

Wheat Market Outlook and Price Report: September 7, 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 September 7, 2021

AMIS¹ August Global Wheat Supply-Demand Outlook:

	FAO-AMIS			USDA		IGC	
	2020/21	2021/22		2020/21	2021/22	2020/21	2021/22
	est	8 Jul	2 Sep	est	f'cast 12 Aug	est	f'cast 26 Aug
Wheat Prod.	775.1	784.7	769.5	775.8	776.9	773.4	789.4
Supply	640.9	648.3	632.4	641.6	640.9	639.1	653.4
Utiliz.	1053.0	1076.4	1059.4	1073.5	1065.7	1049.7	1070.1
Trade	792.1	809.6	792.0	788.8	785.1	786.7	807.1
Stocks	759.0	779.7	777.5	784.7	786.7	768.7	786.9
	618.1	636.9	634.7	634.7	638.7	622.8	643.8
	187.8	189.4	185.1	198.2	199.8	190.6	191.3
	177.4	178.4	176.1	187.5	189.8	179.4	182.1
	289.9	296.9	284.1	288.8	279.1	280.7	283.2
	159.6	162.2	150.7	144.2	137.4	152.5	154.2

in million tonnes

Data shown in the second rows refer to world aggregates without China; world trade data refer to exports and world trade without China excludes exports to China.

- The **wheat production** forecast for 2021 was lowered since the previous report in July mostly on reduced yields due to dry conditions, particularly in Canada, the Russian Federation, and the US, and now falling slightly below the 2020 record level.

¹ AMIS: Agricultural Market Information System. Input comes from the ten organizations that form the AMIS Secretariat: FAO, IFAD, IFPRI, IGC, OECD, UNCTAD, World Bank Group, WFP, WTO, GLAM.

- **Utilization of wheat** in 2021/22 was trimmed but still seen rising above the 2020/21 level by 2.4 percent with expected growth in food, feed, and other uses.
- **Wheat trade** in 2021/22 (July/June) was downgraded and is now pointing to a slight contraction from 2020/21 with reduced sales from Canada, the Russian Federation and the US being only partially offset by higher shipments from Argentina, the EU, and Ukraine.
- **Wheat ending stocks** (ending in 2022) are now forecast to fall slightly below their record opening levels after this month's downward revisions in several countries, especially Canada, the Russian Federation, and the US.

➤ **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:**
Sept. '21 contract **Chicago winter wheat** closed at 726-2, up 9-2 cents on Friday, up 7-8 cents on the week.
Sept '21 contract **Kansas hard red winter wheat** closed at 715-2, up 3 cents in Friday's trade, up 3 cents on the week.
Sept. '21 **Minneapolis hard red spring wheat** closed at 915-4, up 9-2 cents on Friday, down 20-8 cents on the week.
- US wheat futures were pulled lower during the past week mostly by the weakness in corn and soybeans due to the uncertainty over when Gulf exports might resume.

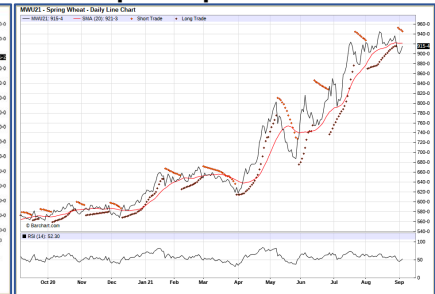
CBOT Sept. 2021 Wheat (1 yr.)



