

Wheat Market Outlook and Price Report: May 24, 2022

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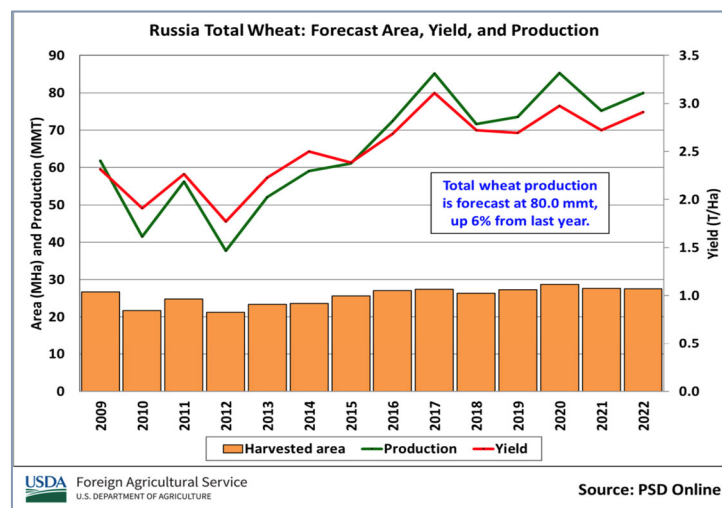
i) Background and Rationale for the Report

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 May 24, 2022

Russia – Total Wheat production for 2022/23 (USDA numbers):



Source: USDA, May 12, 2022

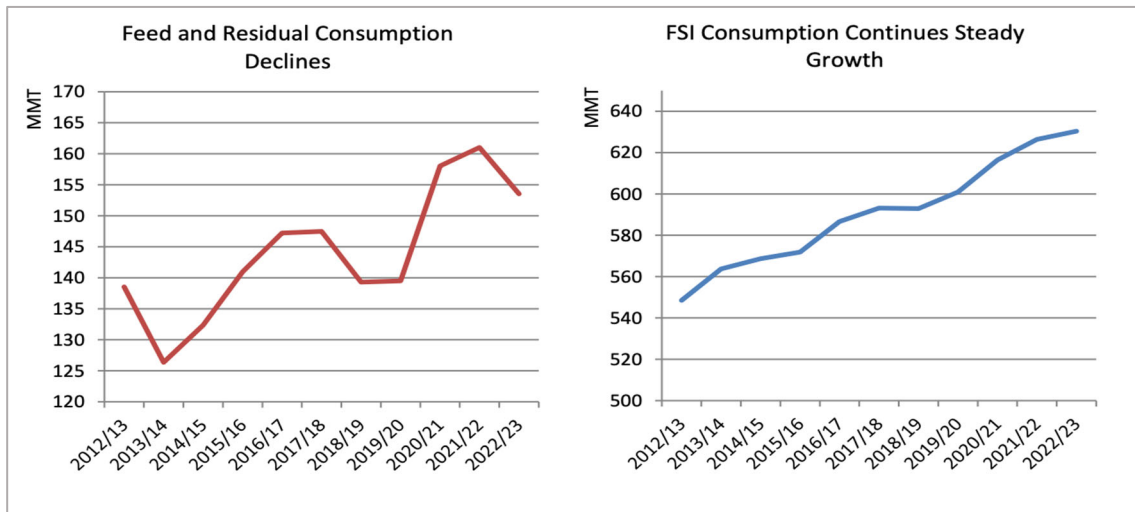
- The 2022/23 **Russian wheat production** is forecast at 80.0 million mt, up 6% from last year and up 2% from the 5-year average. If this materializes, this will be the third-highest Russian wheat crop on record.
 - The forecast includes 58.5 million mt of winter wheat and 21.5 million mt of spring wheat. (**Winter wheat** typically accounts for about 70% of total production and spring wheat for ~30%. Spring wheat planting began in late April. **Spring wheat** is mainly planted in the regions bordering Kazakhstan: the Volga, Urals, and Siberian Districts of Russia. Spring wheat planting will accelerate in all districts in LH May. Harvest of spring wheat will begin in late August.)
- Total wheat yield is forecast at 2.91 tons per hectare, up 7% from last year and up 2% from the 5-year average.
- Total harvested area is forecast at 27.5 million hectares (million ha), down marginally from last year and basically matching the 5-year average.

