

Wheat Market Outlook and Price Report: July 11, 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 July 11, 2022

Agricultural Market Information System (AMIS) July Market Monitor

Wheat	FAO-AMIS			USDA		IGC	
	2021/22 est	2022/23 f'cast		2021/22 est	2022/23 f'cast	2021/22 est	2022/23 f'cast
		2 Jun	7 Jul		10 Jun		23 Jun
Prod.	778.3	770.8	770.3	779.0	773.4	781.0	769.3
	641.4	634.0	633.4	642.1	638.4	643.9	634.3
Supply	1070.3	1067.4	1069.9	1070.6	1052.8	1059.5	1051.7
	803.0	796.7	798.0	789.5	775.9	795.2	784.6
Utiliz.	773.2	768.6	770.6	791.2	786.0	777.1	778.8
	630.4	630.9	631.9	643.2	642.0	636.3	637.8
Trade	193.2	188.9	190.6	201.2	205.4	194.1	193.5
	183.7	181.1	182.8	191.5	195.9	184.4	184.1
Stocks	299.6	297.8	299.3	279.4	266.8	282.4	272.9
	164.6	157.2	158.5	137.5	125.3	149.2	137.4

- The Agriculture Market Information System (AMIS) released their July world supply and demand outlook last week. In the outlook, AMIS decreased their global production number by 500k mt from last month to 770.3 million mt. This is now 8 million mt less than last year's amount. The decrease was due to smaller than expected crops in the EU, Argentina, and Iraq offsetting increases in Canada, Australia, and Russia.
- AMIS increased their utilization number from last month to 770.6 million mt. This is still below last year given the expected demand rationing in feed and industrial sectors.
- Trade forecasts were raised by 1.7 million mt from last month on larger than expected shipments from Australia and Russia to Asia.
- Overall, ending stocks were increased by 1.5 million mt from last month to 299.3 million mt, signalling only a slight (300k mt) drawdown in stocks from last year's 299.6 million mt.

Developments in Wheat Demand:

There was not a lot of cash business done last week as traders watched the market from the sidelines.

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:

- Sept '22 contract Chicago winter wheat closed at 891-4, up 55-0 cents on Friday, up 7-4 cents on the week.
- Sept '22 contract Kansas hard red winter wheat closed at 945-6, up 56-4 cents in Friday's trade, down 6-0 cents on the week.
- Sept '22 Minneapolis hard red spring wheat closed at 991-6, up 57-2 cents on Friday, up 1-6 cents on the week.

CBOT Sept. 2022 Wheat (1 yr.)



KC Sept. '22 Wheat

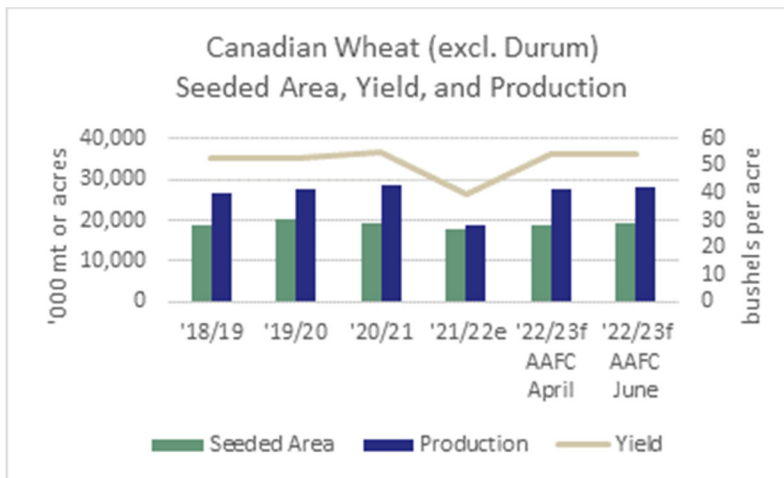


Minneapolis Sept. '22 Wheat



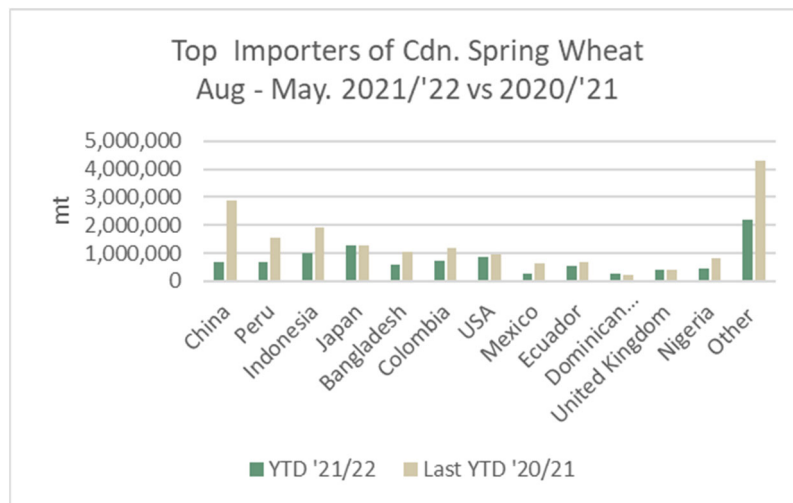
Canadian Wheat:

