

## Wheat Market Outlook and Price Report: August 15, 2022

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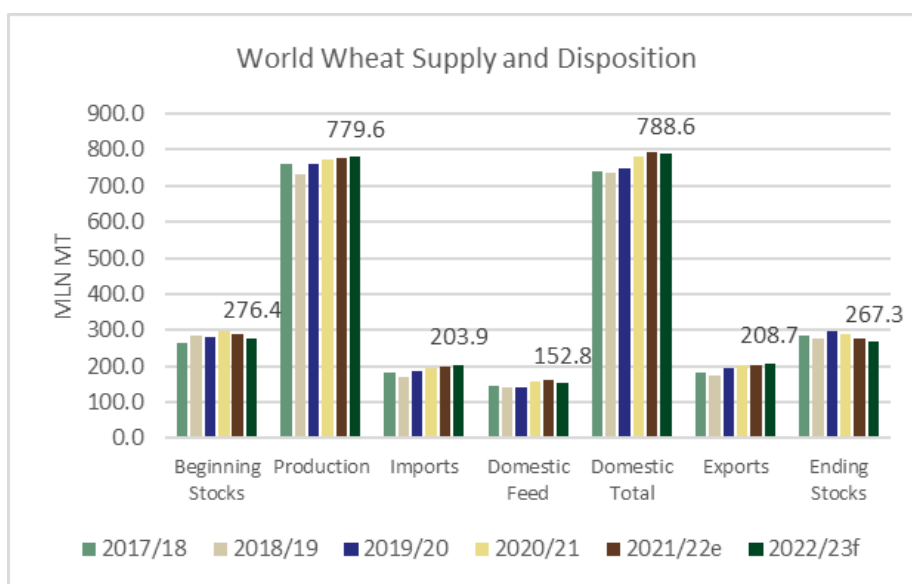
### i) Background and Rationale for the Report

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 August 15, 2022

#### WASDE August World Wheat Supply and Demand Estimates:



Source: USDA

- The USDA raised world wheat supply from July's estimate by 4.2 million mt. The increase in supply came as a 3.8 million mt decrease in beginning stocks was offset by an 8.0 million mt increase in production. Production was raised to a fresh record high of 779.6 million mt. Most of the increases in production were in Russia, China, and Australia.
- Global consumption was raised 4.4 million mt to 788.6 million mt. This was led by higher feed use in China and Russia.
- Trade was raised 3.2 million mt on higher exports in Russian, Australia, Ukraine, Canada, and the US offsetting reductions in the EU and Argentina.
- Overall, global ending stocks were reduced by 3.7 million mt to 267.3 million mt – the lowest level in 6 years.

**Developments in Wheat Demand:**

Wheat markets were stronger heading into last Friday's USDA report. While the report was bullish for most of the other grains, it's fairly neutral for wheat.

➤ **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:**

- September 2022 contract Chicago winter wheat closed at 806-0, down 4-6 cents on Friday, up 30-2 cents on the week.
- September 2022 contract Kansas hard red winter wheat closed at 889-2, unchanged in Friday's trade, up 41-0 cents on the week.
- September 2022 Minneapolis hard red spring wheat closed at 919-4, down 2-2 cents on Friday, up 33-0 cents on the week.
- Monday morning wheat futures are trading 5-11 cents lower.