Developments in Wheat Demand:

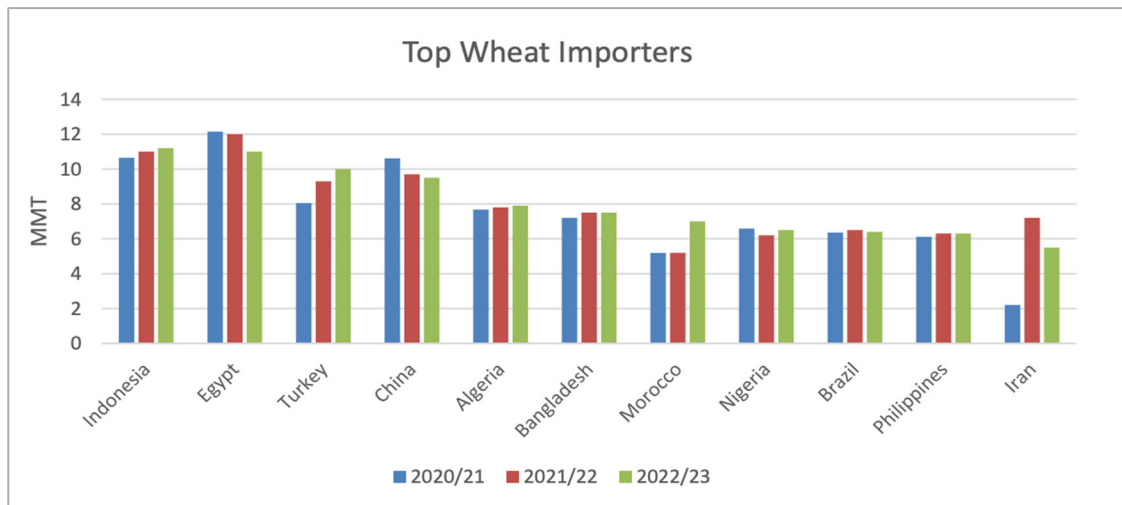
There is generally very little tender business to be had right now while buyers hope for price reductions and new crop shipments at lower prices.

According to USDA, **global wheat consumption for 2022/23** is projected at 788 million mt, down 3 million mt from last year. This is due to reductions in feed and residual usage, which are only partially offset by higher food, seed, and industrial (FSI) use.

High global food inflation is expected to impact consumers' ability to purchase wheat and wheat products in developing markets and may lead consumers towards alternative food grains.



Source: USDA, May '22



Source: USDA, May '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:

- July '22 contract Chicago winter wheat closed at 1168-6, down 31-6 cents on Friday, *down 8-8 cents on the week.*
- July '22 contract Kansas hard red winter wheat closed at 1252-6, down 42-4 cents in Friday's trade, *down 29-4 cents on the week.*
- July '22 Minneapolis hard red spring wheat closed at 1279-0, down 51-4 cents on Friday, *down 46-0 cents on the week.*
- Wheat futures were up on Monday (Victoria Day) by 23c/bu in Minneapolis but are down 14c/bu so far today (Tuesday).

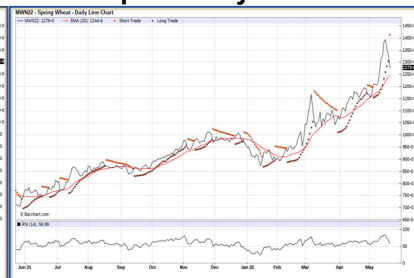
CBOT July 2022 Wheat (1 yr.)



