

Wheat Market Outlook and Price Report: April 25, 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 SaSaskatchewan 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 SaSaskatchewan 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 25, 2022

International Grains Council (IGC) Global Wheat Update, April 21/22:

	19/20	20/21 est.	21/22 f'cast	22/23 proj.
million tons			17.03	21.04
WHEAT				
Production	762	775	781	780
Trade	185	190	194	193
Consumption	746	771	778	785
Carryover stocks	275	279	281	277
year/year change	15	4		3
Major exporters ^{b)}	62	60	63	64

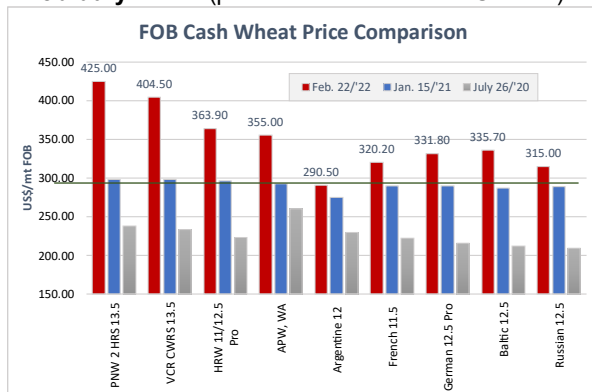
b) Argentina, Australia, Canada, EU, Kazakhstan, Russia, Ukraine, USA
Source: IGC

- In their April Grain Market Report, the IGC made moderate adjustments to their global wheat numbers. This report includes the first full set of total grains supply and demand projections for 2022/23, which are especially tentative given the conflict in the Black Sea region.
- For the **'21/23 crop**, trade was lowered by 1 million mt to 193 million mt. Ending stocks, were increased by 1 million mt to 282 million mt, 3 million mt more than last year's ending stocks.
- For the **'22/23 crop year**, the IGC showed wheat production at 780 million mt, trade at 193 million mt (the same as this year), consumption at 185 million mt, 5 million mt higher than this year. Ending stocks are also shown to fall by 5 million mt but are still sufficient at 277 million mt!

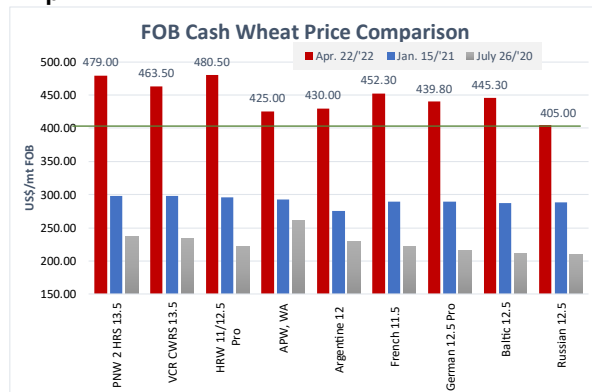
Recent Developments in Wheat Demand:

The IGC expects global wheat consumption for the 2022/23 crop year to increase by 7 million mt to 785 million mt. This number puts total wheat consumption/usage is 5 million mt higher than global wheat production. But ending stocks at 277 million mt should *not* be considered dangerously low levels. However, the number does put us on the watch for production problems throughout the production cycle.

February 22/'22 (pre-Russian invasion of Ukraine):



April 22/'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 of last week's market events in the major wheat origins.

Futures:

- May '22 contract **Chicago winter wheat** closed at 1065-4, down 2-4 cents on Friday, *down 31-0 cents on the week.*
- May '22 contract **Kansas hard red winter wheat** closed at 1142-6, up 5-0 cents in Friday's trade, *down 11-2 cents on the week.*
- May '22 **Minneapolis hard red spring wheat** closed at 1160-2, up 8-6 cents on Friday, *up 15-6 cents on the week.*

CBOT May 2022 Wheat (1 yr.)