- Stats Canada indicated that Canadian farmers planted 8.7% more wheat area than last year at 25.4 million acres (400k acres more than their April estimate and 2 million acres more than analyst's expectation). Spring wheat led the increase, up 10.5% from last year at 18.2 million acres (vs the trade's guess of 16.5 million acres) while winter wheat area was down 12.7% to 1.2 million acres in favor of corn. Given AAFC's yield number, these changes in seeded area would result in roughly 500k mt more wheat (excl durum) being produced in Canada.



Source: Stats Canada, AAFC, Merc

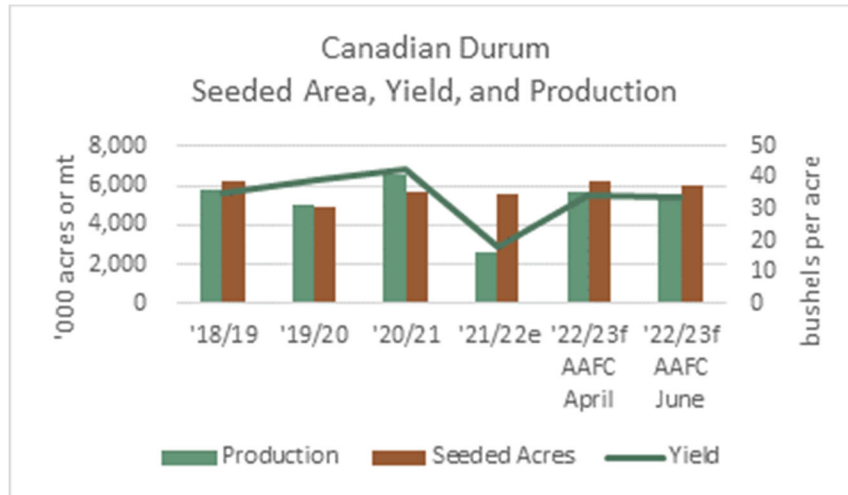
- Growing conditions in the Western Provinces remain strong overall. Alberta has too much moisture in its Central Region which caused provincial crop conditions to fall by 2% from last week to 82% Gd/Ex. Soil moisture conditions in SK improved, and topsoil moisture is 71% adequate. In Manitoba, the spring wheat crop is in strong condition at 90% Gd/Ex.
- The latest CIMT Canadian shipping data showed that Canada exported 1.1 million mt of wheat during the month of May. This was the third largest export month year-to-date, behind only the harvest months of Aug and Sept. Aug-May exports total 10.0 million mt, or 57% of last year's amount. Japan has been the largest customer of Canadian wheat this year. At 1.3 million mt, they have imported 1% more wheat than last year and are the only major customer who has not dramatically decreased imports of Canadian wheat.



Source: CIMT

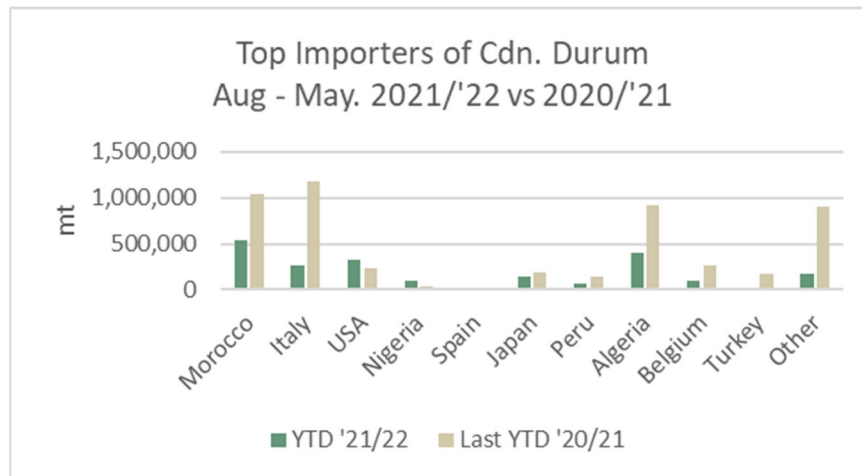
(CGC) Grain Handling Summary Wheat		Wk. 48	July 3 '21)
('000 mt)	Prod. Dlvr.	Terminal Rcpts.	Dom. Disappearance
Wk. 48	241.9	303.1	38.7
Week ago	251.0	259.2	56.2
YTD	13,740.9	13,496.8	3,727.3
Last YTD	20,747.7	21,667.3	3,753.3
YTD less Last YTD	-7,006.8	-8,170.5	-26.0
YTD over Last YTD	66%	62%	99%