Kansas City July '22 Wheat



Minneapolis. July '22 Wheat



General Comment:

Technical selling and rain over northern France pressured prices lower late last week. But the weather is increasingly an issue across the Northern Hemisphere, and big questions remain over the Black Sea and Indian exports, so volatility will stay with us.

Canadian Wheat:

- Saskatchewan **seeding progress** for wheat at only 26% as of May 16th compared to a 67% five-year average is concerning. Alberta seeding progress at 59% (compared to a general 55% five-year average) is much better, but the dryness in southern and central Alberta is clearly sub-optimal.
- USDA reported that 39% of US spring wheat was planted as of May 15 compared to the five-year average of 67%. In North Dakota, spring wheat planted is 17%, 28-points behind last year's pace.
- In their May report on Friday, **AAFC** increased their 2022 wheat acreage (excluding durum) by 1% from 18.8 million acres to 19 million acres. Not a big increase; yields will be more important to watch. Mercantile expects planted wheat (excluding durum) acres to be at ~19 million acres, up ~9%.
- At 187k mt, **Canadian wheat exports** were relatively small last week (wk. 41), advancing year-to-date wheat exports to 9 million mt, 7 million mt smaller (-44%) from last year-to-date.

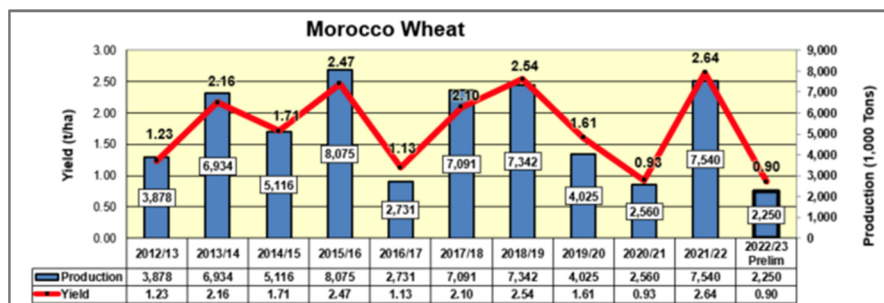
(CGC) Grain Handling Summary Wheat		Week 41	(May 15/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 41	113.9	287.2	186.6	84.6
Week ago	186.0	200.7	334.6	82.6
YTD	12,431.1	11,624.1	9,038.3	3,226.4
Last YTD	17,584.8	18,562.3	16,014.8	3,218.6
YTD less Last YTD	-5,153.7	-6,938.2	-6,976.5	7.8
YTD over Last YTD	71%	63%	56%	100%

- Mercantile suggests concentrating on seeding right now and sees no reason to make additional sales at this time.
- **Durum exports** for week 41 were a 47k mt, for a year-to-date total of 2 million mt, compared to 5.1 million mt last year-to-date. This is now 61% below last year's pace due to a lack of supplies.

(CGC) Grain Handling Summary Durum		Week 41	(May 15/'22)	
('000 mt)	Producer Deliveries	Terminal Receipts	Bulk Exports	Domestic Disappearance
Week 41	5.8	85.1	47.3	3.6
Week ago	19.3	68.2	43.2	4.0
YTD	2,068.2	2,487.7	2,000.1	353.4
Last YTD	5,074.7	6,022.7	5,102.0	437.2
YTD less Last YTD	-3,006.5	-3,535.0	-3,101.9	-83.8
YTD over Last YTD	41%	41%	39%	81%

- **Saskatchewan seeding progress** for durum is at 51% as of May 16th which is 28% below the 5-year average seeding progress in Saskatchewan. Alberta durum seeding progress at 84%, which is closer to normal, but dryness in south and central AB is worrisome.
- In their May report on Friday, **AAFC** revised their 2022 durum acreage up by 160k acres from their April number to 6.22 million acres. This is in line with the earlier April 26 StatsCan number and represents a 13% increase over last year's acres. Given the prices for durum, this is entirely possible; Mercantile expects a 14% increase over last year. AAFC expects production in 2022 to reach 5.7 million mt compared to 2.7 million mt last year. Even with 4.4 million mt of exports, Canadian 2022/23 durum ending stocks would increase to 1 million mt from 550k mt this year.