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



**KC Sept. 2022 Wheat**

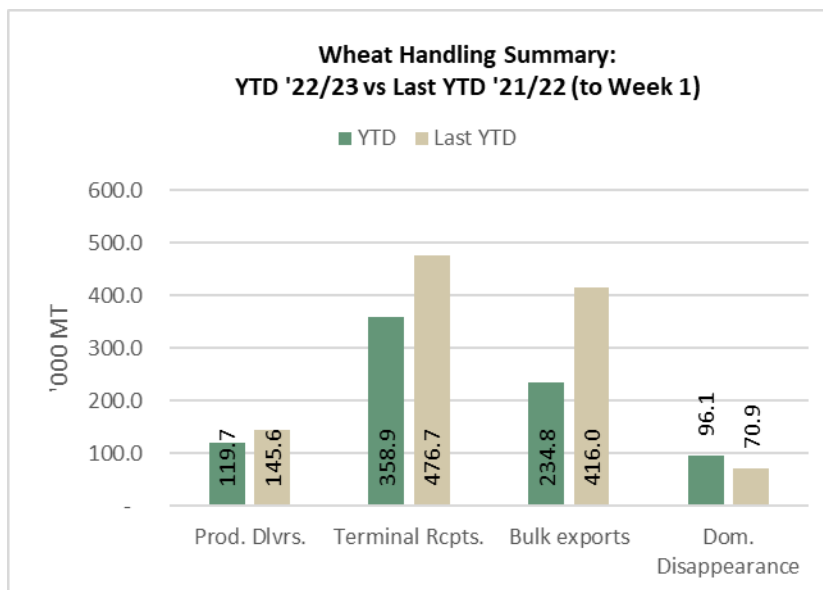


**Minneapolis Sept. 2022 Wheat**



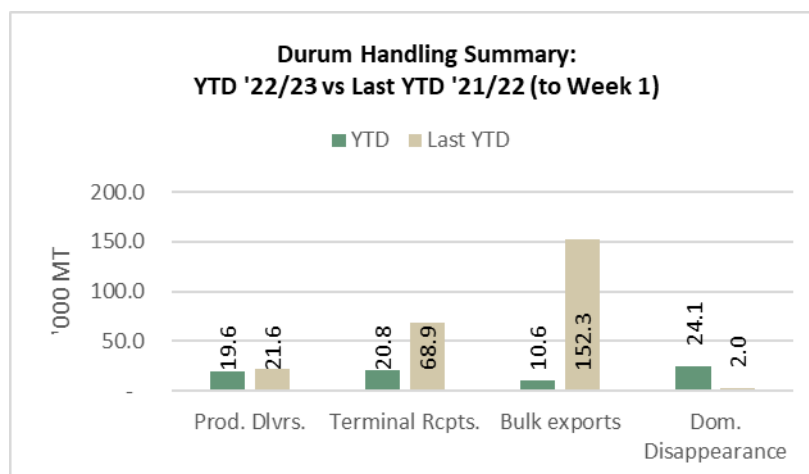
**Canadian Wheat**

- The condition of the spring wheat crop in Alberta lost 3% over the past two weeks to 77% Gd/Ex. Alberta Ag increased their yield prospects from 52.3 to 52.8 bushels per acre.
- Canada exported 234.8k mt of wheat in the first week of the shipping season. There are still 1.8 million mt of visible old crop supplies in the Canadian elevator system which will keep export channels full until new crop is available.
- The large crop in Western Canada means that there will be a lot of demand for allocation at the elevator, and we worry that rail service could be inadequate due to large coal shipments this fall. It would not hurt to start having conversations with your elevator managers about when you expect to be harvesting and when you will need to haul (as per your contract).



Source: CGC

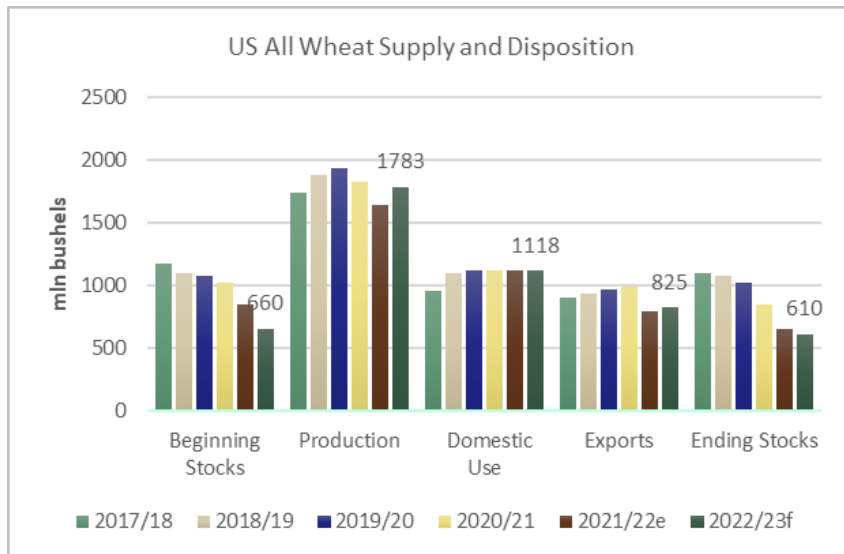
- Alberta's **durum** crop condition is 46% Gd/Ex, down 2% from when they were last reported two weeks ago.
- Canada exported 10.6k mt of durum in the first shipping week of the season. Durum exports seasonally stay low in August-September and then pick up into October-November.



