

Wheat Market Outlook and Price Report: January 3, 2022

By Marlene Boersch/ A.P. Temple/ Michael Wilton
Mercantile Consulting Venture Inc.

i) Background and Rationale for the Report

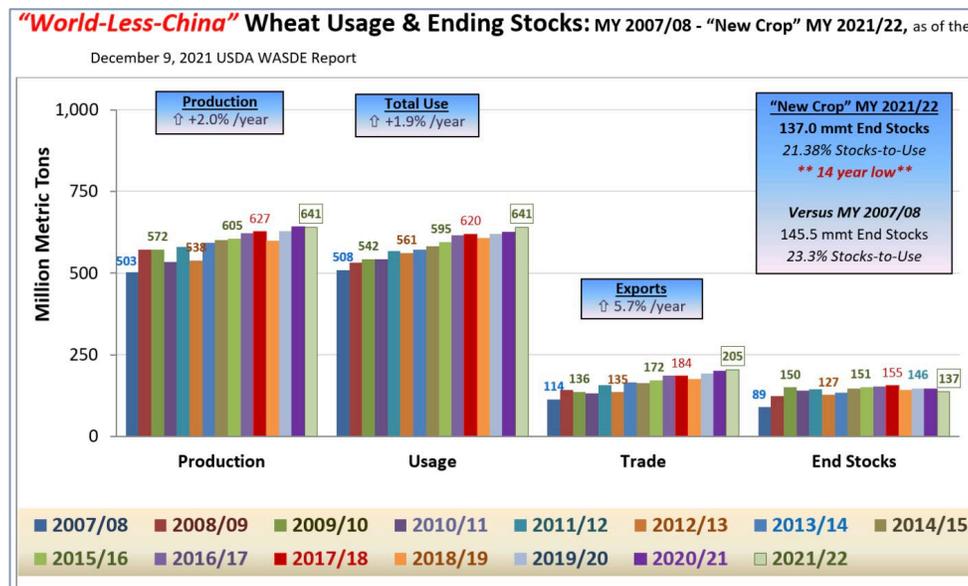
The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

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 3, 2022

Review of the latest USDA numbers on global wheat:

Production, Usage, Trade and Ending Stocks of Major Wheat Exporting Countries excluding China



- The chart gives a good summary of the overall global wheat supply & demand situation when excluding China from the equation.
- The '21/22 stock to use percentage is forecast to fall to a 14-year of 21.4%.
- However, wheat exports from North America have been slow and lag those of last year.

Recent Developments in Wheat Demand:

Quite interesting from last Thursday's Egyptian (GASC) tender was a) the huge FOB price advantage of French wheat over all other origins, and b) that with an implied Feb. price of \$345/Canadian FOB, Russian wheat values have barely changed over the last two weeks.

➤ **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 758-0, down 12.75 today.
- March 2022 contract Kansas hard red winter wheat closed at 791.5, down 10.00.
- March 2022 Minneapolis hard red spring wheat closed at 968.75 down 13.25.



Canadian Wheat:

- Canadian wheat exports during weeks 19 & 20 amounted to 389k Canadian and are lagging last year's by ~37%.
- For durum, wheat exports during weeks 19 & 20 added to only 49k Canadian and are lagging last year's by ~45%.
- Algeria purchased around 300k Canadian durum wheat at \$720-725/Canadian just before Christmas. Cash bids for durum have remained strong around \$20.30/bu.

(CGC) Grain Handling Summary Wheat			Week 20	(Dec. 19/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Week 20	307.6	261.8	199.1	103.8
Week ago	252.4	223.7	189.9	66.1
YTD	6,612.4	6,341.9	4,718.0	1,810.4
Last YTD	8,253.9	9,110.7	7,463.7	1,766.4
YTD less Last YTD	-1,641.5	-2,768.8	-2,745.7	44.0
YTD over Last YTD	80%	70%	63%	102%

(Note the YTD number is last week's number, as the CGC did not update the YTD figures.)

(CGC) Grain Handling Summary Durum		Week20		(Dec. 19/'21)
('000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulkexports	Dom. Disappearance
Week20	38.1	140.0	45.4	4.2
Week ago	39.2	104.8	3.4	29.3
YTD	1,410.6	1,684.7	1,168.5	174.6
Last YTD	2,455.9	2,901.0	2,141.5	189.7
YTD less Last YTD	-1,045.3	-1,216.3	-973.0	-15.1
YTD over Last YTD	57%	58%	55%	92%

(Note the YTD number is last week's number, as the CGC did not update the YTD figures.)

- Corn values have fallen back below \$6.00/bu as spec support for the crop is waning in favour of soybeans. Wheat is relatively high-priced to corn, and the wheat S & D is getting hard to interpret for N America. – We would favour to getting 80% sold old crop wheat over the next while.

US Wheat:

- Wheat prices retreated on poor US exports and uncompetitive Fob prices, plus China's continued buying of Australian wheat as opposed to US wheat.
- Weekly US Export Sales data showed 200k Canadian of wheat was sold during the week that ended Dec. 23rd. This was down 53% from the previous week and 43% from the prior 4-week average. Increases were primarily for Taiwan (110k Canadian) and Guatemala (36k Canadian).
- YTD commitments total 16 million Canadian and are comprised of 40% HRW, 27% HRS, 18% white, and 14% SRW.
- US HRS for Jan. '22 is valued at \$430.00/ Canadian FOB PNW (down \$5/Canadian from last week), FOB Gulf HRW 11/12.5 pro is valued at \$362.60/Canadian (up \$16.30/Canadian from the previous report).

Australian wheat:

- China is rumoured to have bought good volumes of Australian wheat.
- Australian new crop FOB APW wheat for Jan.'22 was quoted at \$355.00/Canadian, up \$5/Canadian from last week.

