

## Wheat Market Outlook and Price Report: April 19, 2022

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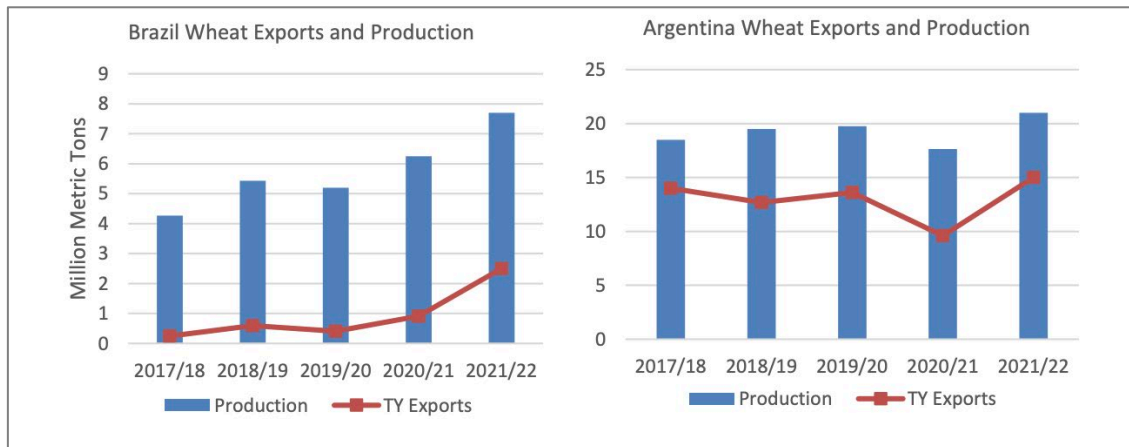
### i) Background and Rationale for the Report

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 April 19, 2022

#### USDA-FAS: South American wheat exports to improve to offset tighter Black Sea supplies:



Source: USDA-FAS

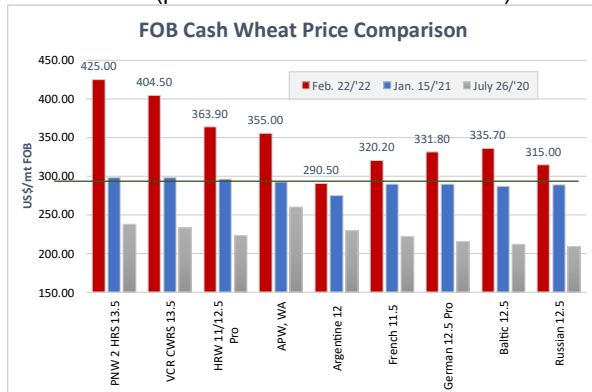
- Record wheat crops in both Argentina and Brazil have provided a bigger than usual exportable supplies as major importers scramble to find alternative sources of wheat amid the disruption to Ukraine exports.
- **Brazil**, normally a net importer of wheat, has taken advantage of strong global import demand, tightening global supplies, and elevated international prices to expand its exports. 2021/22 exports, which are adjusted up 800k mt this month to 2.5 million mt, have nearly tripled since last year's total and are just under its 2010/11 record.
- **Argentina** is generally a top global wheat exporter. 2021/22 exports are adjusted up 500k mt this month to 15.0 million mt, up 56% since last year and surpassing its 2017/18 record by 1.0 million mt.