KC May '22 Wheat



Mpls. May '22 Wheat

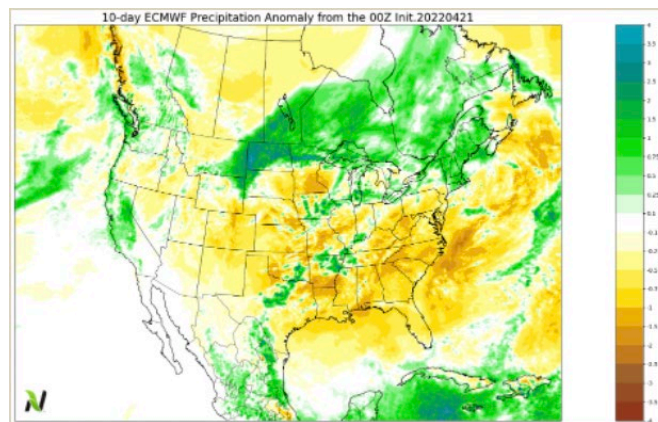


General Comment

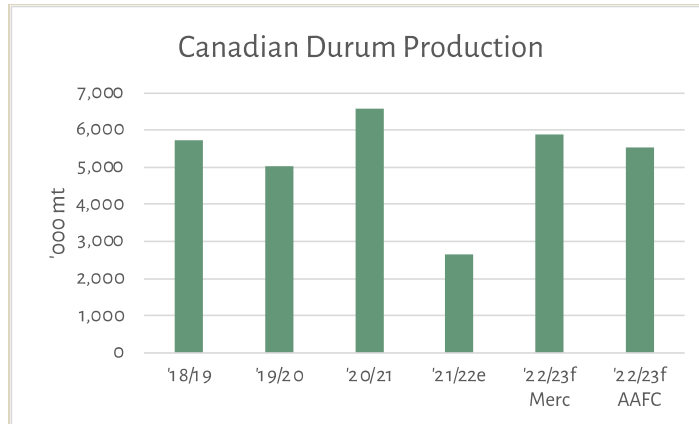
Don't expect the wheat markets to be that dynamic this week. Futures will see some gains in wheat but expect cash trade to again be slow. We expect cash buyers to be more interested in corn than wheat.

Canadian Wheat:

- SE Saskatchewan and S Manitoba were hit with another bout of precipitation, but moisture continues to miss the parts of Alberta and Saskatchewan that could benefit the most from additional moisture. There is some precipitation slated for Montana and S Alberta in the 7-day forecast.



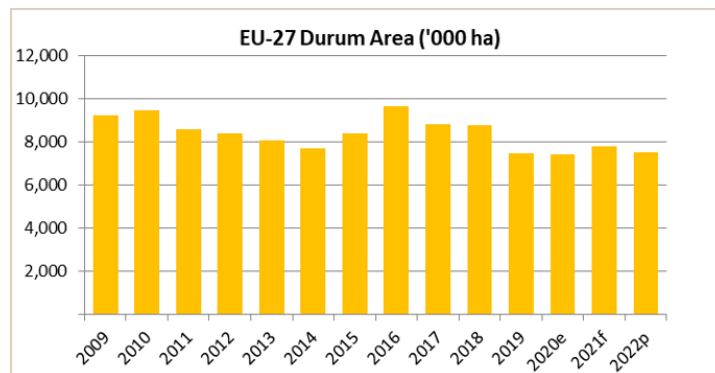
- AAFC published their April balance sheets last week. AAFC left the Canadian non-durum wheat balance sheet entirely unchanged. They are still forecasting that 2021/22 exports will be 13.2 million mt with a 3.3 million mt carry-out.
- Canadian week 37 wheat exports were dismal at just 174.1k mt for a total export volume of 8.1 million mt. Visible supplies in port locations continue to be 1.2 million mt. Canada needs to export an average of 342k mt of wheat per week to meet the AAFC's unchanged export number.
- *The wheat market is strong because of the weather concerns in the US and in parts of Europe. However, barring a crop failure there will be sufficient wheat available in the markets.*
- *Old crop is sold out and new crop is 50% sold at \$13.00/bu or better.*
- **Durum:** AAFC made minor revisions to the Canadian durum balance sheet. For 2021/22, imports were reduced by 5k mt, exports were raised by 50k mt, and feed use was decreased by 5k mt. This resulted in ending stocks falling by 50k mt to 450k mt.
- For the 2022/23 crop, AAFC offset the 50k mt decrease in beginning stocks by a respective decrease in feed use for an unchanged ending stock number of 900k mt (now two times the 2021/22 volume). AAFC is forecasting a 9% increase in seeded area. The supply of durum next year completely depends on yield assumptions. Stat's Canada is using an 87% yield increase to 34.2 bushels-per-acre, which gives a production number of 5.5 million mt. We are currently using a 6-year average yield of 36.4 bushels-per-acre, which results in a 5.9 million mt number.



Source: Stats Canada, AAFC, Merc

- The durum wheat area in the EU is expected to fall by 4% from last year to 2.1 million hectares.