Source: CGC

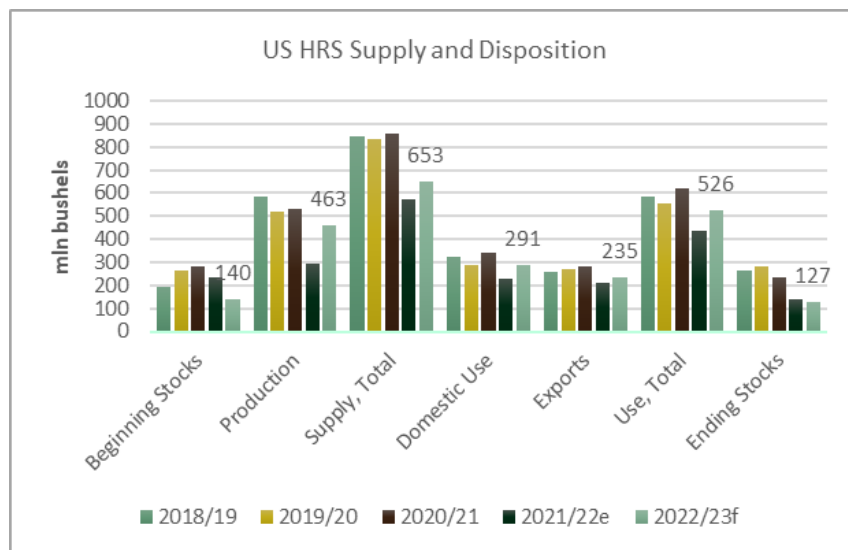
## US Wheat:

- Winter wheat harvest in the US is 86% complete. The USDA lowered winter wheat yields by 0.1 bushels to 47.9 bushels per acre, down 2.3 bushels from last year.
- The USDA increased their number for US wheat production by 2.0 million bushels to 1.8 billion bushels. Winter wheat and durum production were lower, but these were more than offset by higher spring wheat production. Food use was raised by 6 million bushels, and exports grew by 25 million bushels (to 825 million), for an overall 29 million bushel decrease in ending stocks (to 610 million bushels).