**Recent Developments in Wheat Demand:**

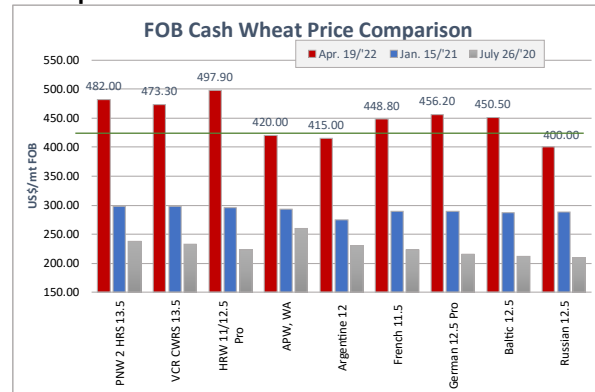
The Egyptian wheat tender last week was remarkable and traded at record prices. The cheapest Fob offer was German wheat at about \$25/mt below replacement but was rejected because of 14% moisture content. The cheapest C&F quote came from a single Russian wheat offer. There was a remarkable \$40/mt spread on the C&F offers. Egypt purchased 350k mt of wheat at record prices of ~\$494.25/mt C&F for LH May & FH June shipment. 60k mt were booked basis Bulgarian wheat, 240k mt from France, and 60k mt from Russia.

Matif wheat had been in the red prior to the tender, but the surprise booking of the 4 French cargoes sent the May contract to gains of €7/mt taking the 2-day gains to €27/mt and a second straight contract high close.

**Feb. 22/'22 (pre-Russian invasion of Ukraine):**



**Apr. 19/'22:**



➤ **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:**

- May '22 contract **Chicago winter wheat** closed at 1096-4, down 17-0 cents on Thursday, *up 76-4 cents on the week.*
- May '22 contract **Kansas hard red winter wheat** closed at 1154-0, down 20-0 cents in Thursday's trade, *up 83-2 cents on the week.*
- May '22 **Minneapolis hard red spring wheat** closed at 1144-4, down 14-4 cents on Thursday, *up 44-0 cents on the week.*

**CBOT May 2022 Wheat (1 yr.)**



**KC May '22 Wheat**



**Minneapolis May '22 Wheat**



**General Comment**

Wheat futures soared until Thursday when traders took profits ahead of the long weekend. The war is going to drag on which makes production in other areas even more important.

**India:** There has been a lot of discussion about wheat exports from India. For example, Egypt is looking to add India to its list of wheat origin options. It has been said that Indian wheat exports are poised to make up for a large portion of the Black Sea supplies. However, there are now conflicting reports on this. The USDA Attaché is forecasting that 2022/23 production in India will reach a record 110 million mt which would allow India to export 10 million mt. Some think that this could be as large as 16 million mt as the government is looking into giving wheat exports berth priority. On the other hand, there are rumours of a large (10-30%) crop loss. Some think that 10 million mt of wheat exports would necessitate India to import grain in the 4<sup>th</sup> quarter. – Stay tuned!

**Canadian Wheat:**

- Farmers hoped that last week’s storm would provide moisture to the dry spring wheat area of the Prairies and N Plains. It looks like the system largely missed the driest areas of E SK, AB, and Montana.



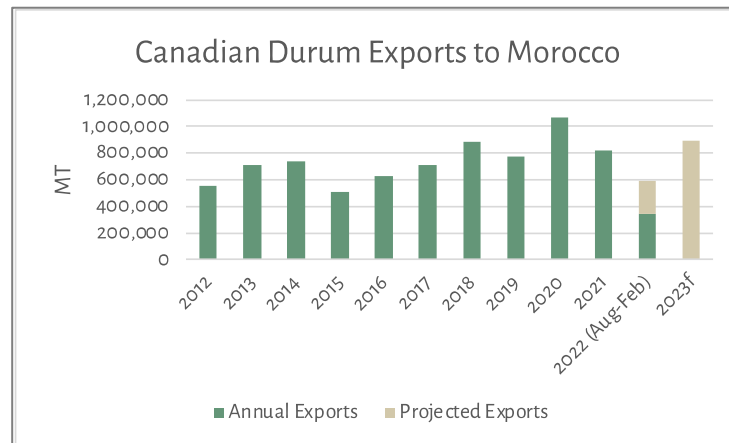
- Week 36 Canadian wheat exports were dismal at just 67.4k mt for a total export volume of 7.9 million mt. Total visible supplies have risen to 2.9 million mt - almost 40% of all exports to date. 1.2 million mt of the visible supplies is in port locations. It would be a shame if Canada carried over any more than the absolute minimum of supplies. We are optimistic that exports will be

stronger in the final quarter of the marketing year, but at the current pace, exports will fall short of AAFC's number by 1.8 million mt.