- Morocco** – Update on Moroccan wheat production: The fall planting season in Morocco was one of the driest in 30 years. The drought was particularly acute in the large central and southern cereals regions. The dryness delayed and reduced plantings and devastated crop emergence and development. Wheat production in Morocco is currently projected at only 2.3 million mt, down steeply from 7.5 million mt last year. – *Morocco will have to increase its wheat/ durum imports this year.*



Source: USDA, May '22

US Wheat:

- There has been rain over much of the northern plains. Seeding had just started in eastern North Dakota before being shut down again, while harvest is starting in Texas and Oklahoma. The results from the winter wheat tour show an average yield of 39.7 bu/ acre and below the five-year average of 47.4 bu/acre for the tour. With rain falling for the eastern corn belt, it seems that the mentality continues to be that 'rain makes grain', despite another delay to planting.
- Weekly US wheat export sales of 8,500 mt for 2021/'22 -a marketing-year low- were down 40% from the previous week and 82% from the prior 4-week average.
- US HRS for June '22 is valued at \$520.00/ mt FOB PNW (*down 5.00/mt from last week*), FOB Gulf HRW 11/12.5 pro is valued at \$527.80/mt.

Australian wheat:

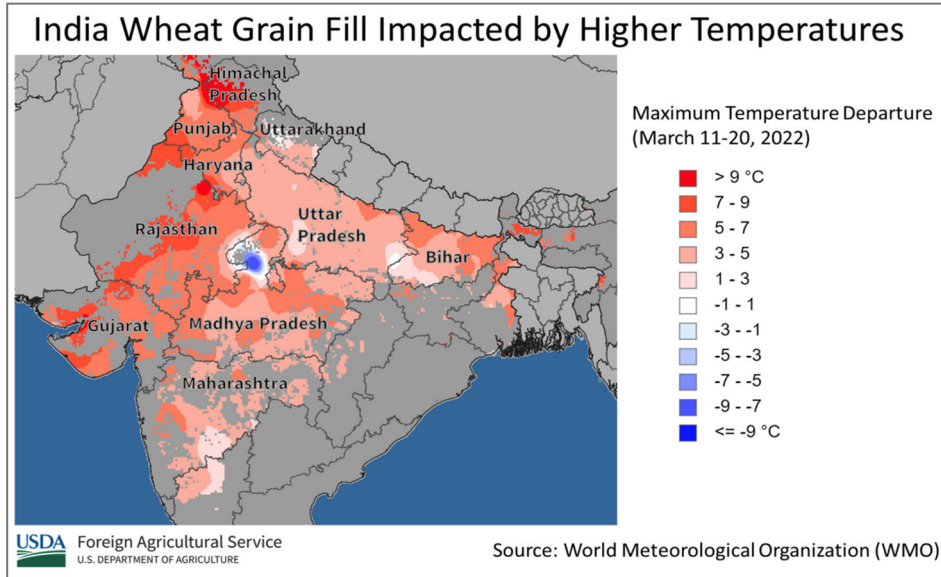
- By the end of the week, Australian futures were well off the early week highs, but still made contract high weekly closes on both old and new crop.
- Australian FOB APW wheat for August 2022 was quoted at \$445.00/mt (*up 10.00/mt from last week*)

Argentine wheat:

- Soil moisture is lacking across Argentina. Argentine FOB values continue to reflect the ongoing dryness with below normal soil moisture levels across the entire country.
- June shipment 12% pro Argentine wheat was valued at ~\$470.00/mt FOB (*up 15.00/mt from last week*).