Argentine wheat:

- BAGE raised its wheat crop last week to 21.5 million Canadian, and weather remains favourable for harvesting, which last week was close to 80% complete.
- Argentine Fob values shed around \$3/Canadian from last week.
- Note that Argentine 12.5 pro wheat Fob is around \$70/Canadian cheaper than HRW in the Gulf and would certainly be cheaper to Iraq if it were an eligible origin.
- Fob values for Jan. 12% protein Argentine wheat are ~\$300/million Canadian, down \$3/Canadian from last week.

EU wheat:

- Matif fell to the December lows today (Mon.) before closing down €4.50/Canadian. However, many traders are not yet back at their desks, and the lack of volume highlighted the losses in an absence of any real fresh news.
- However, French wheat at ~\$316.60/Canadian is looking increasingly cheap relative to other origin wheat.
- The EU shipment update on Tuesday should give the correct French exports numbers after 5 months of waiting. Given unofficial port data, exports should show an increase of around 1.4 million Canadian from current numbers.

- Fob prices in the EU: Jan. '22 French 11.5 pro closed at \$316.60/Canadian, down \$1.20/Canadian from last week. Dec. German 12.5 pro wheat closed at \$326.10, up \$1.20/Canadian. Dec. Baltic 12.5 pro wheat was at \$325.60/Canadian, down \$0.50/Canadian.

Black Sea wheat:

- Black Sea markets as expected were extremely quiet with trade not likely to fully resume until next week.
- Russia officially confirmed the Feb 15 - June grain export quota at 11 million Canadian of which 8 million Canadian are for wheat, with a tax from Jan 12th of \$98.20/Canadian.
- The weather remains extremely mild with no snow cover across the vast majority of western and S Ukraine and S Russia, which would leave large portions of the crop vulnerable to a sharp drop in temperatures.
- Russian Jan. '22 12.5 pro wheat is valued at ~\$338.00/Canadian, up \$3.00/Canadian from last week.

➤ **Significant purchases/ trades:**

Many traders are still away on holidays until next week.

- Jordan tenders Wednesday for 120k Canadian of wheat Jul-Aug.
- Iran is expected to be in the market for an unspecified quantity.
- Iraq is still expected on Jan 3rd for a up to 500k Canadian US/ Canadian/ Australian origin wheat for Jan-Feb '22, which the trade is thinking may be US given the position.
- The US CCC bought 98k Canadian of HRW for Ethiopia.

➤ **Wheat Market Outlook:**

Significant events:

- *The market still is very thin; many traders are still away on holidays until next week.*
- BAGE raised its wheat crop last week to 21.5 million Canadian, and weather remains favourable for harvesting, which last week was close to 80% complete.
- Argentine 12.5 pro wheat Fob is around \$70/Canadian cheaper than HRW in the Gulf.
- French wheat at ~\$316.60/Canadian is looking increasingly cheap relative to other origin wheat.
- Russia officially confirmed the Feb 15 - June grain export quota at 8 million Canadian for wheat, with a tax from Jan 12th of \$98.20/Canadian.

Outlook:

Volume was and still is thin, there was little input from Europe or from the Black Sea. Fresh news was limited to the disappointing US export report, and the FOB prices above show the lack of competitiveness of N American wheat in many export markets.

Wheat has become relatively higher priced than corn, and the wheat S & D is getting hard to interpret for N America. – We would favour getting 80% sold old crop wheat over the next while.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 03-01-2022					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Mch. '22 (bu.)	Mch. '22 (mt)
1 CWRS 13.5	\$12.12	\$445.34	1 CWRS 13.5	\$12.18	\$447.54
1 CWAD 13.0	\$20.13	\$739.66	1 CWAD 13.0	\$20.37	\$748.48
1 CPSR 11.5	\$11.08	\$407.12	1 CPSR 11.5	\$11.15	\$409.70
SW Sask			SW Sask		
1 CWRS 13.5	\$11.98	\$440.19	1 CWRS 13.5	\$12.06	\$443.13
1 CWAD 13.0	\$20.15	\$740.39	1 CWAD 13.0	\$20.37	\$748.48
1 CPSR 11.5	\$10.98	\$403.45	1 CPSR 11.5	\$11.08	\$407.12
NE Sask			NE Sask		
1 CWRS 13.5	\$11.80	\$433.58	1 CWRS 13.5	\$11.86	\$435.78
1 CWAD 13.0	\$20.32	\$746.64	1 CWAD 13.0	\$20.43	\$750.68
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$11.74	\$431.37	1 CWRS 13.5	\$11.81	\$433.95
1 CWAD 13.0	\$20.28	\$745.17	1 CWAD 13.0	\$20.47	\$752.15
1 CPSR 11.5	\$10.99	\$403.82	1 CPSR 11.5	\$11.07	\$406.76

Data source: PDQ, Jan. 3/22

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

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, Jan. 3/22

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 Canadian. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/million Canadian, 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 Basis¹ (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 Canadian, 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

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 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) ≈ 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 CANADIAN

Relevant FOB Prices and Export Basis				03-01-2021
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	\$511.69	\$854.70		
HRS	\$498.57			
HRW 11.5	\$470.93			
SWW 12.0	\$507.94			
1 CWRS 13.5 ³	\$511.69		\$438.36	\$73.34
2 CWRS 13.0 ³	\$498.57		\$432.84	\$65.73
3 CWRS ³	\$470.93		\$425.50	\$45.43
CPS ³	\$501.38		\$402.71	\$98.67
1 CWAD ⁴		\$848.14	\$735.25	\$112.89
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$338.00	January		
French 11.5 (Rouen)	\$316.60	January		
APW 10.5 (W Coast)	\$355.00	January		
Argentine 12.0	\$300.00	January		

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