KC Sept. '21 Wheat



Mpls. Sept. '21 Wheat



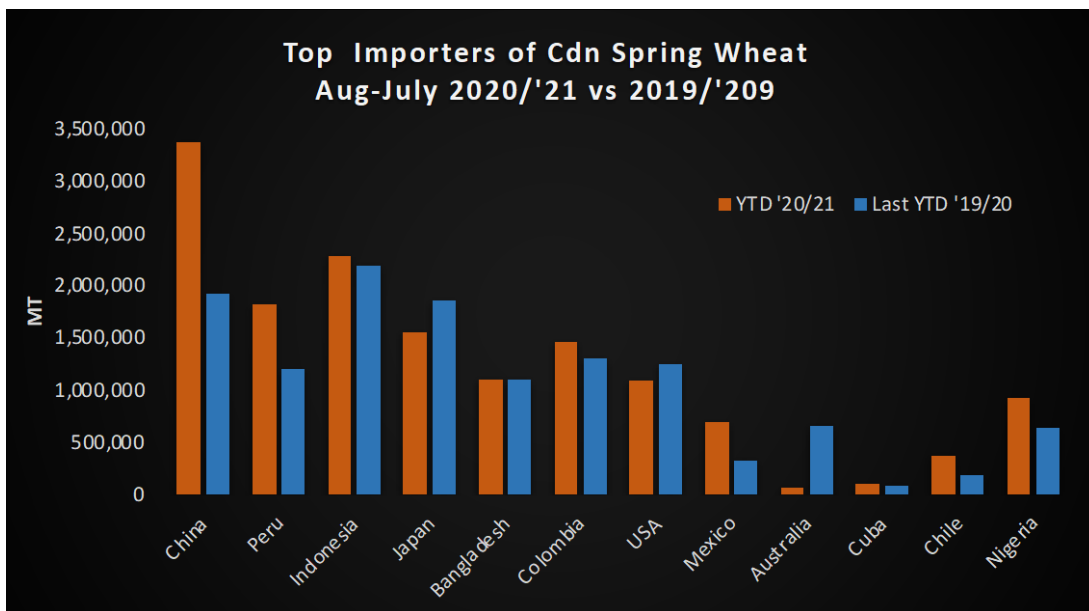
Canadian Wheat:

- SK Ag reports that 36% of spring was harvested as of Aug. 30th, and AB Ag shows 30% done as of Aug. 31st. In the US, the 2021 HRS harvest is nearly complete with less than 5% of the crop remaining, well ahead of last year's pace. With no rain forecast, the US wheat harvest should wrap up over the next week.
- In their report last week, Statistics Canada (STC) estimated the spring wheat crop at 16.1 million mt based on an average yield of 37.1 bu/acre. Mercantile thinks the STC acreage is too low and their yield estimate too high. We are using 19.1 million acres for spring wheat and a yield of 34.8 bu/acre for a bigger 18.1 million mt crop!
- However, global production estimates have been falling, and the trade is expecting further reductions to both US and Canadian crops in this week's USDA report. We will have to see if the market can hold support.
- **Canadian wheat exports** during week 4 were quite good at 413,000 mt, but YTD numbers are already lagging last years by almost 400,000 mt.

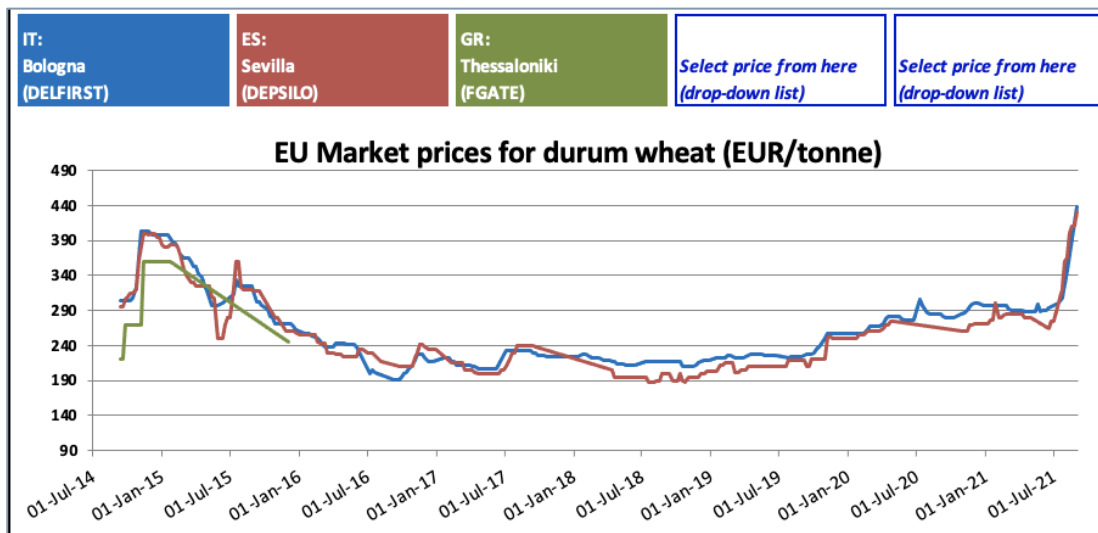
(CGC) Grain Handling Summary Wheat	Week 4	(Aug. 29/'21)
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('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Week 4	360.6	426.3	413.0	99.4
Week ago	390.7	362.0	187.3	92.3
YTD	1,128.4	1,726.5	1,392.4	375.9
Last YTD	1,469.2	2,577.2	1,789.9	476.5
YTD less Last YTD	-340.8	-850.7	-397.5	-100.6
YTD over Last YTD	77%	67%	78%	79%

- *The milling wheat market remains strong; good quality CWRS 13.5 are bid \$10.50 – \$11.00/bu delivered plant.*
- **Final 2020/'21 wheat export numbers** for the 2020/21 crop: During the '20/21 crop year, Canada exported 20.4 million mt, up 5% from 19.4 million mt the previous year. The biggest destinations were China (3.4 million mt), Indonesia (2.3 million mt), and Peru (1.8 million mt).