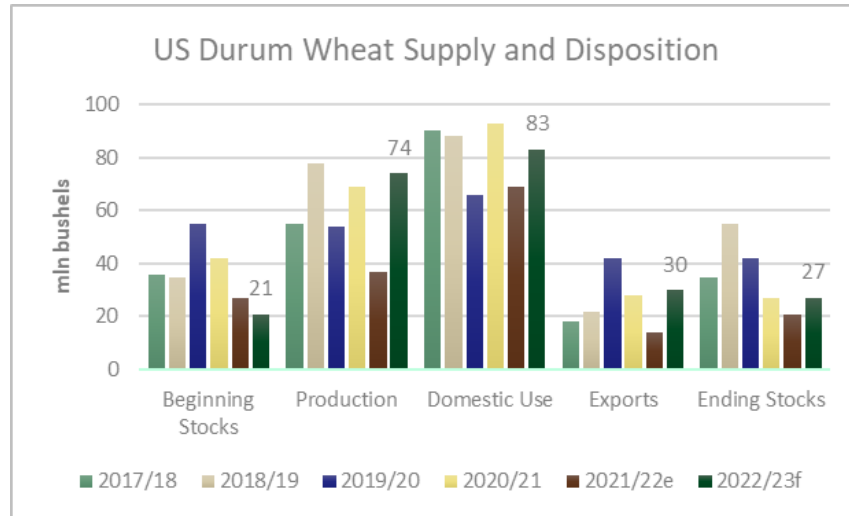
Source: USDA

- Spring wheat harvest in the US is 9% complete. The condition of the crop fell by 6% over the week to 64% Gd/Ex. Harvest in Montana is 22% complete and yields have been poorer than expected. Spring wheat harvest is 54% done in South Dakota. The USDA decreased their yield number for South Dakota by 5 bushels to 44 bushels per acre. There has been no progress in North Dakota, where the USDA raised yield estimates by 1 bushel to 52 bushels per acre.
- The USDA raised US spring wheat production by 6 million bushels from their July report to 463 million bushels. The increase in production was almost entirely offset by a 5 million bushel increase in exports (to 235 million bushels) for a 1 million mt increase in ending stocks. Ending stocks of 127 million bushels are 13 million bushels less than last year's 140 million bushels.



Source: USDA

- Nine percent of Montana's **durum** crop has been harvested. Yields have been poor in the Golden Triangle but are better in the Eastern region. Montana's crop is 43% Gd/Ex while conditions in North Dakota fell slightly to 77 Gd/Ex. The USDA decreased yield in Montana by 1 bushel to 29 bushels per acre while increasing North Dakota's yields by 1 bushel to 41 bushels per acre.



Source: USDA

- US HRS for September 2022 was valued at \$390.00/ mt FOB PNW (*up \$6.20/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$383.20/mt (*up \$6.50/mt from last week*).

**Australian wheat:**

- The USDA raised Australian wheat production by 3.0 million mt to 33.0 million mt. This would be 3.3 million mt less than last year's amount. The USDA also increased their forecast for Australia's exports by 1.0 million mt to 25 million mt which is 2.5 million mt less than last year.

**Argentine wheat:**

- Argentina's production estimate was decreased by 0.5 million mt to 19.0 million mt. This could be too high still.
- The USDA decreased Argentina's export number by 0.5 million mt to 13.0 million mt, but with interest rates in Argentina hitting 65%, growers will only sell the minimum amount of grain for cash flow needs.
- September shipment 12% pro Argentine wheat was valued at ~\$400.00/mt (*up \$10/mt from last week*).

**China wheat:**

- The USDA increased China's wheat crop by 2.0 million mt from last month to 138.0 million mt. The entirety of the increase was added to their ending stocks.

**EU wheat:**

- Harvest in France has come to an early completion. Hot and dry weather ripened the crop quickly and aided harvest progress. The French Agriculture Ministry says that yields were better than expected, but a smaller seeded area will cause non-durum wheat production to be 4% less than last year at 33.9 million mt.
- The wheat crop in Romania has been harvested. Production there was 15-18% less than last year's record crop due to higher input costs and drought conditions.
- The USDA decreased EU wheat production by 2.0 million mt to 132.1 million mt. The entirety of the decrease was taken from their trade number which is now at 33.5 million mt - 1.5% higher than last year. This export number is too low. EU exports are currently 30% up on the year and the EU remains the world's cheapest and most reliable wheat exporter.
- FOB prices in the EU: September 2022 French 11.5 pro wheat closed at \$356.2/mt (*up \$1.10/mt from last week*); September 2022 German 12.5 pro wheat closed at \$379.20/mt, (*up \$0.20/mt from last week*).

**Black Sea wheat:**

- Russia's wheat harvest is 43% complete. Farmers have harvested 55.8 million mt of wheat (according to the Russian Gov). Yields are reported to be 30% higher than last year.
- Rain has impacted the quality of the Russian crop. Sixty percent of the crop is expected to meet milling standards compared to 82% last year.
- Russia's Ag Consultancy is predicting the Russian wheat crop will be 90.5 - 95.0 million mt compared to the USDA's new 88.0 million mt number.
- The USDA increased their export number for Russian wheat by 2.0 million mt to 42.0 million mt. This looks too high considering the quality complications and the fact that the country can only export ~2.0 million mt/month. Similarly, the USDA's 11.0 million mt export number for Ukrainian wheat means the country needs to export 1.0 million mt of wheat per month for the remainder of the year. This will be difficult to accomplish.