- *The wheat market is strong supported by weather concerns in the US and parts of Europe. Barring a crop failure however, there will be sufficient wheat supplies available. That said, the balance sheet is too tight for any significant shortfalls in production. Growers are well advised to be fully sold of old crop at current prices. We would wait a little longer on new crop because of weather.*

(CGC) Grain Handling Summary Wheat				
Wk. 36 (Apr.10/'22)				
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 36	230.1	238.8	67.4	66.6
Week ago	232.8	214.4	188.7	106.8
YTD	11,387.9	10,017.0	7,902.2	2,858.2
Last YTD	15,533.9	15,726.8	13,713.3	2,785.7
YTD less Last YTD	-4,146.0	-5,709.8	-5,811.1	72.5
YTD over Last YTD	73%	64%	58%	103%

- **Durum:** Similar to spring wheat, the snowstorm in the Canadian Prairies and US Northern Plains missed most of the durum producing areas which overall, remain dry.
- Morocco's Ag Minister is estimating that their wheat crop will be 78% lower than last year because of extreme drought. This would mean that durum production there would fall to ~550k mt. Morocco will carry over more durum than usual given their large 2021/22 crop, but we estimate that their import requirement will be upwards of 1.5 million mt which would surpass their previous 1.3 record in 2020/21. Morocco accounts for 14-20% of Canada's durum exports. We estimate that exports to Morocco in 2023 could be upwards of 890k mt. A similar amount as 2018.



- New crop durum prices continue to rise as buyers realize that next year's supply might be lower than anticipated. Posted new crop bids are too low, but we have heard of some strong specials being offered. We would be 50% sold at \$13.00/bu or better. Watch out for "#3 CWAD Milling" specs that have HVK (80%) and test weight specifications (392 g/hl) of a #1 CWAD.

(CGC) Grain Handling Summary Durum			Wk. 36	(Apr. 10/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 36	35.9	35.0	42.9	10.6
Week ago	36.5	41.7	53.6	5.6
YTD	1,942.2	2,211.1	1,694.4	306.3
Last YTD	4,611.8	5,139.0	4,222.9	407.5
YTD less Last YTD	-2,669.6	-2,927.9	-2,528.5	-101.2
YTD over Last YTD	42%	43%	40%	75%

### US Wheat:

- US weekly wheat sales were poor at 96.1k mt. US HRW in the Gulf is the most expensive wheat in the world on a FOB basis. Buyers in the Middle East are turning to the EU, and Asian buyers are sourcing their wheat from India and Argentina.
- Winter wheat Gd/Ex ratings rose 2% over the week to 32% (53% last year). The US central plains remain dry, but weather models do show rain coverage in the Eastern parts of the Plains. EU and Morocco were completely dry while there was some rain in Russia and Ukraine.
- US HRS for Apr. '22 is valued at \$482.00/ mt FOB PNW (up \$14/mt from last week, and up \$57/mt since Feb. 14), FOB Gulf HRW 11/12.5 pro is valued at \$497.90/mt (up \$43.30/mt from last week, up \$43.40/mt since Feb. 24).

### Australian wheat:

- Australian FOB APW wheat for Apr. '22 was quoted at \$420.00/mt, unchanged over the past week. However, there is little to no extra export capacity.