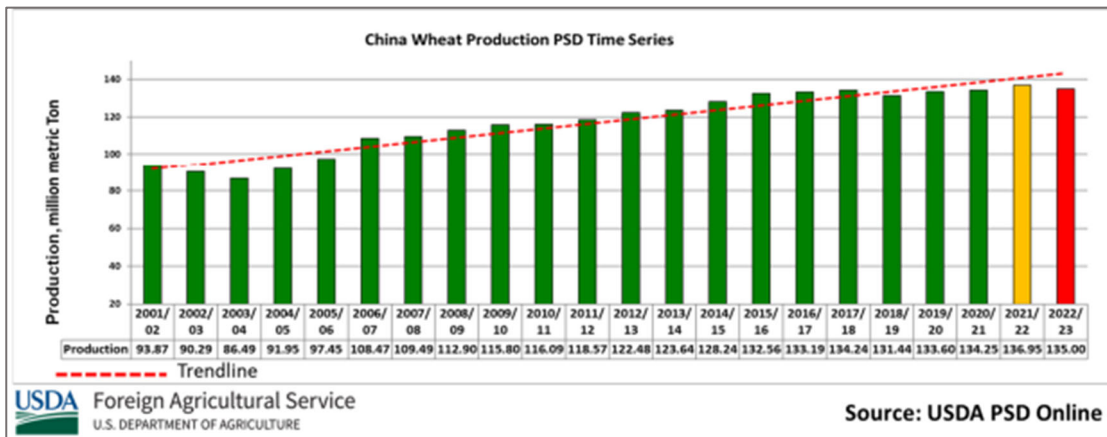
Indian wheat:

- Extreme heat arrived weeks earlier than normal in India's wheat belt. Punjab and Haryana, which account for 25% of total wheat, recorded extremely high temperatures at the start of grain fill. Temperatures reached 7 to 9 degrees Celsius above normal in Punjab and Haryana. (Wheat is grown only in the rabi season. It is planted in early November until January and harvested from late February until April). The recent heat is the reason why there is so much divergent discussion about the size of the wheat crop in India this year.



China:

- China's 2022/23 wheat production is forecast by USDA at 135 million mt, down 1.95 million mt or approx. -1% from last year, but still up about 1 percent from the five-year average.



EU wheat:

- The European forecast stays mostly warm and dry with a growing number of regions in France imposing water restrictions on agriculture. The crop institute Arvalis discussed irreversible damage to crops in light soils, with substantial rain now needed to prevent losses in the heavier soils.
- FOB prices in the EU: July 2022 French 11.5 pro wheat closed at \$465.10/mt (up 13.00/mt from last week); July German 12.5 pro wheat closed at \$466.30/mt. August Baltic 12.5 pro wheat was at \$463.40/mt.

Black Sea wheat:

- The UN tried opening export corridors for Ukrainian wheat exports, but Russia refused any talk of food corridors. Russia wants to keep the Crimea, capture the Donbas, and control Black Sea ports, but Ukraine says they will never agree to cede any of their territory.
- If the war continues, Ukrainian crops will mostly be lost to the world trade (with some exception to the EU) for the duration of the war. Global production will also suffer from the lack of, or excessively expensive supplies of fertilizer, further adding to global crop shortages.
- Prices in the Black Sea are ill-defined. Russian FOB prices for 12.5 pro June delivery wheat were quoted at \$420.00/mt, *up 15/mt from last week.*

➤ **Significant purchases/ trades:**

We heard of no significant wheat trades last week and there are few tenders announced for the coming week.

- Jordan returns Tuesday for 120k mt wheat for August-September shipment.
- Bangladesh got just one offer at yesterday's tender at a reported \$548.38/mt. (At their last tender in April they paid almost \$150/mt less, which seems to reflect the disappearance of Indian wheat from the world export market.)
- Weekly US wheat export sales of 8,500 mt for '21/'22 -a marketing-year low- were down 40% from the previous week and 82% from the prior four-week average.
- The Baltic Dry Index (BDI), an assessment of the average cost to ship raw materials such as grains, coal, and iron ore, increased 6% on the week to end at 3,289, its highest level this year.