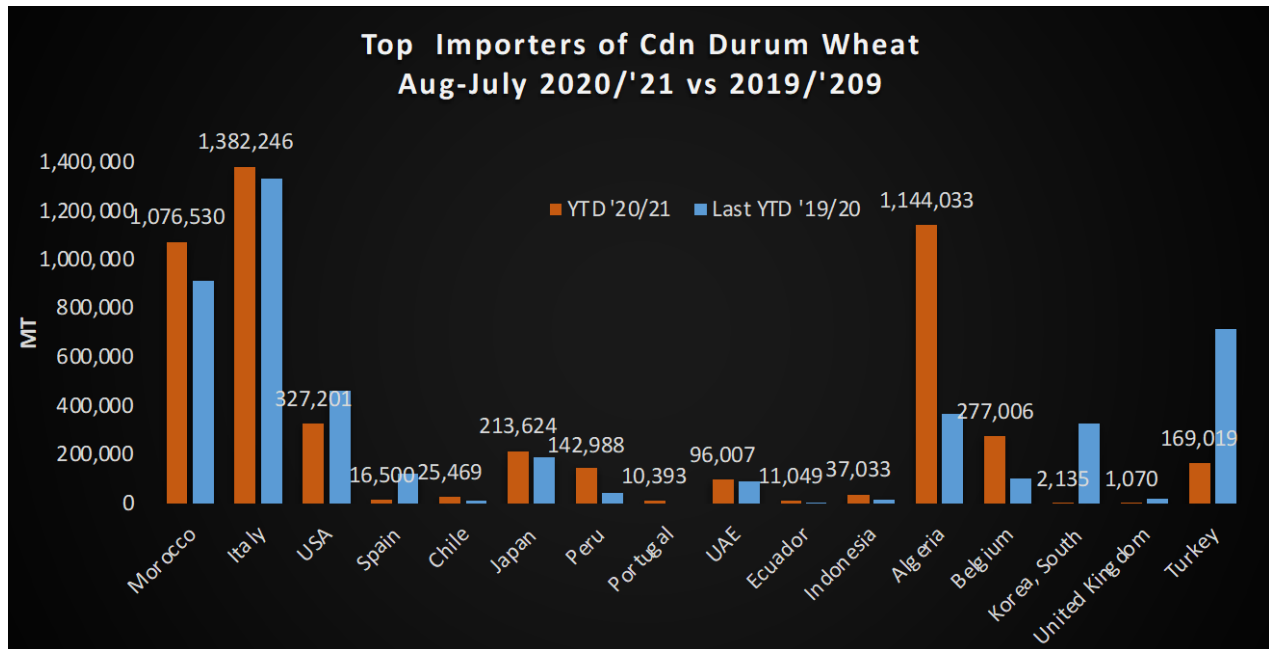
- **Durum:** Durum remains extraordinarily strong, with \$22/bu bid for #1, \$21.25/bu for #3 CWAD. - These are extraordinarily high premiums over spring wheat.
- The hail in the Regina area last Thursday took a few more acres away, which is not helping. Statistics Canada (STC) estimated the durum wheat crop at 3.99 million mt based on an average yield of only 27.2 bu/acre. Last year's crop was 6.6 million mt, 2.6 million mt bigger than this year's. Mercantile thinks the STC acreage and the yield are a little too low. We are using 5.58 million acres for durum and a yield of 27.64 bu/acre for a 4.2 million mt crop, still 2.4 million mt smaller than last years!
- With the US crop also short, N American durum supplies will be very tight for the crop year.
- We note that durum prices in the EU now also reached €500/mt (~Cdn\$750/mt)



- **Durum exports** for week4 were moderate at 20,000 mt, for a YTD total of 279,000 mt. Exports this year will be much smaller than last years.

