

## Wheat Market Outlook and Price Report: January 10, 2022

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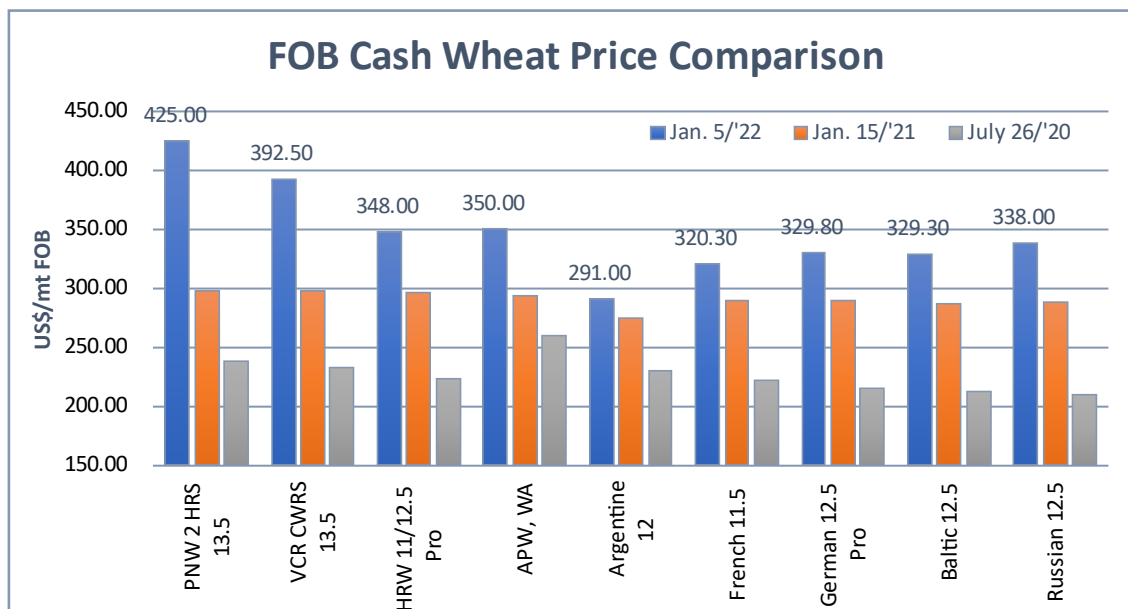
### **i) Background and Rationale for the Report**

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 January 10, 2022**

#### **3-Year Comparison of World Wheat Prices at Various Points of Origin**



- The graph above depicts the change in wheat prices over the past 3 years at various points of origin.
- There has been a large increase in the price of wheat over the past 3 years, but the price increases in Argentina (up \$16/MT from last year) is not nearly as large as increases in North America.
- The spread between the various kinds of wheat has also grown. Last year, the spread between North American 13.5 pro spring wheat and European 12.5 pro winter wheat was ~\$10/MT. This has grown to ~\$75/MT currently.
- Despite the recent decrease in price, wheat in North America is still expensive compared to other origins. Argentina just finished harvesting a large, good quality crop. Demand has been avoiding the US while switching away from the EU (France) to the Black Sea, Australia, and Argentina.

**Recent Developments in Wheat Demand:**

Wheat markets weakened sharply with a lack of any new demand, which was more due to the Holidays than a real lack of demand. The markets dropped heavily, and we will need to see more demand before it recovers. We do not expect to see normal volumes until the third week of January.

➤ **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:**

- March 2022 contract Chicago winter wheat closed at 758-4, up 12-4 cents on Friday, down 12-2 cents on the week.
- March 2022 contract Kansas hard red winter wheat closed at 775-0, up 6-4 cents in Friday's trade, down 26-4 cents on the week
- March 2022 Minneapolis hard red spring wheat closed at 923-2, down 0-4 cents on Friday, down 58-6 cents on the week.