➤ **Significant purchases/ trades:**

There was some trade early in the week.

- We did not hear of any significant trades this week. If there was any business to the Middle East, we expect it would have been basis Russian origin grain. Other origins waited to see the USDA's numbers before making offers.
- **USA** weekly export sales were within expectations at 359k mt.

➤ **Wheat Market Outlook:**

**Significant events over the past week:**

- **The first Ukrainian wheat cargo** left the port of Chornomorsk on Friday. So far, there have been 14 ships able to leave Ukraine's ports, but until Friday, none of them had contained any wheat.
- **The USDA cut global corn production** as smaller production in the EU (which was sharply lower), offset increases in the Black Sea. EU production was decreased by 8 million mt to 60 million mt as extreme heat has ravaged their corn crop. Mercantile thinks the USDA is still overestimating global corn supplies, and this will mean more wheat will be used as feed.
- There is still **talk that India will scrap the 40% duty on wheat imports**. They may also cap the number of stocks that wheat traders are allowed to hold. These policies are aimed to tame the record-high price of domestic wheat. India banned wheat exports in May. The USDA still has the country exporting 6.5 million mt and importing just 300k mt.

**Outlook:**

From a fundamental perspective, we think the markets should continue to have some upside based on the damage being done to crops by the current heat waves and drought in Europe. The USDA particularly overestimates global corn supplies, and this will mean more wheat will be used as feed. It should also be kept in mind that the crops are not in the bin yet. Traders think that the WASDE report overestimates global wheat supplies by 15 million mt. We may see some profit taking early in the week, but prices will likely go higher unless there is a major change in the weather outlook.

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

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

Date: 15/08/2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Oct '22 (bu.)	Oct '22 (mt.)
1 CWRS 13.5	\$10.93	\$401.61	1 CWRS 13.5	\$10.75	\$395.00
1 CWAD 13.0	\$11.78	\$432.84	1 CWAD 13.0	\$11.78	\$432.84
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SW Sask			SW Sask		
1 CWRS 13.5	\$10.71	\$393.53	1 CWRS 13.5	\$10.54	\$387.28
1 CWAD 13.0	\$11.81	\$433.95	1 CWAD 13.0	\$11.81	\$433.95
1 CPSR 11.5	\$9.85	\$361.93	1 CPSR 11.5	\$9.85	\$361.93
NE Sask			NE Sask		
1 CWRS 13.5	\$10.66	\$391.69	1 CWRS 13.5	\$10.48	\$385.08
1 CWAD 13.0	\$12.12	\$445.34	1 CWAD 13.0	\$12.14	\$446.07
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$10.64	\$390.96	1 CWRS 13.5	\$10.42	\$382.87
1 CWAD 13.0	\$11.98	\$440.19	1 CWAD 13.0	\$12.03	\$442.03
1 CPSR 11.5	\$9.77	\$358.99	1 CPSR 11.5	\$9.74	\$357.89

Data source: PDQ, Aug. 15/22

**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	0.01	0.37
2 CWAD 13.5	(0.09)	(3.31)
2 CWAD 12.5	(0.11)	(4.04)

Data source: PDQ, Aug. 15/22

### 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 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, 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)
  - 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).

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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.”



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				August 15, 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)
DNS 14.0	\$473.90	\$856.66		
HRS	\$468.10			
HRW 11.5	\$475.80			
SWW 12.0	\$418.93			
1 CWRS 13.5 <sup>3</sup>	\$473.90		\$395.73	\$78.17
2 CWRS 13.0 <sup>3</sup>	\$468.10		\$381.04	\$87.06
3 CWRS <sup>3</sup>	\$475.80		\$355.31	\$120.48
CPS <sup>3</sup>	\$412.29		\$374.79	\$37.51
1 CWAD <sup>4</sup>		\$519.93	\$433.95	\$236.62
<b>Competing wheat:</b>				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$355.00		September	
French 11.5 (Rouen)	\$356.20		September	
APW 10.5 (W Coast)	\$370.00		December	
Argentine 12.5	\$400.00		September	

<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