(CGC) Grain Handling Summary Durum		Week 4	(Aug. 29/'21)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk exports	Domestic Disappearance
Week 4	54.0	33.5	20.0	2.2
Week ago	38.9	59.8	28.7	6.5
YTD	147.3	222.0	278.5	13.6
Last YTD	270.2	357.4	238.9	32.5
YTD less Last YTD	-122.9	-135.4	39.6	-18.9
YTD over Last YTD	55%	62%	117%	42%

- **Final 2020/'21 durum export numbers** for the 2020/21 crop: Canada exported 5.8 million of durum during the '20/21 crop year compared to 5.6 million mt the previous year. The single biggest buyer was Italy (1.4 million mt), followed by Algeria (1.1 million mt) and by Morocco (1.08 million mt).



- *We would be loath to miss unprecedentedly high values, and as long as the durum is already in hand, we would be min. 50% sold at these levels.*

US Wheat:

- US wheat futures were pulled lower during the past week mostly by the weakness in corn and soybeans due to the uncertainty over when Gulf exports might resume. US wheat FOB spreads continue to narrow against competing origins.
- Weekly US Export Sales data at 295,000 mt were within expectations of 200-500,000 mt. Sales were up 154% from the previous week; Mexico and Japan were the top buyers. Accumulated exports are 5.428 million mt, or 15% behind last season's pace.
- This morning, the the U.S. Department of Agriculture reported export sales of 327,000 mt of hard red winter wheat for delivery to Nigeria during the 2021/2022 marketing year.
- The trade is expecting further reductions to both US and Canadian crops in next week's USDA report, but like corn and soybeans, the wheat charts are struggling to hold support.
- US HRS for Oct. '21 is valued at \$410.00/ mt FOB PNW (unchanged from last week), FOB Gulf HRW 11/12.5 pro is valued at \$320.80/mt (down \$11.20/mt from last week).

Australian wheat:

- ABARES raised the Australian wheat crop by almost 5 million mt to 32.6 million mt, just below last year's all-time record of 33.3 million mt. The USDA currently is using 30 million mt. Local sources suggest that even this figure may still be too low.

- Damage from the weekend frost was seen as limited, but as usual with frost events, the impact will not be known for some time.
- Australian new crop FOB APW wheat for Dec. was quoted at \$305.00/mt, down \$5/mt from last week.

Argentine wheat:

- The weekend rain was good in the center and south, but once again the north missed out.
- Argentine FOB values were little changed.
- FOB values for Oct. 12% protein Argentine wheat ranged from \$285-295/million mt, mostly unchanged from last week. The increase in global wheat prices have allowed Argentine wheat to be competitive with Australian wheat into the Southeast Asian markets.

EU wheat:

- Matif wheat fell €2/mt today in light volume.
- **Provisional results of the French quality survey:** Just 39% of samples tested so far are above the generally accepted minimum test weight for milling purposes of 76 kg, but a still significant volume of testing remains to be done on crops in the north and north-west, where results so far have been the worse than elsewhere.
- FOB prices in the EU: Oct. French 11.5 pro closed at \$300.10/mt, up \$2.20/mt from last week. N/C Oct. German 12.5 pro wheat closed at \$305.20, down 0.20/mt. Oct. Baltic 12.5 pro wheat (N/C) was at \$302.90/mt, up \$1/mt.

Black Sea wheat:

- Rosstat in Russia updated its harvested acres number, and contrary to the Ag Ministry's assertions of a higher number, Rosstat kept it unchanged at 28 million ha.
- There were additional reports of some dire spring wheat yields in the Volga Federal District, suggesting that harvested acres could be further reduced.
- Russian farmers are still trying to plant their winter crops into quite dry soils.
- The **Russian export tax** will increase by \$7/mt from tomorrow (Wednesday), and is expected to rise by around \$5/mt each week until through mid October. Assuming a nominal FOB price of around \$300/mt, that implies a tax of around \$70/mt.
- *With spring wheat yields continuing to fall and winter plantings struggling, farmers are unlikely to be in a hurry to sell.*
- Russian 12.5 pro wheat for Oct. is worth ~\$300.00/mt, up \$2/mt from last week.

➤ **Significant purchases/ trades:**

The cash trade was bigger than in recent weeks.

- **Algeria** finally bought close to 500,000 mt of wheat last week, with reports that some would come from Russia and possibly even some US HRW.
- **Jordan** passed on their tender last week.
- **Turkey's TMO** was in the market last week for 300,000 mt of wheat.
- **Pakistan** is tendering today for 550,000 mt.
- **Nigeria:** USDA reported US export sales of 327,000 mt of hard red winter wheat for delivery to Nigeria this morning.
- **Bangladesh** returns to the market on Sept. 16th for 50,000 mt of wheat
- **Weekly US Export Sales** data at 295,000 mt were within expectations of 200-500,000 mt.