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



**KC March 2022 Wheat**



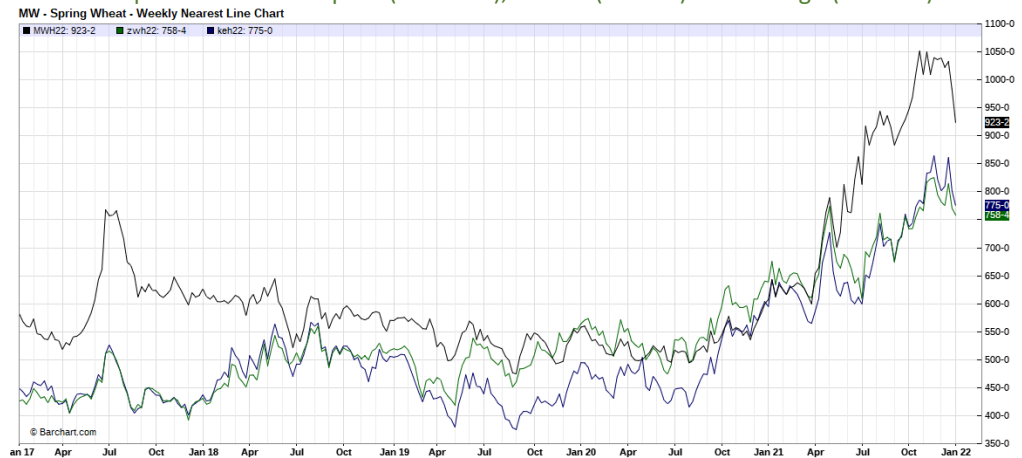
**Mpls. March 2022 Wheat**



**Canadian Wheat:**

- Minneapolis fell the furthest last week as the market's willingness to maintain the large premium of spring wheat over HRW and SRW has deteriorated.

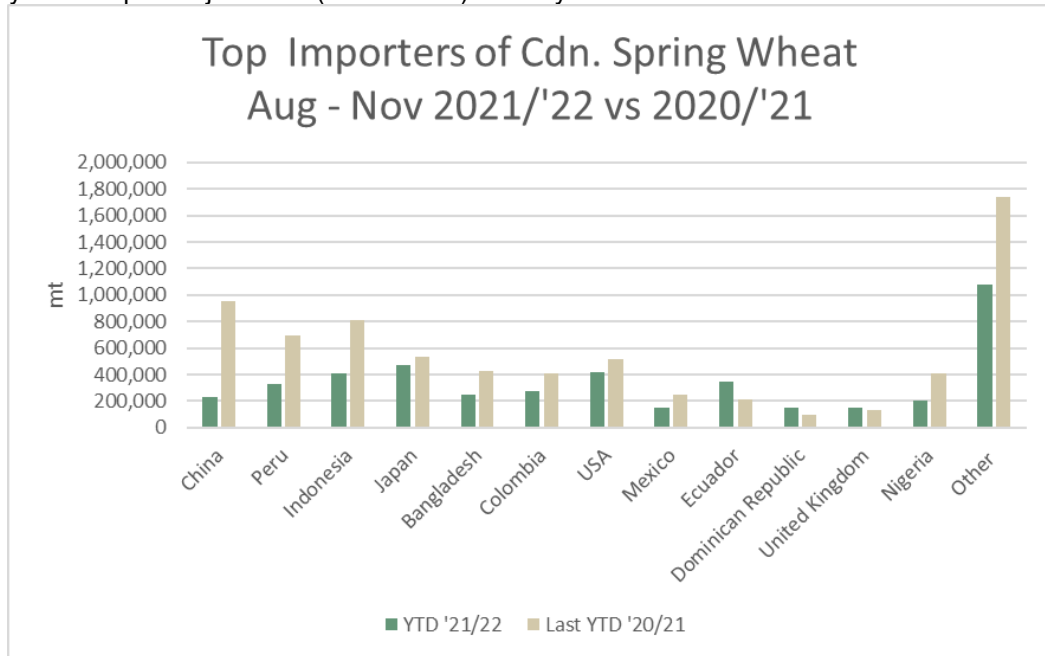
**5-Year Comparison of Minneapolis (MWH'22), Kansas (KEH'22) and Chicago (ZWH'22) Wheat.**



Source: Bar chart

- Canada exported 919.8k MT of wheat (excl. durum) during the month of December. The largest customer during the month was Japan who bought a large, 162.9k MT of wheat making them the largest year-to-date customer at 471.4k MT. This is still just 88% of last year's amount.

China is the destination with the largest year-over-year decrease in Canadian wheat imports. They have imported just 24% (-727.6k MT) of last year's amount at 230.8k MT.



Canadian exports during weeks 21-22 were 263.8k MT for a season total of 5.0 million MT. This is 59% (-1.3 million MT) of last year's amount. Visible supplies in the Canadian elevator system fell to 2.6 million MT. Most (1.0 million MT) of this is sitting in Eastern terminals while just 142.2k MT is shared between Prince Rupert (44.7k MT) and Vancouver (97.5k MT).