(CGC) Grain Handling Summary Wheat		Wk. 37 (April 17/'21)		
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Wk. 37	255.4	261.7	174.1	37.7
Week ago	230.1	238.8	67.4	66.6
YTD	11,643.5	10,306.0	8,076.3	2,896.1
Last YTD	15,981.3	16,288.8	14,077.2	2,835.4
YTD less Last YTD	-4,337.8	-5,982.8	-6,000.9	60.7
YTD over Last YTD	73%	63%	57%	102%



Source: EC, Merc

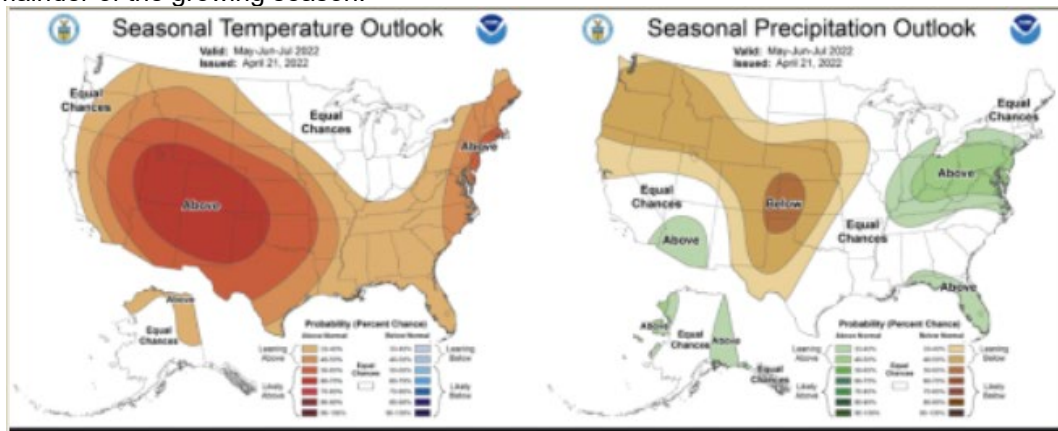
- *New crop durum prices have jumped to \$14.25/bu for a #2 and \$13.75 for a #3. Some buyers are also offering an AOG. These are strong prices, and we would be 50% sold at these levels.*

(CGC) Grain Handling Summary Durum Wk. 37 (April 17/'21)

('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Wk. 37	30.5	40.9	34.0	4.6
Week ago	35.9	35.0	42.9	10.6
YTD	1,972.7	2,258.4	1,728.4	310.9
Last YTD	4,739.3	5,446.6	4,482.9	409.2
YTD less Last YTD	-2,766.6	-3,188.2	-2,754.5	-98.3
YTD over Last YTD	42%	41%	39%	76%

US Wheat:

- US winter wheat crop conditions lost two points over the week to 30% Gd/Ex. This is slightly worse than the drought-affected crop of 2018. The forecast for the US plains remains hot and dry for the remainder of the growing season.



- US weekly wheat sales were a small 26k mt (1.0 million bushels). This is still on track to meet the USDA's export estimate. US wheat continues to be at a huge premium to other origins. This premium gets larger into new crop as European wheat has a large old crop-new crop inverse.
- US HRS for May '22 is valued at \$479.00/ mt FOB PNW (down \$3mt from last week, and up \$54/mt since February 14), FOB Gulf HRW 11/12.5 pro is valued at \$480.50/mt (down \$17.40/mt from last week, up \$26/mt since February 24).

Australian wheat:

- Australian wheat futures saw a second straight week of contract high closes.
- Australian FOB APW wheat for May '22 was quoted at \$425.00/mt, up \$5/mt over the past week.

Argentine wheat:

- In South America, the central two-thirds of Brazil and all but a thin strip of East Argentina look completely dry with temperatures above/much above normal.
- Argentine crop ratings fell another 2% to just 18% GD/EX (37% last year) and with just 28% of the late crop mature against 47% average, it could still be at risk from the hot dry forecast.
- Subsequent to BAGE's 3% lower acreage estimate for Argentine wheat earlier last week, the Rosario GE said production could fall by 25% or 2 million mt in the central core region alone. Dry weather and rising costs are expected to reduce plantings in Argentina by 10%, while a 20% drop in fertilizer use due to high prices and supply chain issues would hurt yields.
- May shipment Argentine 12% pro wheat was valued at ~\$430.00/mt FOB, up \$10/mt from the previous week.

Indian wheat:

- There is a lot of speculation right now about the size of the 2022 Indian wheat crop and its ability to export it. It is doubtful they will have a 110 million mt crop, and exports of 10 million mt are likely too high. We think Indian wheat exports will be closer to 6 million mt. India's 2021 wheat crop exports through the end of March have hit a record 7.85 million mt.
- Egypt announced that they have approved India as a wheat import origin but has placed several conditions including pesticide restrictions and inspection for pests prior to export.
- Recent Indian wheat sales have been at \$330-\$335/mt on a FOB basis which is \$100/mt cheaper than European origin. Freight is more expensive at \$70/mt compared to \$30-\$40/mt from the Black Sea. India's first wheat trade to Egypt has reportedly been made for May/June delivery.

EU wheat:

- Matif new crop wheat futures bounced €10/mt.
- There seems to be no way the world wheat market can avoid switching big volumes of Black Sea exports to other origins, and EU wheat is first in line.
- FOB prices in the EU: May '22 French 11.5 pro wheat closed at 452.30/mt, up \$3.50/mt from last week; May German 12.5 pro wheat closed at \$439.8/mt, down \$22.60/mt (up \$107.80/mt since February 24). April Baltic 12.5 pro wheat was at \$442.50/mt, down \$14.50/mt (up \$110.50/mt since February 24).