### Argentine wheat:

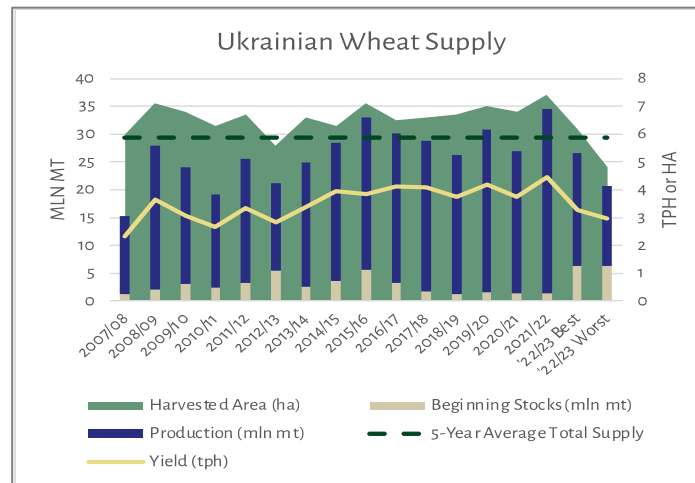
- In Argentina, the truckers resolved their dispute over haulage rates.
- After the 4-day weekend Fob values were reported to have seen a jump from last week with 12.5 pro put at around \$420/mt.
- April shipment Argentine 12% pro wheat was valued at ~\$420.00/mt FOB: if correct, up \$45/mt from the previous week.

### EU wheat:

- Most of Europe was on holiday yesterday and today's trade is expected to be sharply higher following the US markets.
- Egypt booked 4x60k mt of French wheat in their GASC tender.
- Matif wheat had been in the red prior to the tender, but the surprise booking of the 4 French cargoes sent the May contract to gains of €7/mt taking the 2-day gains to €27/mt and a second straight contract high close.
- Fob prices in the EU: Apr. German 12.5 pro wheat closed at \$462.40/mt, up \$28.20/mt (up \$130.40/mt since Feb. 24). Apr. Baltic 12.5 pro wheat was at \$457.00/mt, up \$24.90/mt (up \$125.10/mt since Feb. 24).

### Black Sea wheat:

- Ukraine's Ag Min said that they will export another 2 million mt of wheat between now and the end of the marketing year (June). For the new crop, some think that anywhere from 15-50% of Ukraine's wheat crop will not be harvested causing 2022/23 production estimates in Ukraine to range from a 13 million mt decrease to upwards of 19 million mt lower production.



- Meanwhile, there are a reported 57 vessels that have been stuck in Ukrainian ports since the start of the war, carrying a total of 1.25 million mt grains and oilseeds, at least some of which may now be at risk of spoiling. Turkey alone says it has 22 trapped vessels.
- The Egyptian tender confirmed the great risk to Black Sea shipments going forward, not only from Russia and Ukraine but also potentially from the Balkans. The tender also points towards demand switching into the EU. Consequently, Egypt will likely step-up discussions with India about wheat supplies given the current Indian Fob price of \$325-330/mt.

➤ **Significant purchases/ trades:**

- **Egypt** (GASC) purchased 350k mt of wheat at record prices of ~\$494.25/mt C&F for LH May & FH June shipment. 60k mt were booked basis Bulgarian wheat, 240k mt from France, and 60k mt from Russia.
- **Algeria** bought 120k mt mostly Balkan wheat for May-June to small ports at around \$460 C&F.
- **US** weekly wheat sales were poor at 96.1k mt.

➤ **Wheat Market Outlook:**

**Significant events:**

- The **Egyptian wheat tender** last week traded at record prices. There was a remarkable \$40/mt spread on the C&F offers. Egypt purchased 350k mt of wheat at ~\$494.25/mt C&F for LH May & FH June shipment. 60k mt were booked basis Bulgarian wheat, 240k mt from France, and 60k mt from Russia.
- **Egypt** approved India as a wheat supplier.
- **Matif wheat:** The surprise booking of the 4 French cargoes sent the May contract to gains of €7/mt taking the 2-day gains to €27/mt and a second straight contract high close.
- There are now conflicting views on **India's ability to export wheat**. The USDA Attaché thinks that India's '22/23 wheat will reach a record 110 million mt which would allow India to export 10 million mt. Some think exports could be as large as 16 million mt as the government is looking into giving wheat exports berth priority. On the other hand, there are rumours of a large (10-30%) crop loss. Therefore, some think that 10 million mt of wheat exports would necessitate India to import grain in the 4<sup>th</sup> quarter.
- Week 36 **Canadian wheat exports** were dismal at just 67.4k mt for a total export volume of 7.9 million mt. Total visible supplies have risen to 2.9 million mt - almost 40% of all exports to date.
- **Durum** producing areas remain dry.
- **US winter wheat** Gd/Ex crop ratings rose 2% over the week to 32% (53% last year).