We are 40% through the marketing year and have exported 36% of our total 14.0 million MT (according to AAFC) exportable surplus. To reach AAFC's number, average weekly exports will need to be 300.6k MT compared to the current pace of 226.4k MT per week.

(CGC) Grain Handling Summary Wheat		Wk. 21-22	(Jan. 2/'21)	
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 21-22	317.4	455.2	263.8	118.9
Week ago	307.6	261.8	199.1	103.8
YTD	6,931.3	6,807.5	4,981.8	1,930.4
Last YTD	9,165.2	10,361.1	8,490.2	2,036.4
YTD less Last YTD	-2,233.9	-3,553.6	-3,508.4	-106.0
YTD over Last YTD	76%	66%	59%	95%

#### **US Wheat:**

- US wheat found some end-of-week support from corn, but this was not enough to overcome the pressure from poor US export sales.
- US export sales during the holidays were just 48,600 MT (1.8 million bushels). The trade was expecting a 150-400k MT number. Total commitments are now just 584 million bushels, down 24% from last year vs the USDA's projected 15% decline. Sales need to average roughly 10.1 million bushels per week to reach the USDA's 840-million-bushel number (which is unlikely). The USDA will need to decrease their US wheat export number.
- The drought in the US plains is starting to have a significant impact on crop ratings. Condition ratings for the US winter wheat crop fell sharply during December in Kansas and Oklahoma - the top two U.S. winter wheat producing states. The USDA rated 33% of the Kansas winter wheat crop in Gd/ Ex condition as of January 2nd, down from 62% in late November, and down from 51% by December 12th. In Oklahoma, 20% of the state's wheat was rated Gd/Ex, down from 48% in late November. Wheat ratings also declined in Nebraska and Colorado. The total US winter wheat area in drought rose from 53% to 65% over the holidays. Roughly half of Kansas and 90% of Oklahoma are in moderate drought.
- US HRS for Jan. '22 is valued at \$405.00/ MT FOB PNW (down \$25/MT from last week), FOB Gulf HRW 11/12.5 pro is valued at \$344.90/MT (down \$17.70/MT from last week).

#### **Australian wheat:**

- Australia continues to take a large portion of the Asian demand. Much of the business China was doing with France has been switched to Australian wheat which benefits from a freight advantage.
- Australian new crop FOB APW wheat for Jan.'22 was quoted at \$348.00/MT, down \$7.00/MT from last week.

#### **Argentine wheat:**

- Harvest is complete in Argentina. BAGE raised their crop estimate by 300k MT to 21.8 million MT. This will likely prompt the USDA to increase their number from their current 20 million MT estimate.
- Competition between exporters in Argentina have driven down prices. Exporters own 14.3 million MT of wheat compared to the export license cap of 12.5 million MT. Thus, exporters are trying to avoid/ reduce their share of the 1.8 million MT of wheat that will have to be sold back into the domestic market or carried over to next year. Argentina exports the bulk of their wheat crop between now and March when corn and soybeans start being harvested.
- Fob values for Jan. 12% protein Argentine wheat are ~\$291.00/million MT, down \$9.00/MT from last week.
- Argentine wheat remains the cheapest in the world on a FOB basis. Argentine 12.5 pro wheat Fob is around \$55/MT cheaper than HRW in the Gulf.

#### **EU wheat:**

- The French market is losing market share in Algeria and Egypt, to the Black Sea and Argentina, and in China, to Australia.
- FOB prices in the EU: Jan.'22 French 11.5 pro closed at \$315.9/MT, down \$0.70/MT from last week. Jan. German 12.5 pro wheat closed at \$325.40, down \$0.70/MT. Jan. Baltic 12.5 pro wheat was at \$324.9/MT, down \$0.70/MT.

#### **Black Sea wheat:**

- Ukraine and Southern Russia received some snow cover which was just in time for the drop in temperatures this week.
- There are massive protests in Kazakhstan. Kazakhstan is a major wheat miller and buyer of Russian wheat. Despite this, Russian wheat prices have been stable, and the unrest is expected to have limited impact on wheat.
- Ukraine has exported 16.1 million MT of wheat so far this year. This is just 500k MT short of last year's total for the entire year. Ukraine's Ag Ministry believes wheat exports will reach 24.5 million MT this year compared to the USDA's current 24 million MT projection. They say there is no

reason to limit wheat exports, although they may curb milling wheat exports in the first half of 2022.

- Russian Jan. '22 12.5 pro wheat is valued at ~\$338.00/MT, unchanged from last week.

