Russian 12.5 pro wheat is valued at ~\$320.00/mt, up \$5/mt from last week.

➤ **Significant purchases/ trades:**

- **Turkey** bought a 300k mt of wheat as a mix of 11.5 protein and 12.5 protein wheat, both C&F and ex-store all around \$360.00 US\$/mt.
- **Jordan** bought 60k mt of wheat last week for LH Jan at \$365, freight; costs are around \$55/mt.
- **Jordan** returns Oct 27 for 120k mt of wheat for Mar-Apr shipment.
- **Tunisia's** state grains agency is believed to have purchased about 50k mt of soft wheat last Friday; they purchased 2x 25k mt lots at an estimated \$373.45 /mt C&F and \$373.85 /mt C&F.
- There are rumours that **Saudi Arabia** will announce a tender.
- **Egypt** (GASC) is also expected to be back in the market.
- **Ethiopia** tenders Nov 9 for 200k mt and again on Nov 30 for a further 400k mt of wheat.
- *Consumers have very little forward cover and are getting very nervous.*

➤ **Wheat Market Outlook:**

Significant events:

- **Global wheat bids** continued to rise over the past week. North American values are increasing at a faster pace than other origins, which will impact export demand. Especially spring wheat is very tight.
- Canadian **durum exports** are slowing down, which was expected/ inevitable. Shipping week 11 exports were 64.1k mt, for a season total of 735.2k mt, now down 5% (38.9k mt) from than last year.
- **Australian new crop wheat remains the cheapest wheat available into Asia.**
- **Argentine Fob wheat prices also look cheap on paper, but huge freight rates and the uncertainty over the GM situation make Argentine wheat an imperfect competitor for now.** And according to BAGE, upcoming heat and disease could be a threat to the crop.
- **Matif wheat made its highest close last Friday for a nearby contract in 9 years with the EU needing to drastically slow exports over the next while.**
- There was also talk of **new sales of French wheat to China.** The specs of these sales are reported to be closer to feed specs than milling wheat quality.
- **Russian nearby Fob wheat** is still cheap compared to EU wheat and far below the value implied by the futures. Russian interior wheat and flour prices also made new highs.
- **Wheat shipments by major exporters** are up 9% compared to the USDA's 2% increase, and price still has a lot of work to do to lower demand. Wheat remains the bull leader.

Outlook:

The wheat tender business remains strong; we continue to hear of reports significant increases in demand in the Middle East. Russia is partly out of the export market, and Australia, while having an amazing crop, does not have unlimited port capacity. We think there is still room for the wheat market to increase.

We see no reason to sell additional grain at this time.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 25-10-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '21 (bu.)	Dec. '21 (mt)
1 CWRS 13.5	\$11.85	\$435.42	1 CWRS 13.5	\$11.90	\$437.25
1 CWAD 13.0	\$19.90	\$731.21	1 CWAD 13.0	\$20.14	\$740.02
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SW Sask			SW Sask		
1 CWRS 13.5	\$11.68	\$429.17	1 CWRS 13.5	\$11.76	\$432.11
1 CWAD 13.0	\$19.98	\$734.15	1 CWAD 13.0	\$20.23	\$743.33
1 CPSR 11.5	\$10.41	\$382.51	1 CPSR 11.5	n/a	
NE Sask			NE Sask		
1 CWRS 13.5	\$11.60	\$426.23	1 CWRS 13.5	\$11.65	\$428.07
1 CWAD 13.0	\$20.37	\$748.48	1 CWAD 13.0	\$20.54	\$754.72
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$11.54	\$424.03	1 CWRS 13.5	\$11.60	\$426.23
1 CWAD 13.0	\$20.24	\$743.70	1 CWAD 13.0	\$20.46	\$751.78
1 CPSR 11.5	\$10.70	\$393.16	1 CPSR 11.5	n/a	

Data source: PDQ, Oct. 25/'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	(0.05)	(1.84)
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)

Data source: PDQ, Oct. 25/'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

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.”

- HRW in the Pacific North West (PNW) \approx 3 CWRS in Vancouver
 - SW (lowest price wheat) \approx CPS red (mostly fed domestically)
 - HAD (Lakes) \approx 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				25-10-2021
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	\$528.49	\$848.50		
HRS	\$519.39			
HRW 11.5	\$431.53			
SWW 12.0	\$486.61			
1 CWRS 13.5 ³	\$528.49		\$441.66	\$86.83
2 CWRS 13.0 ³	\$519.39		\$436.52	\$82.87
3 CWRS ³	\$431.53		\$421.82	\$9.71
CPS ³	\$480.24		\$387.65	\$92.59
1 CWAD ⁴		\$842.13	\$734.88	\$107.25
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$320.00	October		
French 11.5 (Rouen)	\$329.30	October		
ASW 10.5 (W Coast)	\$320.00	December		
Argentine 12.0	\$295.00	October		

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