Black Sea wheat:

- Russian customs announced they would 'temporarily' suspend the publication of import and export data. The agency did not define "temporary", but this might be for the duration of the war. This will make it much harder to gauge the real impact of sanctions on trade. Traders are left with trying to follow vessel line-ups to assess wheat exports.
- Russia's IKAR raised its wheat production forecast by 0.5 million mt to 83.5 million mt. Sovecon increased their forecast to a record-high 87.4 million mt.
- Some reports last week said Russia would/ could export 41 million mt of wheat next season. However, the impact of sanctions on vessels and vessel insurance is unclear so far.

➤ **Significant purchases/ trades:**

- We heard of no international buying.
- The scheduled Jordan purchase was again canceled.
- USA old crop export sales were poor at just 26,000 mt, leaving the season total of 705 million bushels down 25% on last year. New crop sales of 238,000 mt were mid-range of trade guesses.

➤ **Wheat Market Outlook:**

Significant events:

- The **IGC** expects global wheat consumption for the 2022/23 crop year to increase by 7 million mt to 785 million mt. This number puts total wheat consumption/ usage 5 million mt higher than global wheat production of 780 million mt. But we would *not* consider ending stocks at 277 million mt to be at dangerously low levels unless major production problems develop, or unless Russian wheat exports are stopped.
- The **US winter wheat crop** conditions lost 2 points over the week to 30% Gd/Ex.
- **Argentine crop ratings** fell another 2% to just 18% GD/EX (37% last year) and with just 28% of the late crop mature against 47% average, it could still be at risk from the hot dry forecast.
- **Russia's** IKAR raised its wheat production forecast by 0.5 million mt to 83.5 million mt. Sovecon increased its forecast to a record-high 87.4 million mt.
- Some reports last week said **Russia** would/ could export 41 million mt of wheat next season. However, the impact of sanctions on vessels and vessel insurance is unclear so far.

Outlook:

Futures will see some gains in wheat, but we expect cash trade to again be slow. We expect cash buyers to be more interested in corn than in wheat. The wheat market is strong because of the weather concerns in the US and parts of Europe. However, barring major production problems there will be sufficient wheat available in the new crop year. We don't see a major shortage of wheat unless we incur major production problems and/ or Russian exports are stopped.

Old crop is sold out and new crop is 50% sold at \$13.00/bu or better.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date:					25-04-2022
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
1 CWRS 13.5	\$14.18	\$521.03	1 CWRS 13.5	\$13.40	\$492.37
1 CWAD 13.0	\$15.58	\$572.47	1 CWAD 13.0	\$11.84	\$435.05
1 CPSR 11.5	\$13.16	\$483.55	1 CPSR 11.5	\$12.74	\$468.12
SW Sask			SW Sask		
1 CWRS 13.5	\$14.07	\$516.99	1 CWRS 13.5	\$13.19	\$484.65
1 CWAD 13.0	\$15.68	\$576.15	1 CWAD 13.0	\$12.20	\$448.28
1 CPSR 11.5	\$13.12	\$482.08	1 CPSR 11.5	\$12.60	\$462.97
NE Sask			NE Sask		
1 CWRS 13.5	\$13.97	\$513.31	1 CWRS 13.5	\$13.12	\$482.08
1 CWAD 13.0	\$15.94	\$585.70	1 CWAD 13.0	\$12.23	\$449.38
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$13.94	\$512.21	1 CWRS 13.5	\$13.01	\$478.04
1 CWAD 13.0	\$15.72	\$577.62	1 CWAD 13.0	\$12.88	\$473.26
1 CPSR 11.5	\$12.98	\$476.94	1 CPSR 11.5	\$12.46	\$457.83

Data source: PDQ, April 25/'22

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, April 25/'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' SaSaskatchewanatchewan 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 Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, SaSaskatchewanatchewan (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.

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 SaSaskatchewanatchewan 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.”

- 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)
 - 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				25-04-2022
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	\$589.28	\$766.76		
HRS	\$581.76			
HRW 11.5	\$589.74			
SWW 12.0	\$527.77			
1 CWRS 13.5 ³	\$589.28		\$519.56	\$69.71
2 CWRS 13.0 ³	\$581.76		\$515.89	\$65.88
3 CWRS ³	\$589.74		\$505.23	\$84.51
CPS ³	\$521.19		\$460.40	\$60.79
1 CWAD ⁴		\$760.19	\$551.16	\$209.03
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$405.00	April		
French 11.5 (Rouen)	\$452.30	April		
APW 10.5 (W Coast)	\$425.00	April		
Argentine 12.0	\$430.00	April		

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