- **Durum** – Stats Canada says that farmers seeded 6.0 million acres of durum this spring. This is 9% (500k acres) more than last year, although 218k acres less than their April estimate and 100k acres less than what the trade was estimating. Using AAFC's yield number, this would still increase production by 21% from last year to 5.5 million mt (which is a little lower than the 5.7 million mt projected earlier).



Source: Stats Canada, AAFC, Merc

- Durum wheat conditions in Alberta rose 2% from the last time they were reported (on June 14th) to 63% Gd/Ex.
- Canadian durum exports in May were 267.7k mt for an Aug-May total of 2.2 million mt, 42% of last year's amount. Morocco remains the largest customer, importing a to-date total of 531k mt, which is only half of last year's number. North Africa has had a dry growing season and we expect there will be more demand from countries like Algeria and Morocco in the upcoming season.



Source: CIMT

(CGC) Grain Handling Summary Durum			Wk. 48	(July 3 '21)
(000 mt)	Prod. Dlvs.	Terminal Rcpts.	Bulk exports	Dom. Disappearance
Wk. 48	59.3	23.9	11.1	13.6
Week ago	62.1	56.3	46.5	15.2
YTD	2,375.9	2,786.0	2,345.8	422.9
Last YTD	5,786.9	6,827.7	5,619.5	507.0
YTD less Last YTD	-3,411.0	-4,041.7	-3,273.7	-84.1
YTD over Last YTD	41%	41%	42%	83%

US Wheat:

- Wheat futures rebounded slightly last week. As the markets had fallen below pre-war levels, it was evident that the sell-off was overdone. Heat is a growing issue for crops in the EU, but this will only impact spring crops to any large degree.
- Harvest of the US winter wheat crop is now 54%, up 13% on the week. Yields have been generally poor. In the southern Plains, the crop has been coming in at 20-30 bushels per acre. Early yield indications in Nebraska are at 50 bushels per acre on dryland, and twice as much on irrigated land. Thirty-one percent of the US winter wheat crop is in Gd/Ex condition (47% last year).
- The US spring wheat condition improved by 7% over the week to 66% Gd/Ex (16% last year). Twenty percent of the crop is heading vs the 5-year average of 57%.
- US HRS for July '22 was valued at \$394.30/ mt FOB PNW (*down \$67.90/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$384.40/mt (*down \$34.60/mt from last week*).

Australian wheat:

- Australia's wheat crop continues to look good. Showers are still occurring in the SW and SE regions, but any major flooding has been largely confined to urban areas.
- AMIS raised their forecast for Australia's crop by 2.3 million mt from last month.
- There were rumors of Chinese interest in Australian wheat, but these were unconfirmed. Much of the demand from Asia has been quite as of late.

Argentine wheat:

- Argentina continues to be faced with a persistent drought.
- BAGE decreased their area estimate for Argentina's wheat crop by 100k hectares to 6.2 million hectares (7.5% less than last year).
- AMIS decreased their number for Argentina's wheat crop by 1.5 million mt from last month.
- July shipment 12% pro Argentine wheat was valued at ~\$470.00/mt FOB (*down \$5.00/mt from last week*).

Indian wheat:

- A delegation from Yemen is going to India to try to buy wheat. Wheat stocks in Yemen are forecast to run out by the end of August.
- In addition to banning wheat exports, India added a ban on wheat flour exports last week.

EU wheat:

- There was a sharp change in the EU forecast which added hot and dry conditions over a large area of the EU where soil moisture is already low. In our opinion, this will have the largest impact on spring crops as most winter crops are already mature.
- EU wheat futures will be supported by the rapidly declining Euro which is quickly moving towards parity with the US dollar.
- Fob prices in the EU: July '22 French 11.5 pro wheat closed at \$356.70/mt (*down \$32.10/mt from last week*); Aug. German 12.5 pro wheat closed at \$385.00/mt (*down \$30.50/mt from last week*). Aug. Baltic 12.5 pro wheat was at \$363.10/mt (*down \$30.50/mt from last week*).