**Outlook:**

Funds reduced their net long in MPLS spring wheat by 135 contracts last week but were still within 800 contracts of a record large net long exposure to that market. Egypt approved India as a wheat supplier but estimates of India's wheat crop continue to fall of late and talk of 115 million mt a few weeks ago has fallen to the 100-105 million mt range. This is important, because -if correct- India will not have as much for export as people are currently assuming. While there is wheat available to purchase, there are still unknowns in this market, and it cannot afford a lot of weather problems.

In our view, growers should take this opportunity and be fully sold for old crop at current prices. We would wait a little longer on new crop because of weather concerns.

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

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

Date: 19-04-2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Aug. '22 (bu.)	Aug. '22 (mt)
<b>1 CWRS 13.5</b>	\$14.35	\$527.28	<b>1 CWRS 13.5</b>	\$13.38	\$491.63
<b>1 CWAD 13.0</b>	\$15.57	\$572.10	<b>1 CWAD 13.0</b>	\$11.40	\$418.88
<b>1 CPSR 11.5</b>	\$13.34	\$490.16	<b>1 CPSR 11.5</b>	n/a	
<b>SW Sask</b>			<b>SW Sask</b>		
<b>1 CWRS 13.5</b>	\$14.23	\$522.87	<b>1 CWRS 13.5</b>	\$13.08	\$480.61
<b>1 CWAD 13.0</b>	\$15.66	\$575.41	<b>1 CWAD 13.0</b>	\$11.71	\$430.27
<b>1 CPSR 11.5</b>	\$13.35	\$490.53	<b>1 CPSR 11.5</b>	\$12.52	\$460.03
<b>NE Sask</b>			<b>NE Sask</b>		
<b>1 CWRS 13.5</b>	\$14.15	\$519.93	<b>1 CWRS 13.5</b>	\$13.26	\$487.23
<b>1 CWAD 13.0</b>	\$15.92	\$584.96	<b>1 CWAD 13.0</b>	\$13.21	\$485.39
<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>	\$14.06	\$516.62	<b>1 CWRS 13.5</b>	\$13.06	\$479.88
<b>1 CWAD 13.0</b>	\$15.68	\$576.15	<b>1 CWAD 13.0</b>	\$12.86	\$472.53
<b>1 CPSR 11.5</b>	\$13.20	\$485.02	<b>1 CPSR 11.5</b>	\$12.51	\$459.67

Data source: PDQ, Apr. 19/'22

**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>	(0.10)	(3.67)
<b>1 CWRS 12.5</b>	(0.02)	(0.85)
<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>	(0.09)	(3.31)
<b>2 CWAD 12.5</b>	(0.11)	(4.04)

Data source: PDQ, Apr. 19/'22

#### 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 Northwest (PNW) ≈ 1 CWRS 13.5% in Vancouver
  - HRS in the Pacific Northwest (PNW) ≈ 2 CWRS 13.0% 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.”



- HRW in the Pacific Northwest (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				19-04-2022
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>	\$589.80	\$758.38		
<b>HRS</b>	\$582.37			
<b>HRW 11.5</b>	\$600.02			
<b>SWW 12.0</b>	\$540.57			
<b>1 CWRS 13.5<sup>3</sup></b>	\$589.80		\$521.40	\$68.40
<b>2 CWRS 13.0<sup>3</sup></b>	\$582.37		\$518.46	\$63.91
<b>3 CWRS<sup>3</sup></b>	\$600.02		\$509.27	\$90.74
<b>CPS<sup>3</sup></b>	\$534.07		\$470.32	\$63.75
<b>1 CWAD<sup>4</sup></b>		\$751.88	\$551.16	\$200.72
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$400.00	April		
French 11.5 (Rouen)	\$418.80	April		
APW 10.5 (W Coast)	\$420.00	April		
Argentine 12.0	\$415.00	April		

<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