➤ **Significant purchases/ trades:**

*Trade continues to be thin because of the holidays. We do not expect full trade to resume until next week.*

- **Tunisia** bought 125,000 MT of soft wheat for Feb-Mar at \$366-370/MT, along with 75,000 MT of durum at \$694-704/MT.
- **Jordan** bought 60,000 MT of hard wheat for FH Aug at \$330.00/MT.
- There was no news on **Iran** or **Iraq** tenders.
- US wheat export sales during the holidays were just 48,600 MT (1.8 million bushels).

**Wheat Market Outlook:**

**Significant events:**

- The South American forecast maintains extreme heat and almost complete dryness for Argentina and Southern Brazil for the next 7-10 days. The drought is causing sever damage to South America's corn and soybean crops. There is some much-needed rain in the forecast, but models are not conclusive on how much there will be. A decrease in S American corn production will be supportive for corn which could carry over into wheat.
- The USDA report is out on January 12<sup>th</sup>. They need to decrease US and Russian wheat exports and increase production in Argentina. Corn production in South America will be lower than USDA's number, but they likely won't make any significant changes there.

**Outlook:**

Wheat futures will depend on how the funds behave. We expect the funds to continue to take corn profits and add to their soybean and wheat longs. Traders will wait until the USDA report on the 12<sup>th</sup> before making new moves. Wheat markets have dropped heavily, and we will need to see more demand before it recovers. There are several potentially bullish problem spots in the Northern Hemisphere, notably drought in the US Plains and Ukraine. N American wheat is expensive, and for now, there is there is enough wheat around for buyers to source from other origins. – We recommend thinking about getting 80% sold current crop wheat. We expect the market to recover, so it is also not a time to panic sell.

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

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

Date: 10/01/2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch '22 (bu.)	Mch '22 (mt.)
1 CWRS 13.5	\$11.51	\$422.92	1 CWRS 13.5	\$11.54	\$424.03
1 CWAD 13.0	\$20.23	\$743.33	1 CWAD 13.0	\$20.45	\$751.41
1 CPSR 11.5	\$10.70	\$393.16	1 CPSR 11.5	\$10.77	\$395.73
SW Sask			SW Sask		
1 CWRS 13.5	\$11.37	\$417.78	1 CWRS 13.5	\$11.44	\$420.35
1 CWAD 13.0	\$20.22	\$742.96	1 CWAD 13.0	\$20.44	\$751.05
1 CPSR 11.5	\$10.38	\$381.40	1 CPSR 11.5	\$10.68	\$392.43
NE Sask			NE Sask		
1 CWRS 13.5	\$11.23	\$412.64	1 CWRS 13.5	\$11.27	\$414.10
1 CWAD 13.0	\$20.47	\$752.15	1 CWAD 13.0	\$20.61	\$757.29
1 CPSR 11.5	\$0.00	\$0.00	1 CPSR 11.5	\$0.00	\$0.00
SE Sask			SE Sask		
1 CWRS 13.5	\$11.17	\$410.43	1 CWRS 13.5	\$11.22	\$412.27
1 CWAD 13.0	\$20.38	\$748.84	1 CWAD 13.0	\$20.54	\$754.72
1 CPSR 11.5	\$10.46	\$384.34	1 CPSR 11.5	\$10.59	\$389.12

Data source: PDQ, Jan. 10/22

**Table 2: Grade Spreads, in Canadian Dollars per Bu and per MILLION MT**

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 14.0	0.01	0.38
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.01)	-0.37
1 CWRS 12.5	(0.02)	-0.73
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.01	0.37
2 CWAD 13.0	(0.10)	-3.67
2 CWAD 12.5	(0.11)	-4.04

Data source: PDQ, Jan. 10/22

#### **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 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)

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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.”

- 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			January 10, 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	\$488.34	\$856.66		
HRS	\$487.77			
HRW 11.5	\$461.78			
SWW 12.0	\$495.79			
1 CWRS 13.5 <sup>3</sup>	\$488.34		\$421.09	\$67.25
2 CWRS 13.0 <sup>3</sup>	\$487.77		\$415.57	\$72.20
3 CWRS <sup>3</sup>	\$461.78		\$408.23	\$53.55
CPS <sup>3</sup>	\$489.27		\$400.51	\$88.76
1 CWAD <sup>4</sup>		\$661.39	\$790.00	\$48.75
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$338.00		January	
French 11.5 (Rouen)	\$315.90		January	
APW 10.5 (W Coast)	\$348.00		January	
Argentine 12.5	\$291.00		January	
<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				