Black Sea wheat:

- Russian news agency TASS says the country exported 30.7 million mt of wheat during the 2021/'22 crop year (vs USDA's 33 million mt number).
- It is becoming increasingly apparent that some estimates of Russia and Ukraine's 2022/'23 exports are too high. Russia's line-up is thin, their export tax makes it difficult to make forward sales, and Ukraine's grain movement is much too slow to meet the USDA's 10 million mt export number.
- There are reports of burning Ukrainian wheat fields near conflict zones. It is unclear if the fires are being intentionally started by Russia, or if the fires are a result of missiles and/or defence systems.
- The inability of Ukraine to ship grain has caused domestic wheat prices offered to farmers to fall to \$100/mt. Prices this low bears questions on whether planting a crop this fall is worth while, or financially feasible.
- Russian Fob prices for 12.5 pro July delivery wheat were quoted at \$395.00/mt, *down \$3.00/mt from last week*. But these values are nominal.

➤ Significant purchases/ trades:

- **Pakistan** rejected offers on their large 300,000 - 500,000 mt tender.
- **Japan** booked 122,420 mt from the U.S. and Canada.
- **Egypt** purchased 63,000 mt from Germany.
- Weekly **USA** commercial sales were 286,400 mt for a total commitment number of 6.0 million mt, or 28% of the USDA's total export number for the 2022/'23 season. There were rumours that China bought 200-300k mt of wheat from the US PNW, but nothing has been confirmed yet.

➤ Wheat Market Outlook:

Significant events:

- **Hot dry conditions** are forecast for both the US and EU growing areas. This should have limited impact on wheat yield but could be a large problem for corn which is starting to pollinate.
- The next **USDA/WASDE report** is out on the 12th. It is expected that the USDA will increase wheat production by 8 million bushels from the June report to 1,745 million bushels. The average estimate is for hard red wheat to rise by 1 million bushels from June to 583 million bushels. Winter wheat is expected to be up 4 million bushels from June to 1,186 million bushels, while durum wheat is expected to be 63 million bushels, up 26 million bushels from last year.

Outlook:

The futures markets are expected to be bullish as traders centre their attention on some poor weather in Europe and the US. Much of the US Corn Belt will be hot and dry from next week, putting the USDA's record corn yield estimate in doubt. European heat and dryness will also receive more attention. If we get a sharp cash market rally - we see this as a selling opportunity as we don't see economic factors improving.

iii) Primary Elevator Price Tables and Grade Spreads

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

Date: 08/07/2022

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept '22 (bu.)	Sept '22 (mt.)
1 CWRS 13.5	\$12.24	\$449.75	1 CWRS 13.5	\$11.75	\$431.74
1 CWAD 13.0	\$12.45	\$457.46	1 CWAD 13.0	\$12.21	\$448.64
1 CPSR 11.5	\$11.03	\$405.29	1 CPSR 11.5	\$10.94	\$401.98
SW Sask			SW Sask		
1 CWRS 13.5	\$12.02	\$441.66	1 CWRS 13.5	\$11.54	\$424.03
1 CWAD 13.0	\$12.48	\$458.57	1 CWAD 13.0	\$12.29	\$451.58
1 CPSR 11.5	\$10.95	\$402.35	1 CPSR 11.5	\$10.79	\$396.47
NE Sask			NE Sask		
1 CWRS 13.5	\$11.98	\$440.19	1 CWRS 13.5	\$11.47	\$421.45
1 CWAD 13.0	\$12.64	\$464.44	1 CWAD 13.0	\$12.41	\$455.99
1 CPSR 11.5	n/a	n/a	1 CPSR 11.5	n/a	n/a
SE Sask			SE Sask		
1 CWRS 13.5	\$11.94	\$438.72	1 CWRS 13.5	\$11.49	\$422.19
1 CWAD 13.0	\$12.55	\$461.14	1 CWAD 13.0	\$12.37	\$454.52
1 CPSR 11.5	\$10.99	\$403.82	1 CPSR 11.5	\$10.67	\$392.06

Data source: PDQ, July 11/22

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, July 11/22

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 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 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
 - HRW in the Pacific Northwest (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.

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.”

- 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				July 11, 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	\$506.91	\$388.38			
HRS	\$501.04				
HRW 11.5	\$496.89				
SWW 12.0	\$460.14				
1 CWRS 13.5 ³	\$506.91		\$434.31		\$72.60
2 CWRS 13.0 ³	\$501.04		\$430.64		\$70.40
3 CWRS ³	\$496.89		\$421.45		\$75.44
CPS ³	\$453.45		\$376.26		\$77.19
1 CWAD ⁴		\$510.01	\$477.67		\$184.85
Competing wheat:					
	US\$/mt				
Russia 12.5 (Black Sea, 25k mt)				July	
French 11.5 (Rouen)				July	
APW 10.5 (W Coast)					
Argentine 12.5					

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