➤ **Wheat Market Outlook:**

Significant events:

- The UN tried opening export corridors for Ukrainian wheat exports, but Russia refused any talk about food corridors. Russia wants to retain Crimea and capture the Donbas, but Ukraine says they will never agree to cede any of their territory.
- Cash markets in both the EU and the Black Sea remain obscure, but since importers have very little cover beyond June, they will have to come back into the market soon.
- Weather is increasingly a production issue across the Northern Hemisphere.
- There are questions about US HRW yields and production: The Kansas crop tour estimate of 39.7 bu/acre is well below the five-year average of 47.4 bu/ac, but a little above the USDA estimate of 39 bu/ac.
- Big questions remain over the expected volume of the Black Sea and Indian exports.
- The Baltic Dry Freight Index increased 6% on the week to end at 3,289, its highest level this year.

Outlook:

US wheat futures ran into selling and profit-taking late last week. Fresh news was limited, but with markets near contract highs, there was nothing tangible to push prices higher.

Mercantile still thinks wheat is overpriced relative to corn and that it will weaken. They see corn to be a little lower and soybeans as underpriced to corn. They don't expect end-users to be chasing wheat for the time being; it is too volatile. Storage is going to be a major problem for growers and sellers, particularly those affected by the war zone. In our view, the bulls are overstating weather problems.

iii) Primary Elevator Price Tables and Grade Spreads

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

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Sept. '22 (bu.)	Sept. '22 (mt)
1 CWRS 13.5	\$15.31	\$562.55	1 CWRS 13.5	\$14.86	\$546.02
1 CWAD 13.0	\$15.83	\$581.66	1 CWAD 13.0	\$14.50	\$532.79
1 CPSR 11.5	\$14.85	\$545.65	1 CPSR 11.5	\$14.62	\$537.20
SW Sask			SW Sask		
1 CWRS 13.5	\$15.20	\$558.51	1 CWRS 13.5	\$14.73	\$541.24
1 CWAD 13.0	\$15.85	\$582.39	1 CWAD 13.0	\$14.83	\$544.91
1 CPSR 11.5	\$14.72	\$540.87	1 CPSR 11.5	\$14.45	\$530.95
NE Sask			NE Sask		
1 CWRS 13.5	\$15.10	\$554.83	1 CWRS 13.5	\$14.57	\$535.36
1 CWAD 13.0	\$16.22	\$595.99	1 CWAD 13.0	\$15.29	\$561.82
1 CPSR 11.5	n/a		1 CPSR 11.5	n/a	
SE Sask			SE Sask		
1 CWRS 13.5	\$15.11	\$555.20	1 CWRS 13.5	\$14.63	\$537.56
1 CWAD 13.0	\$15.93	\$585.33	1 CWAD 13.0	\$15.11	\$555.20
1 CPSR 11.5	\$14.55	\$534.63	1 CPSR 11.5	\$14.26	\$523.97

Data source: PDQ, May 24/'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	(0.10)	-3.67
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, May 24/'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 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

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.”

- 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				24-05-2022
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	\$644.70	\$771.84		
HRS	\$628.16			
HRW 11.5	\$642.33			
SWW 12.0	\$566.71			
1 CWRS 13.5 ³	\$644.70		\$559.61	\$85.09
2 CWRS 13.0 ³	\$628.16		\$555.20	\$72.95
3 CWRS ³	\$642.33		\$546.02	\$96.32
CPS ³	\$560.09		\$519.56	\$40.53
1 CWAD ⁴		\$765.22	\$587.90	\$177.32
Competing wheat:				
	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$420.00	June		
French 11.5 (Rouen)	\$465.10	July		
APW 10.5 (W Coast)	\$445.00	August		
Argentine 12.0	\$470.00	June		

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