➤ **Wheat Market Outlook:**

Significant events:

- **US wheat futures** were pulled lower during the past week mostly by the weakness in corn and soybeans due to the uncertainty over when Gulf exports might resume. But:
- The **cash trade of wheat** has picked up in volume; we think consumers remain undersupplied.
- **Global production estimates** have been falling, and the trade is expecting further reductions to both US and Canadian crops in this week's USDA report (Fri., Sept. 10).
- **Durum:** With the US crop short as well as the Canadian durum crop, N American durum supplies will be very tight for the crop year.
- **Australia:** ABARES raised the Australian wheat crop by almost 5 million mt to 32.6 million mt, just below last year's all-time record of 33.3 million mt. The USDA currently is using 30 million mt.
- **Argentina:** The weekend rain was good in the center and south, but once again the north missed out.
- **French wheat quality:** Just 39% of samples tested so far are above the generally accepted minimum test weight for milling purposes of 76 kg.
- **Russia:** Rosstat in Russia updated its harvested acres number, and contrary to the Ag Ministry's assertions of a higher number, Rosstat kept it unchanged at 28 million ha.
- The **Russian export tax** will increase by \$7/mt from tomorrow (Wednesday) and is expected to rise by around \$5/mt each week until through mid-October.

➤ **Outlook:**

The futures were lower last week, but the cash trade was higher with Egypt, Turkey, Iran and Algeria combed buying ~1 million tonnes of wheat at higher prices. We think that consumers remain undersupplied. And for next year, the world must buy more wheat acres and have a perfect growing season in order to replenish world stocks.

We think the USDA is understating demand and overstating supply. We expect prices to move higher.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 07-09-2021					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '21 (bu.)	Nov. '21 (mt)
1 CWRS 13.5	\$10.72	\$393.90	1 CWRS 13.5	\$10.74	\$394.63
1 CWAD 13.0	\$20.44	\$751.05	1 CWAD 13.0	\$20.46	\$751.78
1 CPSR 11.5	\$9.44	\$346.86	1 CPSR 11.5	\$9.45	\$347.23
SW Sask					
1 CWRS 13.5	\$10.62	\$390.22	1 CWRS 13.5	\$10.65	\$391.32
1 CWAD 13.0	\$20.48	\$752.52	1 CWAD 13.0	\$20.51	\$753.62
1 CPSR 11.5	\$9.35	\$343.56	1 CPSR 11.5	\$9.43	
NE Sask					
1 CWRS 13.5	\$10.47	\$384.71	1 CWRS 13.5	\$10.47	\$384.71
1 CWAD 13.0	\$20.61	\$757.29	1 CWAD 13.0	\$20.63	\$758.03
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask					
1 CWRS 13.5	\$10.38	\$381.40	1 CWRS 13.5	\$10.43	\$383.24
1 CWAD 13.0	\$20.56	\$755.46	1 CWAD 13.0	\$20.59	\$756.56
1 CPSR 11.5	\$9.37	\$344.29	1 CPSR 11.5	\$9.35	\$343.56

Data source: PDQ, Sept. 7/21

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	(0.15)	(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)

Data source: PDQ, Sept. 7/21

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 Basis² (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

² 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				07-09-2021
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	\$490.23	\$890.86		
HRS	\$482.34			
HRW 11.5	\$413.63			
SWW 12.0	\$510.19			
1 CWRS 13.5 ³	\$490.23		\$388.02	\$102.21
2 CWRS 13.0 ³	\$482.34		\$382.51	\$99.83
3 CWRS ³	\$413.63		\$367.81	\$45.82
CPS ³	\$503.69		\$346.50	\$157.20
1 CWAD ⁴		\$884.36	\$736.35	\$148.01
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$300.00	October		
French 11.5 (Rouen)	\$300.10	October		
ASW 10.5 (W Coast)	\$285.00	December		
Argentine 12.0	\$290.00	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

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities				07-09-2021
Canadian Funds	Grade			
PNW value/Vancouver	2CWRS	3CWRS	Winter wht.	CPS
Dec/Jan delivery	\$12.95	\$11.08	\$10.85	\$10.85
Parity Track Rosetown	\$11.45	\$9.58	\$12.21	\$12.21
Track Bid Rosetown Area	\$10.41	\$10.01	\$9.43	\$9.43
Gross Margin at Elevator (\$/bu)*	\$1.04	-\$0.43	\$2.78	\$2.78
Gross Margin at Elevator (\$/mt)*	\$38.35	-\$15.66	\$102.21	\$102.21
* to cover elevation, elevator market risk, margin				